

TRIUMPH GROUP INC /
Form 10-Q
February 01, 2008

United States
Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities**
Exchange Act of 1934 For the Quarterly Period Ended December 31, 2007

or

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

Commission File Number: 1-12235

TRIUMPH GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

51-0347963

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

1550 Liberty Ridge, Suite 100

Wayne, PA

(Address of principal executive offices)

19087

(Zip Code)

(610) 251-1000

(Registrant's telephone number, including area code)

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 **o**

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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 ☐

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, 16,731,224 shares outstanding as of December 31, 2007.

TRIUMPH GROUP, INC.

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Part I. Financial Information

Item 1. Financial Statements.

Triumph Group, Inc.

Consolidated Balance Sheets

(dollars in thousands, except per share data)

| | DECEMBER 31, 2007 (unaudited) | MARCH 31, 2007 |
|---|-------------------------------------|-------------------|
| ASSETS | | |
| Current assets: | | |
| Cash | \$ 10,615 | \$ 7,243 |
| Accounts receivable, net | 165,233 | 168,372 |
| Inventories | 344,739 | 296,080 |
| Assets held for sale | 23,875 | 28,643 |
| Deferred income taxes | 11,794 | 11,316 |
| Prepaid expenses and other | 5,187 | 6,713 |
| Total current assets | 561,443 | 518,367 |
| Property and equipment, net | 298,972 | 283,681 |
| Goodwill | 338,762 | 339,930 |
| Intangible assets, net | 61,208 | 69,919 |
| Other, net | 14,155 | 17,261 |
| Total assets | \$ 1,274,540 | \$ 1,229,158 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 97,395 | \$ 101,332 |
| Accrued expenses | 64,921 | 75,582 |
| Liabilities related to assets held for sale | 3,756 | 7,545 |
| Income taxes payable | 196 | 1,484 |
| Current portion of long-term debt | 201,473 | 5,702 |
| Total current liabilities | 367,741 | 191,645 |
| Long-term debt, less current portion | 120,815 | 310,481 |
| Deferred income taxes and other | 102,419 | 99,669 |
| Stockholders' equity: | | |
| Common stock, \$.001 par value, 50,000,000 shares authorized, 16,731,224 and 16,469,617 shares issued and outstanding | 16 | 16 |
| Capital in excess of par value | 287,439 | 278,177 |
| Treasury stock, at cost | | |
| Accumulated other comprehensive income (loss) | 1,248 | (120) |
| Retained earnings | 394,862 | 349,290 |
| Total stockholders' equity | 683,565 | 627,363 |

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| | | | | |
|--|----|-----------|----|-----------|
| Total liabilities and stockholders' equity | \$ | 1,274,540 | \$ | 1,229,158 |
|--|----|-----------|----|-----------|

SEE ACCOMPANYING NOTES.

Triumph Group, Inc.

Consolidated Statements of Income

(in thousands, except per share data)

(unaudited)

| | THREE MONTHS ENDED DECEMBER 31, | | NINE MONTHS ENDED DECEMBER 31, | |
|---|---------------------------------------|------------|--------------------------------------|------------|
| | 2007 | 2006 | 2007 | 2006 |
| Net sales | \$ 275,099 | \$ 237,756 | \$ 829,875 | \$ 677,561 |
| Operating costs and expenses: | | | | |
| Cost of products sold | 198,637 | 170,392 | 592,252 | 487,243 |
| Selling, general, and administrative | 36,983 | 33,957 | 115,067 | 97,176 |
| Depreciation and amortization | 10,753 | 8,894 | 31,733 | 25,809 |
| | 246,373 | 213,243 | 739,052 | 610,228 |
| Operating income | 28,726 | 24,513 | 90,823 | 67,333 |
| Interest expense and other | 3,310 | 2,534 | 10,083 | 8,694 |
| Charge for early extinguishment of debt | | 5,088 | | 5,088 |
| Income from continuing operations before income taxes | 25,416 | 16,891 | 80,740 | 53,551 |
| Income tax expense | 7,493 | 5,161 | 26,304 | 18,083 |
| Income from continuing operations | 17,923 | 11,730 | 54,436 | 35,468 |
| Loss from discontinued operations, net | (1,206) | (929) | (6,572) | (2,623) |
| Net income | \$ 16,717 | \$ 10,801 | \$ 47,864 | \$ 32,845 |
| Earnings per share basic: | | | | |
| Income from continuing operations | \$ 1.08 | \$ 0.72 | \$ 3.30 | \$ 2.19 |
| Loss from discontinued operations | (0.07) | (0.06) | (0.40) | (0.16) |
| Net income | \$ 1.01 | \$ 0.66 | \$ 2.90 | \$ 2.03 |
| Weighted average common shares outstanding basic | 16,563 | 16,262 | 16,515 | 16,168 |
| Earnings per share diluted: | | | | |
| Income from continuing operations | \$ 1.00 | \$ 0.71 | \$ 3.07 | \$ 2.17 |
| Loss from discontinued operations | (0.07) | (0.06) | (0.37) | (0.16) |
| Net income | \$ 0.93 | \$ 0.66* | \$ 2.70 | \$ 2.01 |
| Weighted average common shares outstanding Diluted | 18,002 | 16,459 | 17,706 | 16,353 |
| Dividends declared and paid per common share | \$ 0.04 | \$ 0.04 | \$ 0.12 | \$ 0.08 |

* Difference due to rounding.

SEE ACCOMPANYING NOTES.

Triumph Group, Inc.

Consolidated Statements of Cash Flows

(dollars in thousands)

(unaudited)

| | NINE MONTHS ENDED DECEMBER 31, | |
|--|-----------------------------------|-----------|
| | 2007 | 2006 |
| OPERATING ACTIVITIES | | |
| Net income | \$ 47,864 | \$ 32,845 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 31,733 | 25,809 |
| Other amortization included in interest expense | 1,208 | 1,429 |
| Provision for doubtful accounts receivable | 808 | 680 |
| Provision for deferred income taxes | 6,432 | 2,573 |
| Employee stock compensation | 2,021 | 1,764 |
| Changes in other current assets and liabilities, excluding the effects of acquisitions and dispositions of businesses: | | |
| Accounts receivable | 2,626 | 290 |
| Inventories | (48,340) | (39,348) |
| Prepaid expenses and other | 1,122 | (567) |
| Accounts payable, accrued expenses and accrued income taxes payable | (15,334) | 460 |
| Changes in discontinued operations | (3,856) | (3,236) |
| Other | (116) | (2,445) |
| Net cash provided by operating activities | 26,168 | 20,254 |
| INVESTING ACTIVITIES | | |
| Capital expenditures | (38,253) | (39,664) |
| Proceeds from sale of assets and business | 5,280 | 338 |
| Cash used for businesses and intangible assets acquired | (1,527) | (94,552) |
| Net cash used in investing activities | (34,500) | (133,878) |

Triumph Group, Inc.

