# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
# WASHINGTON, D.C. 20549

# FORM 10-Q

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

**for the quarterly period ended June 27, 2020**

**☐ Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**For the transition period from to**
**Commission File Number 001-32833**

# TransDigm Group Incorporated

**(Exact name of registrant as specified in its charter)**

**Delaware**
**(State or other jurisdiction of incorporation or organization)**

**41-2101738**
**(I.R.S. Employer Identification No.)**

| | |
|---|---|
| **1301 East 9th Street, Suite 3000, Cleveland, Ohio** | **44114** |
| **(Address of principal executive offices)** | **(Zip Code)** |

**(216) 706-2960**
**(Registrant’s telephone number, including area code)**

**(Former name, former address and former fiscal year, if changed since last report.)**

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

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

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

| | | | |
|---|---|---|---|
| Large Accelerated Filer | ☒ | Accelerated Filer | ☐ |
| Non-Accelerated Filer | ☐ | Smaller Reporting Company | ☐ |
| Emerging Growth Company | ☐ | | |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

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

| Title of each class: | Trading Symbol: | Name of each exchange on which registered: |
|---|---|---|
| Common Stock, $0.01 par value | TDG | New York Stock Exchange |

The number of shares outstanding of TransDigm Group Incorporated’s common stock, par value $.01 per share, was 54,206,278 as of July 22, 2020.

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**TRANSDIGM GROUP INCORPORATED**
**CONDENSED CONSOLIDATED BALANCE SHEETS**
**(Amounts in millions, except share amounts)**
**(Unaudited)**

| | June 27, 2020 | September 30, 2019 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 4,549 | $ 1,467 |
| Trade accounts receivable—Net | 726 | 1,068 |
| Inventories—Net | 1,344 | 1,233 |
| Assets held-for-sale | — | 962 |
| Prepaid expenses and other | 152 | 135 |
| Total current assets | 6,771 | 4,865 |
| PROPERTY, PLANT AND EQUIPMENT—NET | 744 | 757 |
| GOODWILL | 7,858 | 7,820 |
| OTHER INTANGIBLE ASSETS—NET | 2,634 | 2,744 |
| DEFERRED INCOME TAXES | 12 | — |
| OTHER | 160 | 69 |
| TOTAL ASSETS | $ 18,179 | $ 16,255 |
| **LIABILITIES AND STOCKHOLDERS' DEFICIT** | | |
| CURRENT LIABILITIES: | | |
| Current portion of long-term debt | $ 279 | $ 80 |
| Short-term borrowings—trade receivable securitization facility | 350 | 350 |
| Accounts payable | 231 | 276 |
| Accrued liabilities | 791 | 675 |
| Liabilities held-for-sale | — | 157 |
| Total current liabilities | 1,651 | 1,538 |
| LONG-TERM DEBT | 19,410 | 16,469 |
| DEFERRED INCOME TAXES | 372 | 441 |
| OTHER NON-CURRENT LIABILITIES | 925 | 691 |
| Total liabilities | 22,358 | 19,139 |
| TD GROUP STOCKHOLDERS' DEFICIT: | | |
| Common stock - $.01 par value; authorized 224,400,000 shares; issued 58,380,866 and 57,623,311 at June 27, 2020 and September 30, 2019, respectively | 1 | 1 |
| Additional paid-in capital | 1,527 | 1,379 |
| Accumulated deficit | (4,427) | (3,120) |
| Accumulated other comprehensive loss | (490) | (379) |
| Treasury stock, at cost; 4,198,226 and 4,161,326 shares at June 27, 2020 and September 30, 2019, respectively | (794) | (775) |
| Total TD Group stockholders' deficit | (4,183) | (2,894) |
| NONCONTROLLING INTERESTS | 4 | 10 |
| Total stockholders' deficit | (4,179) | (2,884) |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT | $ 18,179 | $ 16,255 |

See Notes to Condensed Consolidated Financial Statements

**TRANSDIGM GROUP INCORPORATED**
**CONDENSED CONSOLIDATED STATEMENTS OF (LOSS) INCOME**
**(Amounts in millions, except per share amounts)**
**(Unaudited)**

| | Thirteen Week Periods Ended | | Thirty-Nine Week Periods Ended | |
|---|---|---|---|---|
| | June 27, 2020 | June 29, 2019 | June 27, 2020 | June 29, 2019 |
| NET SALES | $ 1,022 | $ 1,521 | $ 3,930 | $ 3,682 |
| COST OF SALES | 531 | 808 | 1,819 | 1,755 |
| GROSS PROFIT | 491 | 713 | 2,111 | 1,927 |
| SELLING AND ADMINISTRATIVE EXPENSES | 163 | 252 | 544 | 535 |
| AMORTIZATION OF INTANGIBLE ASSETS | 42 | 38 | 128 | 80 |
| INCOME FROM OPERATIONS | 286 | 423 | 1,439 | 1,312 |
| INTEREST EXPENSE - NET | 262 | 241 | 762 | 614 |
| REFINANCING COSTS | 1 | — | 27 | 3 |
| OTHER INCOME | (11) | (1) | (14) | (1) |
| INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES | 34 | 183 | 664 | 696 |
| INCOME TAX PROVISION | 39 | 55 | 112 | 172 |
| (LOSS) INCOME FROM CONTINUING OPERATIONS | (5) | 128 | 552 | 524 |
| (LOSS) INCOME FROM DISCONTINUED OPERATIONS, NET OF TAX | (1) | 17 | 66 | 19 |
| NET (LOSS) INCOME | (6) | 145 | 618 | 543 |
| LESS: NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS | — | — | (1) | — |
| NET (LOSS) INCOME ATTRIBUTABLE TO TD GROUP | $ (6) | $ 145 | $ 617 | $ 543 |
| NET (LOSS) INCOME APPLICABLE TO TD GROUP COMMON STOCKHOLDERS | $ (6) | $ 145 | $ 432 | $ 519 |
| (Loss) Earnings per share attributable to TD Group common stockholders: | | | | |
| (Loss) Earnings per share from continuing operations - basic and diluted | $ (0.09) | $ 2.27 | $ 6.38 | $ 8.87 |
| (Loss) Earnings per share from discontinued operations - basic and diluted | (0.01) | 0.30 | 1.15 | 0.35 |
| (Loss) Earnings per share | $ (0.10) | $ 2.57 | $ 7.53 | $ 9.22 |
| Cash dividends declared per common share | $ — | $ — | $ 32.50 | $ — |
| Weighted-average shares outstanding: | | | | |
| Basic and diluted | 57.3 | 56.3 | 57.4 | 56.3 |