Consolidated Statements of Cash Flows (continued)

(dollars in thousands)

(unaudited)

| | NINE MONTHS ENDED DECEMBER 31, | |
|---|-----------------------------------|-----------|
| | 2007 | 2006 |
| FINANCING ACTIVITIES | | |
| Net increase (decrease) in revolving credit facility borrowings | \$ 11,600 | \$ 35,259 |
| Proceeds from issuance of long term debt | 161 | 201,991 |
| Repayment of debt and capital lease obligations | (5,656) | (53) |
| Retirement of long-term debt | | (124,424) |
| Payment of deferred financing costs | (72) | (6,102) |
| Proceeds from exercise of stock options, including excess tax benefit of \$1,709 and \$886 in 2008 and 2007 | 7,241 | 11,718 |
| Cash dividends on common stock | (2,001) | (1,303) |
| Net cash provided by financing activities | 11,273 | 117,086 |
| Effect of exchange rate changes on cash | 431 | 223 |
| Net change in cash | 3,372 | 3,685 |
| Cash at beginning of period | 7,243 | 5,643 |
| Cash at end of period | \$ 10,615 | \$ 9,328 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Cash paid for income taxes, net of refunds | \$ 17,790 | \$ 12,561 |
| Cash paid for interest | \$ 12,500 | \$ 15,015 |

SEE ACCOMPANYING NOTES.

Triumph Group, Inc.

Consolidated Statements of Comprehensive Income

(dollars in thousands)

(unaudited)

| | THREE MONTHS ENDED DECEMBER 31, | | NINE MONTHS ENDED DECEMBER 31, | |
|---|------------------------------------|-----------|-----------------------------------|-----------|
| | 2007 | 2006 | 2007 | 2006 |
| Net income | \$ 16,717 | \$ 10,801 | \$ 47,864 | \$ 32,845 |
| Other comprehensive income | | | | |
| Foreign currency translation adjustment | 433 | 512 | 1,368 | 994 |
| Total comprehensive income | \$ 17,150 | \$ 11,313 | \$ 49,232 | \$ 33,839 |

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 nine months ended December 31, 2007 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2008. 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, 2007.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

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

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.

RECENTLY ISSUED FINANCIAL ACCOUNTING STANDARD

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In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, an interpretation of Statement of Financial Accounting Standards (SFAS) No. 109 (FIN 48). FIN 48 creates a single model to address accounting for uncertainty in tax positions by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. In connection with its adoption of FIN 48 on April 1, 2007, the Company recognized a charge of approximately \$291 to retained earnings. See Note 8 of Notes to Consolidated Financial Statements for additional information regarding the Company's uncertain tax positions.

In March 2007, the FASB ratified Emerging Issues Task Force Issue No. 06-10 (EITF 06-10), *Accounting for Collateral Assignment Split-Dollar Life Insurance Agreements*. EITF 06-10 provides guidance for determining a liability for the post-retirement benefit obligation as well as recognition and measurement of the associated asset on the basis of the terms of the collateral assignment agreement. EITF 06-10 is effective for fiscal years beginning after December 15, 2007. The Company has determined the impact of adopting EITF 06-10 will not be material to the Company's results of operations or financial condition.

INTANGIBLE ASSETS

Intangible assets cost and accumulated amortization at December 31, 2007 were \$111,720 and \$50,512, respectively. Intangible assets cost and accumulated amortization at March 31, 2007 were \$112,710 and \$42,791, respectively. Intangible assets consist of two major classes:
(i) product rights and licenses, which

Triumph Group, Inc.

Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

(Unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

at December 31, 2007 had a weighted-average life of 11.3 years, and (ii) non-compete agreements, customer relationships and other, which at December 31, 2007 had a weighted-average life of 10.6 years. Gross cost and accumulated amortization of product rights and licenses at December 31, 2007 were \$74,082 and \$36,333, respectively, and at March 31, 2007 were \$73,957 and \$31,070, respectively. Gross cost and accumulated amortization of noncompete agreements, customer relationships and other at December 31, 2007 were \$37,638 and \$14,179, respectively, and at March 31, 2007 were \$38,753 and \$11,721, respectively. Amortization expense for the three and nine months ended December 31, 2007 and 2006 was \$2,518 and \$7,721 and \$2,269 and \$6,243, respectively. Amortization expense for the fiscal year ended March 31, 2008 and the succeeding five fiscal years by year is expected to be as follows: 2008: \$10,279; 2009: \$10,049; 2010: \$9,799; 2011: \$8,051; 2012: \$6,502; and 2013: \$6,321.

RECLASSIFICATIONS

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

3. FISCAL 2007 ACQUISITIONS

Acquisition of Allied Aerospace Industries, Inc.

Effective November 1, 2006, the Company acquired Allied Aerospace Industries, Inc. (Allied) through the merger of a newly organized, wholly-owned subsidiary of the Company, with and into Allied. The acquired business has since been consolidated into a single subsidiary of the Company, Triumph Aerospace Systems Newport News, Inc. Triumph Aerospace Systems Newport News, Inc. specializes in engineering design and manufacturing solutions for complex aerospace and defense programs. The results for Triumph Aerospace Systems Newport News, Inc. are included in the Company's Aerospace Systems Segment.

During the first half of fiscal 2008, the Company finalized the purchase price allocation for the Allied acquisition as a result of receiving the final appraisal of tangible and intangible assets, finalizing the deferred tax accounting and recording the final purchase price adjustment as per the purchase agreement. Based on the revised allocation, an additional \$100 was allocated to intangible assets while the amount allocated to tangible assets was reduced by \$232. The purchase price was reduced by \$1,055 related to the final negotiation of the values on the closing balance sheet.

Acquisition of Grand Prairie Accessory Services, LLC

Effective January 1, 2007, the Company acquired the assets and business of Grand Prairie Accessory Services, LLC (Grand Prairie) through a newly organized, wholly-owned subsidiary of the Company, Triumph Accessory Services Grand Prairie, Inc. Triumph Accessory Services Grand Prairie, Inc. provides comprehensive maintenance solutions for engine accessories related to the CF34, CFM56, CF6, CT7 and V2500 family of engines. Capabilities include fuel, oil, pneumatic, hydraulic and mechanical engine accessories for those and other aero and aero-derivative gas turbine engines. The results for Triumph Accessory Services Grand Prairie are included in the Company's Aftermarket Services Segment.

During the third quarter of fiscal 2008, the Company finalized the purchase price allocation for the Grand Prairie acquisition as a result of receiving the final appraisal of tangible and intangible assets and finalizing the deferred tax accounting. Based on the revised allocation, an additional \$1,532 was allocated to tangible assets; intangible assets and goodwill were reduced by \$1,215 and \$561, respectively; a deferred tax asset of \$169 was established, and other liabilities were reduced by \$75.

Triumph Group, Inc.

Notes to Consolidated Financial Statements (continued)

(dollars in thousands, except per share data)

(Unaudited)

3. FISCAL 2007 ACQUISITIONS (Continued)

The following unaudited pro forma information for the three and nine months ended December 31, 2006 has been prepared assuming these acquisitions had occurred on April 1, 2006. The pro forma information for the three and nine months ended December 31, 2006 is as follows: Net sales: \$246,094 and \$718,539; Income from continuing operations: \$10,649 and \$36,356; Income per share from continuing operations-basic: \$0.65 and \$2.25; and Income per share from continuing operations-diluted: \$0.65 and \$2.22.

4. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

In September 2007, the Company sold the assets of Triumph Precision, Inc., a build to specification manufacturer and supplier of ultra-precision machined components and assemblies in its Aerospace Systems Segment. The effective date of the sale was July 1, 2007. The Company recognized a pre-tax loss of \$650 on the sale of the business, which included costs to sell of \$150. The Company has also decided to sell Triumph Precision Castings Co., a casting facility in its Aftermarket Services Segment that specializes in producing high quality hot gas path components for aero and land based gas turbines. The Company recognized a pre-tax loss of \$3,500 in the first quarter of fiscal 2008 based upon a write-down of the carrying value of the business to estimated fair value less costs to sell. The write-down was applied to inventory and long-lived assets, consisting primarily of property, plant and equipment. For financial statement purposes, the assets, liabilities, results of operations and cash flows of these businesses have been segregated from those of the continuing operations and are presented in the Company's consolidated financial statements as discontinued operations and assets and liabilities held for sale.

Revenues of discontinued operations were \$2,748 and \$9,383 for the three and nine months ended December 31, 2007 and \$4,585 and \$13,724 for the three and nine months ended December 31, 2006, respectively. The loss from discontinued operations was \$1,206 and \$6,572, net of income tax benefit of \$650 and \$3,539 for the three and nine months ended December 31, 2007 and \$929 and \$2,623, net of income tax benefit of \$500 and \$1,412 for the three and nine months ended December 31, 2006, respectively. Interest expense of \$590 and \$2,115 was allocated to discontinued operations for the three and nine months ended December 31, 2007, respectively, and interest expense of \$693 and \$2,060 was allocated to discontinued operations for the three and nine months ended December 31, 2006, respectively, based upon the actual borrowings of the operations, and such interest expense is included in the loss from discontinued operations.

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

| | DECEMBER 31, 2007 | MARCH 31, 2007 |
|--------------------------|----------------------|-------------------|
| Assets held for sale: | | |
| Accounts receivable, net | \$ 7,184 | \$ 6,154 |

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| | | | | |
|------------------------------------|----|--------|----|--------|
| Inventories | | 10,804 | | 11,585 |
| Property, plant and equipment | | 5,711 | | 10,798 |
| Other | | 176 | | 106 |
| Total assets held for sale | \$ | 23,875 | \$ | 28,643 |
| Liabilities held for sale: | | | | |
| Accounts payable | \$ | 1,564 | \$ | 1,832 |
| Accrued expenses | | 460 | | 2,610 |
| Deferred tax liabilities and other | | 1,732 | | 3,103 |
| Total liabilities held for sale | \$ | 3,756 | \$ | 7,545 |

Triumph Group, Inc.

Notes to Consolidated Financial Statements (continued)

(dollars in thousands, except per share data)

(Unaudited)

5. INVENTORIES

The components of inventories are as follows:

| | DECEMBER 31, 2007 | MARCH 31, 2007 |
|---------------------------------------|----------------------|-------------------|
| Raw materials | \$ 32,259 | \$ 30,357 |
| Manufactured and purchased components | 123,029 | 100,512 |
| Work-in-process | 108,970 | 99,660 |
| Finished goods | 80,481 | 65,551 |
| Total inventories | \$ 344,739 | \$ 296,080 |

6. LONG-TERM DEBT

In September 2006, the Company issued \$201,250 of convertible senior subordinated notes due October 1, 2026 bearing interest at a fixed rate of 2.625% (Convertible Notes). In January 2008, the Company delivered a notice to holders of its Convertible Notes to the effect that, for at least 20 trading days during the 30 consecutive trading days preceding December 31, 2007, the closing price of the Company's common stock was greater than or equal to 130% of the conversion price of such notes on the last trading day. Under the terms of the Convertible Notes, the increase in the Company's stock price triggered a provision, which gave holders of the notes a put option through March 31, 2008. Accordingly, the balance sheet classification of the notes will be short term for as long as the put option remains in effect.

On October 15, 2007, the Company amended its existing amended and restated credit agreement with its lenders to add a sublimit of \$200,000 for foreign currency borrowings and amend and eliminate certain other terms and covenants.

Long-term debt consists of the following:

| | DECEMBER 31, 2007 | MARCH 31, 2007 |
|---------------------------------------|----------------------|-------------------|
| Convertible senior subordinated notes | \$ 201,250 | \$ 201,250 |
| Revolving credit facility | 112,400 | 100,800 |

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| | | |
|-------------------------------|------------|------------|
| Subordinated promissory notes | | 5,500 |
| Other debt | 8,638 | 8,633 |
| | 322,288 | 316,183 |
| Less current portion | 201,473 | 5,702 |
| | \$ 120,815 | \$ 310,481 |

7. EARNINGS PER SHARE

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

| | THREE MONTHS ENDED DECEMBER 31, (in thousands) | | NINE MONTHS ENDED DECEMBER 31, (in thousands) | |
|--|---|--------|--|--------|
| | 2007 | 2006 | 2007 | 2006 |
| Weighted average common shares outstanding - basic | 16,563 | 16,262 | 16,515 | 16,168 |
| Net effect of dilutive stock options | 283 | 197 | 278 | 185 |
| Potential common shares - convertible debt | 1,156 | | 913 | |
| Weighted average common shares outstanding diluted | 18,002 | 16,459 | 17,706 | 16,353 |

Triumph Group, Inc.