See Notes to Condensed Consolidated Financial Statements

**TRANSDIGM GROUP INCORPORATED**
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**(Amounts in millions)**
**(Unaudited)**

| | Thirteen Week Periods Ended | | Thirty-Nine Week Periods Ended | |
|---|---|---|---|---|
| | **June 27, 2020** | **June 29, 2019** | **June 27, 2020** | **June 29, 2019** |
| Net (loss) income | $ (6) | $ 145 | $ 618 | $ 543 |
| Less: Net income attributable to noncontrolling interests | — | — | (1) | — |
| Net (loss) income attributable to TD Group | $ (6) | $ 145 | $ 617 | $ 543 |
| Other comprehensive income (loss), net of tax: | | | | |
| Foreign currency translation | 27 | 51 | 19 | 27 |
| Unrealized loss on derivatives | (14) | (70) | (136) | (207) |
| Pensions and other postretirement benefits | — | — | 6 | — |
| Other comprehensive income (loss), net of tax, attributable to TD Group | 13 | (19) | (111) | (180) |
| TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO TD GROUP | $ 7 | $ 126 | $ 506 | $ 363 |

See Notes to Condensed Consolidated Financial Statements

# TRANSDIGM GROUP INCORPORATED
## CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT
## (Amounts in millions, except share amounts)
## (Unaudited)

| | TD Group Stockholders | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Common Stock | | Additional Paid-In Capital | Accumulated Deficit | Accumulated Other Comprehensive Income (Loss) | Treasury Stock | | Non-controlling Interests | Total |
| | Number of Shares | Par Value | | | | Number of Shares | Value | | |
| BALANCE, SEPTEMBER 30, 2018 | 56,895,686 | $ 1 | $ 1,209 | $ (2,247) | $ 4 | (4,161,326) | $ (775) | $ — | $ (1,808) |
| Cumulative effect of ASC 606 and ASU 2016-16, adopted October 1, 2018 | — | — | — | 3 | — | — | — | — | 3 |
| Accrued unvested dividend equivalents and other | — | — | — | (3) | — | — | — | — | (3) |
| Compensation expense recognized for employee stock options | — | — | 16 | — | — | — | — | — | 16 |
| Exercise of employee stock options | 109,695 | — | 14 | — | — | — | — | — | 14 |
| Net income attributable to TD Group | — | — | — | 196 | — | — | — | — | 196 |
| Foreign currency translation adjustments, net of tax | — | — | — | — | (11) | — | — | — | (11) |
| Unrealized loss on derivatives, net of tax | — | — | — | — | (74) | — | — | — | (74) |
| BALANCE, DECEMBER 29, 2018 | 57,005,381 | $ 1 | $ 1,239 | $ (2,051) | $ (81) | (4,161,326) | $ (775) | $ — | $ (1,667) |
| Noncontrolling interests assumed related to acquisitions | — | — | — | — | — | — | — | 9 | 9 |
| Accrued unvested dividend equivalents and other | — | — | — | (2) | — | — | — | — | (2) |
| Compensation expense recognized for employee stock options | — | — | 19 | — | — | — | — | — | 19 |
| Exercise of employee stock options | 298,240 | — | 33 | — | — | — | — | — | 33 |
| Common stock issued | 476 | — | — | — | — | — | — | — | — |
| Net income attributable to TD Group | — | — | — | 202 | — | — | — | — | 202 |
| Foreign currency translation adjustments, net of tax | — | — | — | — | (13) | — | — | — | (13) |
| Unrealized loss on derivatives, net of tax | — | — | — | — | (63) | — | — | — | (63) |
| BALANCE, MARCH 30, 2019 | 57,304,097 | $ 1 | $ 1,291 | $ (1,851) | $ (157) | (4,161,326) | $ (775) | $ 9 | $ (1,482) |
| Noncontrolling interests assumed related to acquisitions | — | — | — | — | — | — | — | 1 | 1 |
| Accrued unvested dividend equivalents and other | — | — | — | (4) | — | — | — | — | (4) |
| Compensation expense recognized for employee stock options | — | — | 31 | — | — | — | — | — | 31 |
| Exercise of employee stock options | 146,109 | — | 17 | — | — | — | — | — | 17 |
| Net income attributable to TD Group | — | — | — | 145 | — | — | — | — | 145 |
| Foreign currency translation adjustments, net of tax | — | — | — | — | 51 | — | — | — | 51 |
| Unrealized loss on derivatives, net of tax | — | — | — | — | (70) | — | — | — | (70) |
| BALANCE, JUNE 29, 2019 | 57,450,206 | $ 1 | $ 1,339 | $ (1,710) | $ (176) | (4,161,326) | $ (775) | $ 10 | $ (1,311) |

See Notes to Condensed Consolidated Financial Statements

**TRANSDIGM GROUP INCORPORATED**
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT**
**(Amounts in millions, except share amounts)**
**(Unaudited)**

| | TD Group Stockholders | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Common Stock | | Additional Paid-In Capital | Accumulated Deficit | Accumulated Other Comprehensive (Loss) Income | Treasury Stock | | Non-controlling Interests | Total |
| | Number of Shares | Par Value | | | | Number of Shares | Value | | |
| BALANCE, SEPTEMBER 30, 2019 | 57,623,311 | $ 1 | $ 1,379 | $ (3,120) | $ (379) | (4,161,326) | $ (775) | $ 10 | $ (2,884) |
| Noncontrolling interests attributable to divestiture | — | — | — | — | — | — | — | (6) | (6) |
| Special dividends and vested dividend equivalents declared | — | — | — | (1,864) | — | — | — | — | (1,864) |
| Accrued unvested dividend equivalents and other | — | — | — | (19) | — | — | — | — | (19) |
| Compensation expense recognized for employee stock options | — | — | 23 | — | — | — | — | — | 23 |
| Exercise of employee stock options | 169,470 | — | 20 | — | — | — | — | — | 20 |
| Net income attributable to TD Group | — | — | — | 304 | — | — | — | — | 304 |
| Foreign currency translation adjustments, net of tax | — | — | — | — | 98 | — | — | — | 98 |
| Unrealized gain on derivatives, net of tax | — | — | — | — | 23 | — | — | — | 23 |
| Pensions and other postretirement benefits adjustments, net of tax | — | — | — | — | 6 | — | — | — | 6 |
| BALANCE, DECEMBER 28, 2019 | 57,792,781 | $ 1 | $ 1,422 | $ (4,699) | $ (252) | (4,161,326) | $ (775) | $ 4 | $ (4,299) |
| Accrued unvested dividend equivalents and other | — | — | — | (21) | — | — | — | — | (21) |
| Compensation expense recognized for employee stock options | — | — | 17 | — | — | — | — | — | 17 |
| Exercise of employee stock options | 440,793 | — | 49 | — | — | — | — | — | 49 |
| Treasury stock purchased | — | — | — | — | — | (36,900) | (19) | — | (19) |
| Net income attributable to TD Group | — | — | — | 319 | — | — | — | — | 319 |
| Foreign currency translation adjustments, net of tax | — | — | — | — | (106) | — | — | — | (106) |
| Unrealized loss on derivatives, net of tax | — | — | — | — | (145) | — | — | — | (145) |
| BALANCE, MARCH 28, 2020 | 58,233,574 | $ 1 | $ 1,488 | $ (4,401) | $ (503) | (4,198,226) | $ (794) | $ 4 | $ (4,205) |
| Accrued unvested dividend equivalents and other | — | — | — | (20) | — | — | — | — | (20) |
| Compensation expense recognized for employee stock options | — | — | 19 | — | — | — | — | — | 19 |
| Exercise of employee stock options | 147,292 | — | 20 | — | — | — | — | — | 20 |
| Net loss attributable to TD Group | — | — | — | (6) | — | — | — | — | (6) |
| Foreign currency translation adjustments, net of tax | — | — | — | — | 27 | — | — | — | 27 |
| Unrealized loss on derivatives, net of tax | — | — | — | — | (14) | — | — | — | (14) |
| BALANCE, JUNE 27, 2020 | 58,380,866 | $ 1 | $ 1,527 | $ (4,427) | $ (490) | (4,198,226) | $ (794) | $ 4 | $ (4,179) |