Notes to Consolidated Financial Statements (continued)

(dollars in thousands, except per share data)

(Unaudited)

8. INCOME TAXES

Effective April 1, 2007, the Company adopted FIN 48, *Accounting for Uncertainty in Income Taxes*. The cumulative effect of adoption of FIN 48 has been recorded as a charge of \$291 to retained earnings, an increase of \$66 to net deferred income tax liabilities and an increase of \$225 to income taxes payable as of April 1, 2007.

In conjunction with the adoption of FIN 48, the Company has classified uncertain tax positions as non-current income tax liabilities unless expected to be paid in one year. Penalties and tax-related interest expense are reported as a component of income tax expense. As of December 31, 2007 and April 1, 2007, the total amount of accrued income tax-related interest and penalties included in the Consolidated Balance Sheets was \$392 and \$254, respectively.

As of December 31, 2007 and April 1, 2007, the Company was subject to examination in state jurisdictions for the fiscal years ended March 31, 2004 through March 31, 2006, none of which we believe is individually material. The Company has filed appeals in a state jurisdiction related to fiscal years ended March 31, 1999 through March 31, 2003. The Company believes appropriate provisions for all outstanding issues have been made for all jurisdictions and all open years.

As of December 31, 2007 and April 1, 2007, the total amount of unrecognized tax benefits was \$2,726 and \$2,534, of which \$2,474 and \$2,181 would impact the effective tax rate, if recognized.

With few exceptions, the Company is no longer subject to U.S. federal income tax examinations for fiscal years ended before March 31, 2005, state or local examinations for fiscal years ended before March 31, 2004, or foreign income tax examinations by tax authorities for fiscal years ended before March 31, 2006.

9. GOODWILL

The following is a summary of the changes in the carrying value of goodwill from March 31, 2007 through December 31, 2007:

Total

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| | Aerospace Systems | | Aftermarket Services | | | |
|---------------------------------|----------------------|---------|-------------------------|--------|----|---------|
| Balance, March 31, 2007 | \$ | 285,797 | \$ | 54,133 | \$ | 339,930 |
| Purchase price adjustments | | (1,055) | | | | (1,055) |
| Purchase price allocation | | (48) | | (568) | | (616) |
| Effect of exchange rate changes | | 503 | | | | 503 |
| Balance, December 31, 2007 | \$ | 285,197 | \$ | 53,565 | \$ | 338,762 |

Triumph Group, Inc.

Notes to Consolidated Financial Statements (continued)

(dollars in thousands, except per share data)

(Unaudited)

10. SEGMENTS

The Company is organized based on the products and services that it provides. Under this organizational structure, the Company has two reportable segments: the Aerospace Systems Group and the Aftermarket Services Group. The Company evaluates performance and allocates resources based on operating income of each reportable segment. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies (see Note 2). Each segment has a president and controller who manage their respective segment. The segment president reports directly to the President and CEO of the Company, the Chief Operating Decision Maker (CODM), as defined in SFAS No. 131, *Disclosure about Segments of an Enterprise and Related Information*. The segment presidents maintain regular contact with the CODM to discuss operating activities, financial results, forecasts and plans for the segment. The segment controllers have dual reporting responsibilities, reporting to both their segment president as well as to the Corporate Controller. The Company's CODM evaluates performance and allocates resources based upon review of segment information. The CODM utilizes operating income as a primary measure of profitability.

At December 31, 2007, the Aerospace Systems segment consisted of 33 operating locations, and the Aftermarket Services segment consisted of 17 operating locations.

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 and components, 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 design and manufacture composite assemblies for floor panels, environmental control system ducts and non-structural cockpit components. These products are primarily sold to various aerospace OEMs on a global basis.

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

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.

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

Triumph Group, Inc.

Notes to Consolidated Financial Statements (continued)

(dollars in thousands, except per share data)

(Unaudited)

10. SEGMENTS (Continued)

Selected financial information for each reportable segment is as follows:

| | THREE MONTHS ENDED DECEMBER 31, | | | | NINE MONTHS ENDED DECEMBER 31, | | | |
|--|---------------------------------------|---------|------|---------|--------------------------------------|----------|------|----------|
| | 2007 | | 2006 | | 2007 | | 2006 | |
| Net sales: | | | | | | | | |
| Aerospace systems | \$ | 213,025 | \$ | 187,846 | \$ | 650,816 | \$ | 538,939 |
| Aftermarket services | | 62,728 | | 50,459 | | 181,095 | | 140,941 |
| Elimination of inter-segment sales | | (654) | | (549) | | (2,036) | | (2,319) |
| | \$ | 275,099 | \$ | 237,756 | \$ | 829,875 | \$ | 677,561 |
| Income from continuing operations before income taxes: | | | | | | | | |
| Operating income (expense): | | | | | | | | |
| Aerospace systems | \$ | 26,095 | \$ | 26,064 | \$ | 87,559 | \$ | 71,737 |
| Aftermarket services | | 6,519 | | 3,229 | | 17,072 | | 8,434 |
| Corporate | | (3,888) | | (4,780) | | (13,808) | | (12,838) |
| | | 28,726 | | 24,513 | | 90,823 | | 67,333 |
| Interest expense and other | | 3,310 | | 2,534 | | 10,083 | | 8,694 |
| Charge for early extinguishment of debt | | | | 5,088 | | | | 5,088 |
| | \$ | 25,416 | \$ | 16,891 | \$ | 80,740 | \$ | 53,551 |
| Depreciation and amortization: | | | | | | | | |
| Aerospace systems | \$ | 7,423 | \$ | 6,509 | \$ | 22,034 | \$ | 19,158 |
| Aftermarket services | | 3,266 | | 2,328 | | 9,502 | | 6,483 |
| Corporate | | 64 | | 57 | | 197 | | 168 |
| | \$ | 10,753 | \$ | 8,894 | \$ | 31,733 | \$ | 25,809 |
| Capital expenditures: | | | | | | | | |
| Aerospace systems | \$ | 12,219 | \$ | 10,431 | \$ | 25,876 | \$ | 25,229 |
| Aftermarket services | | 4,339 | | 3,344 | | 11,670 | | 14,247 |
| Corporate | | 162 | | 43 | | 707 | | 188 |
| | \$ | 16,720 | \$ | 13,818 | \$ | 38,253 | \$ | 39,664 |