See Notes to Condensed Consolidated Financial Statements

**TRANSDIGM GROUP INCORPORATED**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(Amounts in millions)**
**(Unaudited)**

| | Thirty-Nine Week Periods Ended | |
|---|---|---|
| | June 27, 2020 | June 29, 2019 |
| OPERATING ACTIVITIES: | | |
| Net income | $ 618 | $ 543 |
| Net income from discontinued operations | (66) | (19) |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 83 | 57 |
| Amortization of intangible assets | 128 | 80 |
| Amortization of debt issuance costs, original issue discount and premium | 25 | 20 |
| Amortization of inventory step-up | — | 109 |
| Amortization of loss contract reserves | (32) | (10) |
| Refinancing costs | 27 | 3 |
| Non-cash equity compensation | 59 | 70 |
| Deferred income taxes | (17) | 5 |
| Changes in assets/liabilities, net of effects from acquisitions of businesses: | | |
| Trade accounts receivable | 347 | (65) |
| Inventories | (126) | (100) |
| Income taxes receivable/payable | (49) | (9) |
| Other assets | 6 | (24) |
| Accounts payable | (48) | (7) |
| Accrued interest | 109 | 95 |
| Accrued and other liabilities | (73) | 20 |
| Net cash provided by operating activities | 991 | 768 |
| INVESTING ACTIVITIES: | | |
| Capital expenditures | (62) | (80) |
| Payments made in connection with acquisitions, net of cash acquired | — | (3,957) |
| Proceeds in connection with the sale of discontinued operations, net | 904 | — |
| Net cash provided by (used in) investing activities | 842 | (4,037) |
| FINANCING ACTIVITIES: | | |
| Proceeds from exercise of stock options | 89 | 64 |
| Dividends and dividend equivalent payments | (1,928) | (24) |
| Treasury stock purchased | (19) | — |
| Proceeds from revolving credit facility | 200 | — |
| Repayments on term loans | (38) | (57) |
| Cash tender and redemption of senior subordinated notes due 2020 | — | (550) |
| Redemption of senior subordinated notes due 2022, net | (1,168) | — |
| Proceeds from 7.50% senior subordinated notes due 2027, net | — | 544 |
| Proceeds from 5.50% senior subordinated notes due 2027, net | 2,625 | — |
| Proceeds from 8.00% senior secured notes due 2025, net | 1,092 | — |
| Proceeds from 6.25% senior secured notes due 2026, net | 401 | 3,936 |
| Financing fees and other, net | (9) | (1) |
| Net cash provided by financing activities | 1,245 | 3,912 |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | 4 | 1 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 3,082 | 644 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 1,467 | 2,073 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | $ 4,549 | $ 2,717 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Cash paid during the period for interest | $ 638 | $ 533 |
| Cash paid during the period for income taxes, net of refunds | $ 194 | $ 183 |

See Notes to Condensed Consolidated Financial Statements

**TRANSDIGM GROUP INCORPORATED**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**THIRTY-NINE WEEK PERIODS ENDED JUNE 27, 2020 AND JUNE 29, 2019**
**(UNAUDITED)**

## 1. DESCRIPTION OF THE BUSINESS AND IMPACT OF COVID-19 PANDEMIC

***Description of the Business***

TransDigm Group Incorporated ("TD Group"), through its wholly-owned subsidiary, TransDigm Inc., is a leading global designer, producer and supplier of highly engineered aircraft components for use on nearly every commercial and military aircraft in service today. TransDigm Inc., along with TransDigm Inc.'s direct and indirect wholly-owned operating subsidiaries (collectively, with TD Group, the "Company" or "TransDigm"), offers a broad range of proprietary aerospace components. TD Group has no significant assets or operations other than its 100% ownership of TransDigm Inc. TD Group's common stock is listed on the New York Stock Exchange, or the NYSE, under the trading symbol "TDG."

TransDigm's major product offerings, substantially all of which are ultimately provided to end-users in the aerospace industry, include mechanical/electro-mechanical actuators and controls, ignition systems and engine technology, specialized pumps and valves, power conditioning devices, specialized AC/DC electric motors and generators, batteries and chargers, engineered latching and locking devices, engineered rods, engineered connectors and elastomer sealing solutions, databus and power controls, cockpit security components and systems, specialized and advanced cockpit displays, aircraft audio systems, specialized lavatory components, seat belts and safety restraints, engineered and customized interior surfaces and related components, advanced sensor products, switches and relay panels, thermal protection and insulation, lighting and control technology, parachutes, high performance hoists, winches and lifting devices, and cargo loading, handling and delivery systems.

***Impact of COVID-19 Pandemic***

In December 2019, a novel strain of coronavirus ("COVID-19") surfaced in Wuhan, China, and has since spread to other countries, including the United States. In March 2020, the World Health Organization characterized COVID-19 as a pandemic. The pandemic has resulted in governments around the world implementing increasingly stringent measures to help control the spread of the virus, including quarantines, "shelter in place" and "stay at home" orders, travel restrictions, business curtailments and other measures. In addition, governments and central banks in several parts of the world have enacted fiscal and monetary stimulus measures to counteract the impacts of COVID-19. The commercial aerospace industry, in particular, has been significantly disrupted, both domestically and internationally.

*Cost Mitigation Measures*

As part of the Company's response to the impact of the COVID-19 pandemic on its business, the Company began taking certain cost reduction measures in the third quarter of fiscal 2020 such as: (1) reducing its workforce by at least 30% to align operations with customer demand. These actions are in addition to the cost mitigation efforts implemented earlier this calendar year in response to the 737 MAX production rate changes; (2) implementing unpaid furloughs of various lengths at many businesses over approximately the next six months in response to business specific situations; (3) TransDigm's senior management team substantially reducing its cash compensation for the balance of fiscal 2020; (4) members of TransDigm's Board of Directors forgoing their annual retainer fees for fiscal 2020; and (5) delaying non-essential capital projects and minimizing discretionary spending to only those activities and projects deemed essential in the near term.

For the thirteen and thirty-nine week periods ended June 27, 2020, COVID-19 restructuring costs incurred were approximately $24 million, of which $19 million was recorded in cost of sales and $5 million was recorded in selling and administrative expenses. These were costs related to the Company's actions to reduce its workforce to align with customer demand. Additionally, the Company incurred approximately $3 million in incremental costs related to the pandemic that are not expected to recur once the pandemic has subsided and are clearly separable from normal operations (e.g., additional cleaning and disinfecting of facilities by contractors above and beyond normal requirements, personal protective equipment, etc.).

As of June 27, 2020 the restructuring accrual associated with the costs incurred in response to the COVID-19 pandemic was immaterial. The Company expects to incur restructuring and incremental costs of between approximately $40 million to $60 million during fiscal 2020 related to the COVID-19 pandemic. The Company continues to analyze its cost structure and may implement additional cost reduction measures as necessary due to the ongoing business challenges resulting from the COVID-19 pandemic.

*Interim Impairment Testing*

US GAAP requires that both indefinite-lived intangible assets and goodwill are tested for impairment annually and more frequently if events or changes in circumstances indicate that it is more likely than not (i.e., a likelihood greater than 50%) that the intangible asset or the reporting unit is impaired. Therefore, during interim periods, ASC 350 requires companies to focus on those events and circumstances that affect significant inputs used to determine the fair value of the asset, asset group or reporting unit to determine whether an interim quantitative impairment test is required. Given the adverse global economic and market conditions attributable to the COVID-19 pandemic, particularly as it pertains to the commercial sector of the aerospace and defense industry, the Company determined that an interim impairment evaluation of goodwill and indefinite-lived intangible assets was necessary as of March 28, 2020 for certain reporting units in which it was concluded a potential impairment existed.

For the identified reporting units, a Step 1 impairment test was performed using an income approach based on management's determination of the prospective financial information with consideration taken of the existing uncertainty in the global economy and aerospace and defense industry, particularly the commercial sector. Management also included projected declines and subsequent recovery in commercial OEM and aftermarket as a percentage of sales based on available industry data. The Company utilized a third party valuation firm to assist in the determination of the weighted average cost of capital. For each indefinite-lived intangible asset and reporting unit tested, the fair value exceeded carrying value by at least approximately 80%.

As a result of the interim impairment testing performed as of March 28, 2020, no indefinite-lived intangible assets or goodwill was determined to be impaired. We updated our assessment during the third quarter of fiscal 2020 and validated that the assumptions used in the analyses performed as of March 28, 2020 and the resulting conclusions remained appropriate as of June 27, 2020.

*CARES Act*

On March 27, 2020, the President of the United States signed the Coronavirus Aid, Relief, and Economic Security ("CARES") Act, a substantial tax-and-spending package intended to provide additional economic stimulus to address the impact of the COVID-19 pandemic. The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer social security payments with 50% of the deferred amount due December 31, 2021 and the remaining 50% due December 31, 2022, net operating loss carryback periods, alternative minimum tax credit refunds, and modifications to the net interest deduction limitations. The most significant impact of the CARES Act for the Company is an increase of the IRC 163(j) Interest Disallowance Limitations from 30% to 50% of adjusted taxable income which will allow the Company to deduct additional interest expense for fiscal years 2020 and 2021. The CARES Act is further described in Note 10, "Income Taxes." The Company continues to assess the impact of the CARES Act and ongoing government guidance related to COVID-19 that may be issued.

## 2. UNAUDITED INTERIM FINANCIAL INFORMATION

The financial information included herein is unaudited; however, the information reflects all adjustments (consisting of normal recurring adjustments) that are, in the opinion of management, necessary for a fair presentation of the Company's financial position and results of operations and cash flows for the interim periods presented. These financial statements and notes should be read in conjunction with the financial statements and related notes for the year ended September 30, 2019 included in TD Group's Form 10-K filed on November 19, 2019. As disclosed therein, the Company's annual consolidated financial statements were prepared in conformity with generally accepted accounting principles in the United States ("US GAAP"). The September 30, 2019 condensed consolidated balance sheet was derived from TD Group's audited financial statements. The results of operations for the thirty-nine week period ended June 27, 2020 are not necessarily indicative of the results to be expected for the full year.

Historical information has been retrospectively adjusted to reflect the classification of discontinued operations. Discontinued operations are further described in Note 3, "Acquisitions and Divestitures," and Note 18, "Discontinued Operations."

## 3. ACQUISITIONS AND DIVESTITURES

During the fiscal year ended September 30, 2019, the Company completed the acquisitions of Esterline Technologies Corporation ("Esterline") and substantially all of the assets and technical data rights of the Stormscope product line from L3Harris Technologies, Inc. ("Stormscope") and NavCom Defense Electronics ("NavCom"). The Company accounted for the acquisitions using the acquisition method and included the results of operations of the acquisitions in its condensed consolidated financial statements from the effective date of each acquisition.

The acquisitions strengthen and expand the Company's position to design, produce and supply highly engineered proprietary aerospace components in niche markets with significant aftermarket content and provide opportunities to create value through the application of our three core value-driven operating strategies (obtaining profitable new business, improving our cost structure, and providing highly engineered value-added products to customers). The purchase price paid for each acquisition reflects the current earnings before interest, taxes, depreciation and amortization (EBITDA) and cash flows, as well as the future EBITDA and cash flows expected to be generated by the business, which are driven in most cases by the recurring aftermarket consumption over the life of a particular aircraft, estimated to be approximately 25 to 30 years.