DECEMBER 31,

MARCH 31,

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| | 2007 | | 2007 | |
|-------------------------|------|-----------|------|-----------|
| Total Assets: | | | | |
| Aerospace systems | \$ | 905,166 | \$ | 883,890 |
| Aftermarket services | | 303,227 | | 272,972 |
| Corporate | | 42,272 | | 43,653 |
| Discontinued Operations | | 23,875 | | 28,643 |
| | \$ | 1,274,540 | \$ | 1,229,158 |

During the three months ended December 31, 2007 and 2006, the Company had international sales of \$57,194 and \$52,784, respectively.
During the nine month period ended December 31, 2007 and 2006, the Company had international sales of \$171,541 and \$152,693, 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 third quarter of fiscal 2008 include:

- Net sales for the third quarter of fiscal 2008 increased 15.7% to \$275.1 million
- Operating income in the third quarter of fiscal 2008 increased 17.2% to \$28.7 million
- Net income for the third quarter of fiscal 2008 increased 54.8% to \$16.7 million
- Backlog increased 14% over the third quarter of the prior year to \$1.2 billion

For the quarter ended December 31, 2007, net sales totaled \$275.1 million, a 15.7% increase from last year's third quarter net sales of \$237.8 million. Income from continuing operations for the third quarter of fiscal 2008 increased 52.8% to \$17.9 million, or \$1.00 per diluted common share, versus \$11.7 million, or \$0.71 per diluted common share, for the third quarter of the prior year. During the quarter, we generated \$21.9 million of cash flow from operating activities.

RESULTS OF OPERATIONS

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Quarter ended December 31, 2007 compared to quarter ended December 31, 2006

| | Quarter Ended December 31, (dollars in thousands) | |
|---|---|------------|
| | 2007 | 2006 |
| Net Sales | \$ 275,099 | \$ 237,756 |
| Segment Operating Income | \$ 32,614 | \$ 29,293 |
| Corporate Expenses | (3,888) | (4,780) |
| Total Operating Income | 28,726 | 24,513 |
| Interest Expense and Other | 3,310 | 2,534 |
| Charge for early extinguishment of debt | | 5,088 |
| Income Tax Expense | 7,493 | 5,161 |
| Income from continuing operations | \$ 17,923 | \$ 11,730 |
| Loss from discontinued operations, net | (1,206) | (929) |
| Net Income | \$ 16,717 | \$ 10,801 |

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

(continued)

Net sales increased by \$37.3 million, or 15.7%, to \$275.1 million for the quarter ended December 31, 2007 from \$237.8 million for the quarter ended December 31, 2006. The acquisitions of the assets and businesses of Allied Aerospace Industries, Inc. and Grand Prairie Accessory Services, LLC, herein referred to as the 2007 Acquisitions, contributed \$7.5 million of the net sales increase. Excluding the effects of the 2007 Acquisitions, organic sales growth was \$29.8 million, or 12.9%.

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, the age of existing aircraft and enhanced capabilities.

Segment operating income increased by \$3.3 million, or 11.3%, to \$32.6 million for the quarter ended December 31, 2007 from \$29.3 million for the quarter ended December 31, 2006. Operating income growth was a direct result of margins attained on increased sales volume as described above, improved margins in the Aftermarket Services segment and the contribution of \$0.5 million from the 2007 Acquisitions, partially offset by increased costs in litigation, research and development, payroll and healthcare, and amortization associated with the 2007 Acquisitions.

Corporate general and administrative expenses decreased by \$0.9 million, or 18.7%, to \$3.9 million for the quarter ended December 31, 2007 from \$4.8 million for the quarter ended December 31, 2006, primarily due to decreased bonus accruals for the quarter ended December 31, 2007 and the non-recurrence of other expenses totaling \$0.4 million which arose in the quarter ended December 31, 2006.

Interest expense and other increased by \$0.8 million, or 30.6%, to \$3.3 million for the quarter ended December 31, 2007 compared to \$2.5 million for the prior year period. This increase was due to higher average borrowings outstanding and amortization of debt issuance costs.

During the third quarter of fiscal 2007 we recorded a charge for early extinguishment of debt totaling \$5.1 million related to the prepayment of the Company's outstanding Class A Senior Notes and Class B Senior Notes (collectively, the Senior Notes) on October 4, 2006, which included a make-whole premium of approximately \$4.4 million and the write-off of unamortized debt issuance costs related to the Senior Notes of \$0.7 million.

The effective income tax rate for the quarter ended December 31, 2007 was 29.0% compared to 30.1% for the quarter ended December 31, 2006. The decrease in the tax rate was primarily due to final return to provision adjustments. Additionally, both rates vary from the Federal statutory tax rate of 35% primarily due to benefits realized from the research and development tax credit and the domestic production activities deduction.

Loss from discontinued operations before income taxes was \$1.9 million for the quarter ended December 31, 2007, compared with a loss from discontinued operations before income taxes of \$1.4 million for the quarter ended December 31, 2006. The benefit for income taxes was \$0.7 million for the quarter ended December 31, 2007 compared to a benefit of \$0.5 million in the prior year period.

Loss from discontinued operations before income taxes was \$1.9 million for the quarter ended December 31, 2007, compared with a loss from discontinued operations before income taxes of \$1.4 million for the quarter ended December 31, 2006. The benefit for income taxes was \$0.7 million for the quarter ended December 31, 2007 compared to a benefit of \$0.5 million in the prior year period.

Business Segment Performance

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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 manufacture composite assemblies for floor panels, environmental control system ducts and non-structural cockpit components. These products are sold to various aerospace OEMs on a global basis.

Management's Discussion and Analysis of

Financial Condition and Results of Operations

(continued)

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

Business Segment Performance Three months ended December 31, 2007 compared to three months ended December 31, 2006

| | Quarter Ended December 31, | | % | % of Total Sales | | | |
|------------------------------------|-------------------------------|---------|--------|------------------|---------|--------|--------|
| | 2007 | 2006 | Change | 2007 | 2006 | | |
| | (dollars in thousands) | | | | | | |
| NET SALES | | | | | | | |
| Aerospace Systems | \$ | 213,025 | \$ | 187,846 | 13.4% | 77.4% | 79.0% |
| Aftermarket Services | | 62,728 | | 50,459 | 24.3% | 22.8% | 21.2% |
| Elimination of inter-segment sales | | (654) | | (549) | (19.1)% | (0.2)% | (0.2)% |
| Total Net Sales | \$ | 275,099 | \$ | 237,756 | 15.7% | 100.0% | 100.0% |

| | Quarter Ended December 31, | | % | % of Segment Sales | | | |
|------------------------|-------------------------------|---------|--------|--------------------|---------|-------|-------|
| | 2007 | 2006 | Change | 2007 | 2006 | | |
| | (dollars in thousands) | | | | | | |
| OPERATING INCOME | | | | | | | |
| Aerospace Systems | \$ | 26,095 | \$ | 26,064 | 0.1% | 12.2% | 13.9% |
| Aftermarket Services | | 6,519 | | 3,229 | 101.9% | 10.4% | 6.4% |
| Corporate | | (3,888) | | (4,780) | (18.7)% | n/a | n/a |
| Total Operating Income | \$ | 28,726 | \$ | 24,513 | 17.2% | 10.4% | 10.3% |