### Acquisitions

***Esterline*** – On March 14, 2019, TransDigm completed the acquisition of all the outstanding stock of Esterline for $122.50 per share in cash, plus the payoff of Esterline debt. The purchase price, net of cash acquired of approximately $398.2 million, totaled approximately $3,923.9 million. Of the $3,923.9 million purchase price, $3,536.3 million was paid at closing and the remaining $387.6 million was classified as restricted cash for the redemption of the outstanding senior notes due 2023 (herein the "2023 Notes"). The 2023 Notes were redeemed on April 15, 2019. Esterline, through its subsidiaries, was an industry leader in specialized manufacturing for the aerospace and defense industry primarily within three core disciplines: advanced materials, avionics and controls and sensors and systems. The acquisition of Esterline expands TransDigm's platform of proprietary and sole source content for the aerospace and defense industry. TransDigm evaluated the strategic fit and description of each Esterline reporting unit to determine the appropriate business segment for the reporting unit. Each Esterline reporting unit is included in one of TransDigm's segments: Power and Control, Airframe, or Non-aviation. Refer to Note 13, "Segments," for additional information about the Company's segments.

The total purchase price of Esterline was allocated to the underlying assets acquired and liabilities assumed based upon the respective fair value at the date of acquisition. To the extent the purchase price exceeded the fair value of the net identifiable tangible and intangible assets acquired, such excess was allocated to goodwill. Allocations were based on the acquisition method of accounting and third-party valuation appraisals.

Except where otherwise noted in the notes to the condensed consolidated financial statements, changes in balances and activity where comparable periods are presented in the condensed consolidated financial statements are generally driven by the Esterline acquisition.

The allocation of the fair value of the assets acquired and liabilities assumed in the Esterline acquisition as of the acquisition date of March 14, 2019 is summarized in the table below (in millions).

| | |
|---|---|
| Assets acquired: | |
| Trade accounts receivable | $ 384 |
| Inventories | 583 |
| Prepaid expenses and other | 423 |
| Property, plant, and equipment | 469 |
| Other intangible assets | 1,301 |
| Goodwill | 2,256 |
| Other | 20 |
| Total assets acquired | 5,436 |
| Liabilities assumed: | |
| Accounts payable | 146 |
| Accrued liabilities | 751 |
| Other non-current liabilities | 615 |
| Total liabilities assumed | 1,512 |
| Net assets acquired | $ 3,924 |

Of the approximately $2.3 billion of goodwill recognized for the acquisition, approximately $25.6 million is deductible for tax purposes. Also, of the approximately $1.3 billion of other intangible assets recognized for the acquisition, approximately $48.9 million is deductible for tax purposes.

In connection with the Esterline acquisition, we acquired existing long-term contracts with customers that were incurring gross margin losses as of the date of acquisition. Based on our review of these contracts, we concluded that the terms of certain of these loss-making contracts were unfavorable when compared to market terms as of the acquisition date. As a result, we recognized loss contract reserves of $267.9 million as of the acquisition date based on the present value of the difference between the contractual cash flows of the existing long-term contracts and the estimated cash flows had the contracts been executed at market terms as of the acquisition date. These adjustments applied only to contracts generating a negative margin as of the date of acquisition. As of September 30, 2019, we reclassified $9.3 million in loss contract reserves to liabilities held-for-sale, as it pertained to Souriau-Sunbank. Significant assumptions used to determine the fair value of the loss contract reserves using the discounted cash flow model include discount rates, forecasted quantities of products to be sold under the long-term contracts and market prices for respective products. While the Company conservatively selected values for these assumptions, they were forward looking and could be affected by future economic and market conditions. The loss contract reserves are amortized and recorded as an offset to cost of sales over the life of the contracts as actual sales occur under the long-term contracts. Approximately $26.0 million was amortized and recorded as an offset to cost of sales in the condensed consolidated statement of (loss) income for the thirty-nine week period ended June 27, 2020. Total loss contract reserves related to the Esterline acquisition are $205.3 million and $231.8 million at June 27, 2020 and September 30, 2019, respectively, of which $33.4 million and $60.0 million is classified in accrued liabilities and $171.9 million and $171.8 million is classified in other non-current liabilities in the condensed consolidated balance sheets at June 27, 2020 and September 30, 2019, respectively.

***Extant Acquisitions*** – On August 30, 2019, the Company's Extant subsidiary completed the acquisition of substantially all of the assets and technical data rights of the Stormscope product line from L3Harris Technologies, Inc. for approximately $20 million in cash. Stormscope is a lightning detection system for the general aviation and business jet markets. Stormscope is included as a product line of Extant, which is included in TransDigm's Power and Control segment. Approximately $11.1 million of goodwill and approximately $7.5 million of other intangible assets recognized for the acquisition is deductible for tax purposes over 15 years.

On October 1, 2018, the Company's Extant subsidiary completed the acquisition of substantially all of the assets and technical data rights from the Corona, California operations of NavCom for approximately $27 million in cash. NavCom develops, manufactures, and supports high-reliability, mission-critical electronics, avionics and sub-assemblies. NavCom is included as a product line of Extant, which is included in TransDigm's Power and Control segment. Approximately $9.0 million of goodwill recognized for the acquisition is deductible for tax purposes over 15 years.

Pro forma net sales and results of operations for the Extant acquisitions had they occurred at the beginning of the applicable thirty-nine week periods ended June 27, 2020 and June 29, 2019 are not material and, accordingly, are not provided.

**Divestitures**

***Souriau-Sunbank*** – On December 20, 2019, TransDigm completed the divestiture of the Souriau-Sunbank Connection Technologies business (“Souriau-Sunbank”) to Eaton Corporation plc (“Eaton”) for approximately $920 million. Souriau-Sunbank was acquired by TransDigm as part of its acquisition of Esterline in March 2019.

***Esterline Interface Technology Group*** – On September 20, 2019, TransDigm completed the divestiture of its Esterline Interface Technology (“EIT”) group of businesses to an affiliate of KPS Capital Partners, LP for approximately $190 million, which included a working capital settlement of $0.7 million that was paid in February 2020. EIT was acquired by TransDigm as part of its acquisition of Esterline in March 2019.

Refer to Note 18, "Discontinued Operations," for further information on the Company's divestitures.

**4. RECENT ACCOUNTING PRONOUNCEMENTS**

In February 2016, the FASB issued ASU 2016-02, “Leases (ASC 842),” which requires lessees to recognize a right-of-use asset and lease liability for all leases with a term of more than 12 months. ASU 2016-02 was effective for the Company on October 1, 2019, and required a modified retrospective application. In July 2018, the FASB issued ASU 2018-11, “Leases (ASC 842) Targeted Improvements,” which provided an additional transition method that allowed entities to initially apply the new standard at the adoption date and recognize a cumulative effect adjustment to the opening balance of retained earnings in the period of adoption without restating prior periods. The Company has completed the necessary changes to the consolidated financial statements and related disclosures, internal controls, financial policies and information systems. On October 1, 2019, the Company adopted ASC 842 and related amendments using the modified retrospective method. Results for reporting periods beginning after October 1, 2019, are presented under ASC 842, while prior period amounts continue to be reported under ASC 840, “Leases." The Company elected to apply the package of practical expedients permitted within the new standard, which among other things, allows the carry forward of historical lease classification of existing leases. Additionally, the adoption of the new standard resulted in the recording of lease assets and lease liabilities for operating leases of $99 million and $105 million, respectively, as of October 1, 2019. The effects of our transition to ASC 842 resulted in no cumulative adjustment to retained earnings in the period of adoption. The adoption of the standard did not have a material impact on our condensed consolidated statements of (loss) income or cash flows. Refer to Note 16, "Leases," for additional disclosures.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments—Credit Losses: Measurement of Credit Losses on Financial Instruments (ASU 2016-13)," which changes the impairment model for most financial assets. The new model uses a forward-looking expected loss method, which will generally result in earlier recognition of allowances for losses. ASU 2016-13 is effective for the Company for fiscal years, and interim periods within those fiscal years, beginning after October 1, 2020. The adoption of this standard is not expected to have a material impact on our consolidated financial statements and disclosures.

In January 2017, the FASB issued ASU 2017-04, “Simplifying the Test for Goodwill Impairment,” to eliminate Step 2 from the goodwill impairment test in order to simplify the subsequent measurement of goodwill. The guidance is effective for the Company for fiscal years beginning after October 1, 2020. The adoption of this standard is not expected to have a material impact on our consolidated financial statements and disclosures.

In December 2019, the FASB issued ASU 2019-12, “Income Taxes (ASC 740) - Simplifying the Accounting for Income Taxes,” which simplifies the accounting for income taxes by removing certain exceptions to the general principles in ASC 740. The amendments also improve consistent application of and simplify US GAAP for other areas of ASC 740 by clarifying and amending existing guidance. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Early adoption of the amendments is permitted, including adoption in any interim period for which financial statements have not yet been issued. Depending on the amendment, adoption may be applied on the retrospective, modified retrospective or prospective basis. The Company is currently evaluating the impact of adopting this standard on our consolidated financial statements and disclosures.

In March 2020, the Securities and Exchange Commission adopted amendments to simplify the financial disclosure requirements for guarantors and issuers of guaranteed securities registered under Rule 3-10 of Regulation S-X. As permitted, the Company elected to early adopt these amendments during the third quarter of fiscal 2020. The amendments replace the condensed consolidating financial information with summarized financial information of the issuers and guarantors, require expanded qualitative disclosures with respect to information about guarantors, the terms and conditions of guarantees and the factors that may affect payment, and permit these disclosures to be provided outside the notes to the parent company’s annual and interim consolidated financial statements. The Company elected to provide this information in Management’s Discussion and Analysis of Financial Condition and Results of Operations.

In March 2020, the FASB issued ASU 2020-04, “Reference Rate Reform." This ASU provides optional guidance for a limited period of time to ease potential accounting impacts associated with transitioning away from reference rates that are expected to be discontinued, such as the London Interbank Offered Rate ("LIBOR"). The amendments in this ASU apply only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued. The amendments in this ASU are effective through December 31, 2022. The Company is currently evaluating the impact of adopting this standard on our consolidated financial statements and disclosures.

**5. REVENUE RECOGNITION**

TransDigm's sales are concentrated in the aerospace industry. The Company’s customers include: distributors of aerospace components, commercial airlines, large commercial transport and regional and business aircraft OEMs, various armed forces of the United States and friendly foreign governments, defense OEMs, system suppliers, and various other industrial customers.

The majority of the Company's revenue is recorded at a point in time. Revenue is recognized from the sale of products when control transfers to the customer, which is demonstrated by our right to payment, a transfer of title, a transfer of the risk and rewards of ownership, or the customer acceptance, but most frequently upon shipment where the customer obtains physical possession of the goods.

In some contracts, control transfers to the customer over time, primarily in contracts where the customer is required to pay for the cost of both the finished and unfinished goods at the time of cancellation plus a reasonable profit relative to the work performed for products that were customized for the customer. Therefore, we recognize revenue over time for those agreements that have a right to margin and where the products being produced have no alternative use.

Based on our production cycle, it is generally expected that goods related to the revenue will be shipped and billed within the current year. For revenue recognized over time, we estimate the amount of revenue attributable to a contract earned at a given point during the production cycle based on certain costs, such as materials and labor incurred to date, plus the expected profit, which is a cost-to-cost input method.

The Company's payment terms vary by the type and location of the customer and the products or services offered. The Company does not offer any payment terms that would meet the requirements for consideration as a significant financing component.

Shipping and handling fees and costs incurred in connection with products sold are recorded in cost of sales in the condensed consolidated statements of (loss) income, and are not considered a performance obligation to our customers.

The Company pays sales commissions that relate to contracts for products or services that are satisfied at a point in time or over a period of one year or less and are expensed as incurred. These costs are reported as a component of selling and administrative expenses in the unaudited condensed consolidated statements of (loss) income.

***Contract Assets and Liabilities*** - Contract assets reflect revenue recognized and performance obligations satisfied in advance of customer billing or reimbursable costs related to a specific contract. Contract liabilities relate to payments received in advance of the satisfaction of performance under the contract. We receive payments from customers based on the terms established in our contracts. The following table summarizes our contract assets and liabilities balances (in millions):

| | June 27, 2020 | September 30, 2019 | Change |
|---|---|---|---|
| Contract assets, current (1) | $ 39 | $ 44 | $ (5) |
| Contract assets, non-current (2) | 5 | 7 | (2) |
| **Total contract assets** | 44 | 51 | (7) |
| Contract liabilities, current (3) | 24 | 18 | 6 |
| Contract liabilities, non-current (4) | 16 | 13 | 3 |
| **Total contract liabilities** | 40 | 31 | 9 |
| **Net contract assets** | $ 4 | $ 20 | $ (16) |

(1) Included in prepaid expenses and other on the condensed consolidated balance sheets.

(2) Included in other non-current assets on the condensed consolidated balance sheets.

(3) Included in accrued liabilities on the condensed consolidated balance sheets.

(4) Included in other non-current liabilities on the condensed consolidated balance sheets.

For the thirteen and thirty-nine week periods ended June 27, 2020, the revenue recognized that was previously included in contract liabilities was not material.

Refer to Note 13, "Segments," for disclosures related to the disaggregation of revenue.