Aerospace Systems: The Aerospace Systems segment net sales increased by \$25.2 million, or 13.4%, to \$213.0 million for the quarter ended December 31, 2007 from \$187.8 million for the quarter ended December 31, 2006. The increase was due to organic sales growth to our OEM customers driven by increased aircraft build rates. Additionally, adding to the Aerospace Systems segment increase in sales was its expansion into new product lines to further serve customer needs.

Aerospace Systems segment operating income for the quarter ended December 31, 2007 was in line with operating income for the quarter ended December 31, 2006. Margins attained on the increased sales volume mentioned above have been entirely offset by \$3.2 million of increased litigation and additional increases in payroll costs.

Aftermarket Services: The Aftermarket Services segment net sales increased by \$12.3 million, or 24.3%, to \$62.7 million for the quarter ended December 31, 2007 from \$50.5 million for the quarter ended December 31, 2006. This increase was due to the sales increase associated with the acquisition of the assets and business of Grand Prairie Accessory Services, LLC (now Triumph Accessory Services - Grand Prairie, Inc.), and an increase in same store sales of \$4.2 million due to new customers and products, growth in global commercial air traffic and U.S. military maintenance requirements resulting in increased demand for repair and overhaul of auxiliary power units, thrust reversers and other aerostructures.

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

(continued)

Aftermarket Services segment operating income increased by \$3.3 million, or 101.9%, to \$6.5 million for the quarter ended December 31, 2007 from \$3.2 million for the quarter ended December 31, 2006. Operating income increased primarily due to margins attained on increased sales volume, improvements in our operating margins at our Thailand facility as a result of increased utilization and the contribution from the acquisition of Triumph Accessory Services - Grand Prairie, Inc. partially offset by increases in payroll and depreciation and amortization expenses.

Nine months ended December 31, 2007 compared to nine months ended December 31, 2006

| | Nine Months Ended December 31, | |
|---|---|-------------|
| | 2007 | 2006 |
| | (dollars in thousands) | |
| Net Sales | \$ 829,875 | \$ 677,561 |
| Segment Operating Income | \$ 104,631 | \$ 80,171 |
| Corporate Expenses | (13,808) | (12,838) |
| Total Operating Income | 90,823 | 67,333 |
| Interest Expense and Other | 10,083 | 8,694 |
| Charge for early extinguishment of debt | | 5,088 |
| Income Tax Expense | 26,304 | 18,083 |
| Income from continuing operations | \$ 54,436 | \$ 35,468 |
| Loss from discontinued operations, net | (6,572) | (2,623) |
| Net Income | \$ 47,864 | \$ 32,845 |

Net sales increased by \$152.3 million, or 22.5%, to \$829.9 million for the nine months ended December 31, 2007 from \$677.6 million for the nine months ended December 31, 2006. The 2007 Acquisitions contributed \$36.7 million. Excluding the effects of the 2007 Acquisitions, organic sales growth was \$115.6 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 \$24.5 million, or 30.5%, to \$104.6 million for the nine months ended December 31, 2007 from \$80.2 million for the nine months ended December 31, 2006. Operating income growth was a direct result of margins attained on increased sales volume as described above, and the contribution of \$2.9 million from the 2007 Acquisitions, partially offset by increases in litigation costs, payroll, healthcare, and depreciation and amortization expenses associated with the 2007 Acquisitions.

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Corporate expenses increased by \$1.0 million, or 7.6%, to \$13.8 million for the nine months ended December 31, 2007 from \$12.8 million for the nine months ended December 31, 2006, primarily due to increased litigation, workers compensation and stock compensation costs, partially offset by an insurance reimbursement related to product liability claims.

Interest expense and other increased by \$1.4 million, or 16.0%, to \$10.1 million for the nine months ended December 31, 2007 compared to \$8.7 million for the prior year period. This increase was due to higher average borrowings outstanding and amortization of debt issuance costs, partially offset by lower interest on our convertible notes issued in September 2006 as compared to the previously outstanding Class A Senior Notes and Class B Senior Notes.

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

(continued)

During the third quarter of fiscal 2007 we recorded a charge for early extinguishment of debt totaling \$5.1 million related to the prepayment of the Senior Notes on October 4, 2006, which included a make-whole premium of approximately \$4.4 million and the write-off of unamortized debt issuance costs related to the Senior Notes of \$0.7 million.

The effective tax rate was 32.2% for the nine months ended December 31, 2007 and 33.7% for the nine months ended December 31, 2006. The decrease in the tax rate was primarily due to final return to provision adjustments. Additionally, both rates vary from the Federal statutory tax rate of 35% primarily due to benefits realized from the research and development tax credit and the domestic production activities deduction.

Loss from discontinued operations before income taxes was \$10.1 million for the nine months ended December 31, 2007, which included an impairment of \$4.0 million, compared with a loss from discontinued operations before income taxes of \$4.0 million for the nine months ended December 31, 2006. The benefit for income taxes was \$3.5 million for the nine months ended December 31, 2007 compared to a benefit of \$1.4 million in the nine months of the prior year.

Business Segment Performance **Nine months ended December 31, 2007 compared to nine months ended December 31, 2006**

| | Nine Months Ended December 31, | | % | % of Total Sales | |
|------------------------------------|-----------------------------------|------------|---------|------------------|--------|
| | 2007 | 2006 | Change | 2007 | 2006 |
| | (dollars in thousands) | | | | |
| NET SALES | | | | | |
| Aerospace Systems | \$ 650,816 | \$ 538,939 | 20.8% | 78.4% | 79.5% |
| Aftermarket Services | 181,095 | 140,941 | 28.5% | 21.8% | 20.8% |
| Elimination of inter-segment sales | (2,036) | (2,319) | (12.2)% | (0.2)% | (0.3)% |
| Total Net Sales | \$ 829,875 | \$ 677,561 | 22.5% | 100.0% | 100.0% |

| | Nine Months Ended December 31, | | % | % of Segment Sales | |
|------------------------|-----------------------------------|-----------|--------|--------------------|-------|
| | 2007 | 2006 | Change | 2007 | 2006 |
| | (dollars in thousands) | | | | |
| OPERATING INCOME | | | | | |
| Aerospace Systems | \$ 87,559 | \$ 71,737 | 22.1% | 13.5% | 13.3% |
| Aftermarket Services | 17,072 | 8,434 | 102.4% | 9.4% | 6.0% |
| Corporate | (13,808) | (12,838) | (7.6)% | n/a | n/a |
| Total Operating Income | \$ 90,823 | \$ 67,333 | 34.9% | 10.9% | 9.9% |

Aerospace Systems: The Aerospace Systems segment net sales increased by \$111.9 million, or 20.8%, to \$650.8 million for the nine months ended December 31, 2007 from \$538.9 million for the nine months ended December 31, 2006.

The increase was primarily due to organic sales growth to our OEM customers of \$99.9 million driven by increased aircraft build rates and the net sales contributed from the acquisition of the assets and business of Allied Aerospace Industries, Inc. (now Triumph Aerospace Systems - Newport News).

Aerospace Systems segment operating income increased by \$15.8 million, or 22.1%, to \$87.6 million for the nine months ended December 31, 2007 from \$71.7 million for the nine months ended December 31, 2006. Operating income increased primarily due to margins attained on increased sales volume, and the margins contributed from the Triumph Aerospace Systems - Newport News acquisition, partially offset by an increase of \$5.8 million in litigation, and additional increases in payroll and healthcare costs.

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

(continued)

Aftermarket Services: The Aftermarket Services segment net sales increased by \$40.2 million, or 28.5%, to \$181.1 million for the nine months ended December 31, 2007 from \$140.9 million for the nine months ended December 31, 2006. This increase was due to the sales increase associated with the acquisition of Triumph Accessory Services Grand Prairie, Inc., and an increase in same store sales of \$15.5 million due to new customers and products, growth in global commercial air traffic and U.S. military maintenance requirements resulting in increased demand for repair and overhaul of auxiliary power units and the brokering of similar units.

Aftermarket Services segment operating income increased by \$8.6 million, or 102.4%, to \$17.1 million for the nine months ended December 31, 2007 from \$8.4 million for the nine months ended December 31, 2006. Operating income increased primarily due to margins attained on increased sales volume, improvements in our operating margins at our Thailand facility as a result of increased utilization and the contribution from the acquisition of Triumph Accessory Services Grand Prairie, Inc. partially offset by increases in payroll, write-offs of bad debt and depreciation and amortization expenses.

Liquidity and Capital Resources

Our working capital needs are generally funded through cash flows from operations and borrowings under our credit arrangements. During the nine months ended December 31, 2007, we generated approximately \$26.2 million of cash flows from operating activities, used approximately \$34.5 million in investing activities and generated approximately \$11.3 million in financing activities.

In September 2006, the Company issued \$201.3 million of convertible senior subordinated notes due October 1, 2026 bearing interest at a fixed rate of 2.625% (Convertible Notes). In January 2008, the Company delivered a notice to holders of its Convertible Notes to the effect that, for at least 20 trading days during the 30 consecutive trading days preceding December 31, 2007, the closing price of the Company's common stock was greater than or equal to 130% of the conversion price of such notes on the last trading day. Under the terms of the Convertible Notes, the increase in the Company's stock price triggered a provision, which gave holders of the notes a put option through March 31, 2008. Accordingly, the Company has classified these notes as short-term debt as of December 31, 2007.

As of December 31, 2007, \$231.2 million was available under our revolving credit facility (the Credit Facility). On December 31, 2007, an aggregate amount of approximately \$112.4 million was outstanding under the Credit Facility, \$100.0 million of which was accruing interest at LIBOR plus applicable basis points totaling 6.0% per annum, and \$12.4 million of which was accruing interest at the overnight rate of 5.4% per annum. Amounts repaid under the Credit Facility may be reborrowed.

On October 15, 2007, the Company amended its Credit Facility with its lenders to add a sublimit of \$200.0 million for foreign currency borrowings and amend and eliminate certain other terms and covenants.

Effective April 2007, the Company entered into a settlement agreement with a customer relating to a long-term supply agreement (LTSA). The LTSA is related to the Company's acquisition of Rolls-Royce Gear Systems, Inc., in fiscal 2004. The Company has been producing the component parts for this LTSA at a loss for approximately one year which has been reserved for through a loss contract reserve. The agreement provides for the parties to establish a transition plan that provides for the customer to re-source the component parts from other suppliers, essentially terminating the Company's requirement to provide future deliveries of these component parts. The agreement establishes a date of no later than December 31, 2008 for completion of the re-sourcing effort. Additionally, the Company will be required to make four payments of \$0.5 million each over the next two years, upon successful transition of the component parts by the customer to other vendors. The Company recorded the estimated impact of this settlement in its March 31, 2007 balance sheet, which did not result in a significant adjustment to the recorded loss reserve. As of March 31, 2007 and December 31, 2007, the recorded loss reserve was \$7.2 million and \$4.1 million, respectively. A payment of \$0.5 million was made in October 2007. If the transition is completed earlier than December 31, 2008, or the

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

(continued)

quantity, price or cost of units delivered by the Company is different than anticipated under the settlement agreement, an adjustment to the recorded loss reserve may be required. Because we cannot determine the extent of re-sourcing that may occur or the timing of the re-sourcing, we will monitor progress and make appropriate adjustments, as may be necessary, to the loss contract reserve on a periodic basis.

Capital expenditures were approximately \$38.3 million for the nine months ended December 31, 2007, primarily for manufacturing machinery and equipment. We funded these expenditures through borrowings under our Credit Facility. We expect capital expenditures to be in the range of \$55.0 million to \$70.0 million for our fiscal year ending March 31, 2008. The expenditures are expected to be used mainly to expand capacity or replace old equipment at several facilities.

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

| Contractual Obligations | Total | Payments Due by Period (dollars in thousands) | | | | More than 5 years |
|--|------------|--|-----------|------------|----|----------------------|
| | | Less than 1 year | 1-3 years | 3-5 years | | |
| Debt Principal (1) | \$ 322,288 | \$ 201,473 | \$ 399 | \$ 112,732 | \$ | 7,684 |
| Debt-Interest (2) | 3,456 | 2,750 | 198 | 508 | | |
| Operating Leases | 60,653 | 17,116 | 16,485 | 11,182 | | 15,870 |
| Purchase Obligations | 317,048 | 270,419 | 45,341 | 1,250 | | 38 |
| Other Long Term Obligations (1) (3) | 5 | 5 | | | | |
| Total | \$ 703,450 | \$ 491,763 | \$ 62,423 | \$ 125,672 | \$ | 23,592 |

(1) Included in the Company's balance sheet at December 31, 2007.