## 6. (LOSS) EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted (loss) earnings per share (in millions, except per share data) using the two-class method:

| | Thirteen Week Periods Ended | | Thirty-Nine Week Periods Ended | |
|---|---|---|---|---|
| | June 27, 2020 | June 29, 2019 | June 27, 2020 | June 29, 2019 |
| **Numerator for (loss) earnings per share:** | | | | |
| (Loss) Income from continuing operations | $ (5) | $ 128 | $ 552 | $ 524 |
| Less: Net income attributable to noncontrolling interests | — | — | (1) | — |
| Net (loss) income from continuing operations attributable to TD Group | (5) | 128 | 551 | 524 |
| Less: Special dividends declared or paid on participating securities, including dividend equivalent payments | — | — | (185) | (24) |
| | (5) | 128 | 366 | 500 |
| (Loss) Income from discontinued operations, net of tax | (1) | 17 | 66 | 19 |
| Net (loss) income applicable to TD Group common stockholders - basic and diluted | $ (6) | $ 145 | $ 432 | $ 519 |
| **Denominator for basic and diluted (loss) earnings per share under the two-class method:** | | | | |
| Weighted-average common shares outstanding | 54.1 | 53.2 | 53.9 | 53.0 |
| Vested options deemed participating securities | 3.2 | 3.1 | 3.5 | 3.3 |
| Total shares for basic and diluted (loss) earnings per share | 57.3 | 56.3 | 57.4 | 56.3 |
| | | | | |
| (Loss) Earnings per share from continuing operations - basic and diluted | $ (0.09) | $ 2.27 | $ 6.38 | $ 8.87 |
| (Loss) Earnings per share from discontinued operations - basic and diluted | (0.01) | 0.30 | 1.15 | 0.35 |
| **(Loss) Earnings per share** | $ (0.10) | $ 2.57 | $ 7.53 | $ 9.22 |

## 7. INVENTORIES

Inventories are stated at the lower of cost or net realizable value. Cost of inventories is generally determined by the average cost and the first-in, first-out (FIFO) methods and includes material, labor and overhead related to the manufacturing process.

Inventories consist of the following (in millions):

| | June 27, 2020 | September 30, 2019 |
|---|---|---|
| Raw materials and purchased component parts | $ 901 | $ 805 |
| Work-in-progress | 381 | 360 |
| Finished goods | 224 | 192 |
| Total | 1,506 | 1,357 |
| Reserves for excess and obsolete inventory | (162) | (124) |
| Inventories - Net | $ 1,344 | $ 1,233 |

## 8. INTANGIBLE ASSETS

Other intangible assets - net in the condensed consolidated balance sheets consist of the following (in millions):

| | June 27, 2020 | | | September 30, 2019 | | |
|---|---|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Net | Gross Carrying Amount | Accumulated Amortization | Net |
| Trademarks and trade names | $ 955 | $ — | $ 955 | $ 956 | $ — | $ 956 |
| Technology | 1,833 | 565 | 1,268 | 1,806 | 496 | 1,310 |
| Order backlog | 91 | 80 | 11 | 107 | 45 | 62 |
| Customer relationships | 438 | 46 | 392 | 438 | 30 | 408 |
| Other | 18 | 10 | 8 | 17 | 9 | 8 |
| Total | $ 3,335 | $ 701 | $ 2,634 | $ 3,324 | $ 580 | $ 2,744 |

The aggregate amortization expense on identifiable intangible assets for the thirty-nine week periods ended June 27, 2020 and June 29, 2019 was approximately $128 million and $80 million, respectively. The estimated amortization expense is $172 million for fiscal year 2020, $115 million for fiscal year 2021 and $114 million for each of the four succeeding fiscal years 2022 through 2025.

The following is a summary of changes in the carrying value of goodwill by segment from September 30, 2019 through June 27, 2020 (in millions):

| | Power & Control | Airframe | Non-aviation | Total |
|---|---|---|---|---|
| Balance at September 30, 2019 | $ 4,121 | $ 3,598 | $ 101 | $ 7,820 |
| Purchase price allocation adjustments | (14) | 51 | (1) | 36 |
| Currency translation adjustments | 7 | (6) | 1 | 2 |
| Balance at June 27, 2020 | $ 4,114 | $ 3,643 | $ 101 | $ 7,858 |

The purchase price allocation adjustments relate to opening balance sheet adjustments recorded by the sixteen reporting units acquired from Esterline up to the expiration of the one year measurement period in March 2020.

**9. DEBT**

The Company's debt consists of the following (in millions):

| | June 27, 2020 | | | |
|---|---|---|---|---|
| | Gross Amount | Debt Issuance Costs | Original Issue Discount or Premium | Net Amount |
| Short-term borrowings—trade receivable securitization facility | $ 350 | $ — | $ — | $ 350 |
| Term loans | $ 7,487 | $ (51) | $ (23) | $ 7,413 |
| Revolving credit facility | 200 | — | — | 200 |
| 6.50% senior subordinated notes due 2024 (2024 Notes) | 1,200 | (5) | — | 1,195 |
| 6.50% senior subordinated notes due 2025 (2025 Notes) | 750 | (3) | 3 | 750 |
| 8.00% secured notes due 2025 (2025 Secured Notes) | 1,100 | (10) | — | 1,090 |
| 6.375% senior subordinated notes due 2026 (6.375% 2026 Notes) | 950 | (6) | — | 944 |
| 6.875% senior subordinated notes due 2026 (6.875% 2026 Notes) | 500 | (5) | (3) | 492 |
| 6.25% secured notes due 2026 (2026 Secured Notes) | 4,400 | (58) | 5 | 4,347 |
| 7.50% senior subordinated notes due 2027 (7.50% 2027 Notes) | 550 | (5) | — | 545 |
| 5.50% senior subordinated notes due 2027 (5.50% 2027 Notes | 2,650 | (22) | — | 2,628 |
| Government refundable advances | 28 | — | — | 28 |
| Finance lease obligations | 57 | — | — | 57 |
| | 19,872 | (165) | (18) | 19,689 |
| Less: current portion | 280 | (1) | — | 279 |
| Long-term debt | $ 19,592 | $ (164) | $ (18) | $ 19,410 |

| | September 30, 2019 | | | |
|---|---|---|---|---|
| | Gross Amount | Debt Issuance Costs | Original Issue Discount or Premium | Net Amount |
| Short-term borrowings—trade receivable securitization facility | $ 350 | $ — | $ — | $ 350 |
| Term loans | $ 7,524 | $ (58) | $ (17) | $ 7,449 |
| 6.00% 2022 Notes | 1,150 | (4) | — | 1,146 |
| 6.50% 2024 Notes | 1,200 | (6) | — | 1,194 |
| 6.50% 2025 Notes | 750 | (3) | 3 | 750 |
| 6.375% 2026 Notes | 950 | (7) | — | 943 |
| 6.875% 2026 Notes | 500 | (6) | (3) | 491 |
| 6.25% 2026 Secured Notes | 4,000 | (60) | 2 | 3,942 |
| 7.50% 2027 Notes | 550 | (5) | — | 545 |
| Government refundable advances | 39 | — | — | 39 |
| Finance lease obligations | 50 | — | — | 50 |
| | 16,713 | (149) | (15) | 16,549 |
| Less: current portion | 81 | (1) | — | 80 |
| Long-term debt | $ 16,632 | $ (148) | $ (15) | $ 16,469 |

Accrued interest, which is classified as a component of accrued liabilities, was $201.6 million and $92.6 million as of June 27, 2020 and September 30, 2019, respectively.