(2) Includes fixed-rate interest only.

(3) Includes interest component.

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

Critical Accounting Policies

The Company's critical accounting policies are discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations and notes accompanying the consolidated financial statements that appear in the Annual Report on Form 10-K for the fiscal year ended March 31, 2007. Except as otherwise disclosed in the financial statements and accompanying notes included in this report, there were no material changes subsequent to the filing of the Annual Report on Form 10-K for the fiscal year ended March 31, 2007 in the Company's critical accounting policies or in the assumptions or estimates used to prepare the financial information appearing in this report.

Forward Looking Statements

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This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 relating to our future operations and prospects, including statements that are based on current projections and expectations about the markets in which we operate, and our beliefs concerning future performance and capital requirements based upon current available information. Such statements are based

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

(continued)

on our beliefs as well as assumptions made by and information currently available to us. When used in this document, words like "may," "might," "will," "expect," "anticipate," "believe," "potential," and similar expressions are intended to identify forward looking statements. Actual results could differ materially from our current expectations. For example, there can be no assurance that additional capital will not be required or that additional capital, if required, will be available on reasonable terms, if at all, at such times and in such amounts as may be needed by us. In addition to these factors, among other factors that could cause actual results to differ materially are uncertainties relating to the integration of acquired businesses, general economic conditions affecting our business, dependence of certain of our businesses on certain key customers as well as competitive factors relating to the aviation industry. For a more detailed discussion of these and other factors affecting us, see the risk factors described in our Annual Report on Form 10-K for the fiscal year ended March 31, 2007, filed with the SEC in June 2007.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

For information regarding our exposure to certain market risks, see Item 7A. Quantitative and Qualitative Disclosures About Market Risk in our Annual Report on Form 10-K for the fiscal year ended March 31, 2007. There has been no material change in this information.

Item 4. Controls and Procedures.

(a) Evaluation of disclosure controls and procedures.

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

As of December 31, 2007, we completed an evaluation, under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of December 31, 2007.

(b) Changes in internal control over financial reporting.

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

TRIUMPH GROUP, INC.

Part II. Other Information

Item 1. Legal Proceedings.

As we have previously disclosed, the Company, our subsidiary Triumph Actuation Systems, LLC (formerly Frisby Aerospace, LLC) and certain employees of our subsidiaries are the defendants in a suit brought by Eaton Corporation and several Eaton subsidiaries in the Circuit Court of the First Judicial District of Hinds County, Mississippi, involving claims of misappropriation of trade secrets and intellectual property allegedly belonging to Eaton relating to hydraulic pumps and motors used in military and commercial aviation. We have also disclosed that, in a separate proceeding, five engineers of Triumph Actuation Systems who are former employees of Eaton Aerospace, LLC, were indicted by a grand jury sitting in the Southern District of Mississippi on five counts of trade secret misappropriation and related charges, of which all counts other than part of one were dismissed by the U.S. District Court for the Southern District of Mississippi, leaving a charge of conspiracy to misappropriate trade secrets.

On October 11, 2007, the government obtained a new indictment against the same five engineer defendants raising new charges arising out of the same investigation, which were essentially reiterated in a second superseding indictment obtained on November 11, 2007. Defendants subsequently filed pretrial motions, including motions to dismiss, which remain pending. While no trial date has been set, it is presently expected that trial will be held in the spring of 2008. No charges have been brought against Triumph Actuation Systems or the Company, and we understand that neither Triumph Actuation Systems nor the Company is currently the subject of the criminal investigation.

In the civil case, following stays of most discovery while the parties litigated a motion to dismiss and a motion to protect the defendant engineers Fifth Amendment rights, discovery recommenced in late August 2007. However, on January 4, 2008, the judge in the civil case, Judge Bobby DeLaughter, recused himself on his own motion. The case has been reassigned to a new judge, Chief Judge W. Swan Yerger, who has stayed further depositions of the defendant engineers pending the completion of the criminal trial. In addition, the court must set a new discovery and trial schedule.

On January 24, 2008, Triumph Actuation Systems filed a Motion for Stay of Discovery Pending Review of Prior Rulings of Judge DeLaughter. The motion requests a stay of discovery to reexamine Judge DeLaughter's prior rulings based on the ongoing federal investigation of an alleged ex parte and inappropriate relationship between Judge DeLaughter and Ed Peters. The motion asserts that Eaton brought Peters into the civil case against Triumph Actuation Systems, but did not disclose Peters' involvement to the defendants. It is too early to determine what, if any, exposure to liability Triumph Actuation Systems or the Company might face as a result of the civil suit. We intend to continue to vigorously defend the allegations contained in Eaton's complaint and to vigorously prosecute the counterclaims brought by Triumph Actuation Systems.

Further information on the proceedings described above can be found in Item 3. Legal Proceedings in our Annual Report on Form 10-K for the fiscal year ended March 31, 2007.

Item 6. Exhibits.

- Exhibit 10.1 Fourth Amendment to Amended and Restated Credit Agreement (Incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q, dated September 30, 2007, filed on November 2, 2007).
- Exhibit 31.1 Certification by President and Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a).
- Exhibit 31.2 Certification by Senior Vice President, Chief Financial Officer and Treasurer Pursuant to Rule 13a-14(a)/15d-14(a).
- Exhibit 32.1 Certification of Periodic Report by President and Chief Executive Officer Furnished Pursuant to 18 U.S.C. Section 1350 Adopted Pursuant to Section 906 Sarbanes-Oxley Action of 2002.
- Exhibit 32.2 Certification of Periodic Report by Senior Vice President, Chief Financial Officer and Treasurer Furnished Pursuant to 18 U.S.C. Section 1350 Adopted Pursuant to Section 906 Sarbanes-Oxley Action of 2002.

Signatures

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

Triumph Group, Inc.
(Registrant)

/s/ Richard C. Ill
Richard C. Ill, President & Chief Executive Officer
(Principal Executive Officer)

February 1, 2008

/s/ M. David Kornblatt
M. David Kornblatt, Senior Vice President, Chief Financial Officer and Treasurer
(Principal Financial Officer)

February 1, 2008

/s/ Kevin E. Kindig
Kevin E. Kindig, Vice President & Controller
(Principal Accounting Officer)

February 1, 2008