***Issuance of Senior Subordinated Notes due 2027*** – On October 29, 2019, the Company entered into a purchase agreement in connection with a private offering of $2,650 million in new 5.50% senior subordinated notes due 2027 (herein, the "5.50% 2027 Notes"). The 5.50% 2027 Notes were issued pursuant to an indenture, dated as of November 13, 2019, among TransDigm, as issuer, TransDigm Group, TransDigm UK and the other subsidiaries of TransDigm named therein, as guarantors.

The 5.50% 2027 Notes bear interest at the rate of 5.50% per annum, which accrues from November 13, 2019 and is payable in arrears on May 15th and November 15th of each year, commencing on May 15, 2020. The 5.50% 2027 Notes mature on November 15, 2027, unless earlier redeemed or repurchased, and are subject to the terms and conditions set forth in the indenture.

The Company capitalized $23.8 million and expensed $1.1 million of refinancing costs representing debt issue costs associated with the 5.50% 2027 Notes during the thirty-nine week period ended June 27, 2020.

***Repurchase of Senior Subordinated Notes due 2022*** – On October 29, 2019, the Company announced a cash tender offer for any and all of its 2022 Notes outstanding. On November 26, 2019, the Company redeemed the principal amount of $1,150 million, plus accrued interest of approximately $25.5 million and early redemption premium of $17.3 million.

The Company wrote off $3.8 million in unamortized debt issue costs during the thirty-nine week period ended June 27, 2020 in conjunction with the redemption of the 2022 Notes.

***Amendment No. 7 and Refinancing Facility Agreement*** – On February 6, 2020, the Company entered into Amendment No. 7 and Refinancing Facility Agreement (herein, "Amendment No. 7") to the Second Amended and Restated Credit Agreement dated as of June 4, 2014 (herein, the "Credit Agreement").

Under the terms of Amendment No. 7, the Company, among other things, (i) incurred new tranche E term loans in an aggregate principal amount equal to approximately $2,216 million, new tranche F term loans in an aggregate principal amount equal to approximately $3,515 million and new tranche G term loans, (collectively, the "New Term Loans") in an aggregate principal amount equal to approximately $1,774 million, (ii) repaid in full all of the prior existing tranche E term loans, tranche F term loans and tranche G term loans outstanding under the Credit Agreement immediately prior to Amendment No. 7 and (iii) extend the maturity date of the new tranche F term loans to December 9, 2025. The New Term Loans were fully drawn on February 6, 2020. The LIBO rate per annum applicable to the New Term Loans is 2.25%, a decrease from the 2.50% rate that previously applied.

In addition to a discount of $8.8 million recorded in conjunction with the new tranche F term loans, the Company capitalized $3.4 million and expensed $1.9 million of refinancing costs representing debt issue costs associated with Amendment No. 7 during the thirty-nine week period ended June 27, 2020.

***Revolving Credit Facility*** – On March 24, 2020, the Company drew $200 million on its revolving credit facility to increase the Company's liquidity as a precautionary response to macroeconomic conditions caused by the COVID-19 pandemic. As of June 27, 2020, the Company had $36.8 million in letters of credit outstanding and $523.2 million of borrowings available under the revolving credit facility.

***Issuance of Senior Secured Notes due 2025*** – On April 8, 2020, the Company entered into a purchase agreement in connection with a private offering of $1,100 million in aggregate principal amount of 8.00% Senior Secured Notes due 2025 (herein, the "2025 Secured Notes") at an issue price of 100% of the principal amount. The 2025 Secured Notes were issued pursuant to an indenture, dated as of April 8, 2020, amongst TransDigm, as issuer, TransDigm Group, TransDigm UK and the other subsidiaries of TransDigm named therein, as guarantors. The 2025 Secured Notes are secured by a first-priority security interest in substantially all the assets of TransDigm, TransDigm Group, TransDigm UK and each other guarantor on an equal and ratable basis with any other existing and future senior secured debt, including indebtedness under the Company's senior secured credit facilities and the 2026 Secured Notes.

The 2025 Secured Notes bear interest at the rate of 8.00% per annum, which accrues from April 8, 2020 and is payable in arrears on April 1 and October 1 of each year, commencing on October 1, 2020. The 2025 Secured Notes mature on December 15, 2025, unless earlier redeemed or repurchased, and are subject to the terms and conditions set forth in the indenture.

The Company capitalized $10.1 million of refinancing costs representing debt issue costs associated with the 2025 Secured Notes during the thirty-nine week period period ended June 27, 2020.

***Issuance of Senior Secured Notes due 2026*** – On April 17, 2020, the Company entered into a purchase agreement in connection with a private offering of $400 million in aggregate principal amount of 6.25% Senior Secured Notes due 2026 (herein, the "6.25% 2026 New Notes") at an issue price of 101% of the principal amount. The 6.25% 2026 New Notes are an additional issuance of the Company's existing 6.25% 2026 Senior Secured Notes (herein, the "2026 Secured Notes"), and were issued under the indenture dated as of February 13, 2019 pursuant to which the Company previously issued $4,000 million. The 6.25% 2026 New Notes are the same class and series as, and otherwise identical to, the 2026 Secured Notes other than with respect to the date of issuance and issue price.

The 6.25% 2026 New Notes bear interest at a rate of 6.25% per annum, which accrues from March 15, 2020 and is payable semiannually in arrears on March 15th and September 15th of each year, commencing on September 15, 2020. The 6.25% 2026 New Notes mature on March 15, 2026, unless earlier redeemed or repurchased, and are subject to the terms and conditions set forth in the indenture.

The Company capitalized $5.4 million of refinancing costs representing debt issue costs associated with the 6.25% 2026 New Notes during the thirty-nine week period ended June 27, 2020.

***Subsequent Event*** - ***Trade Receivables Securitization Facility*** - On July 22, 2020, the Company amended the Securitization Facility to extend the maturity date to July 27, 2021. As of June 27, 2020, the Company has borrowed $350 million under the Securitization Facility, which bears interest at a rate of 0.9% plus LIBOR. At June 27, 2020, the applicable interest rate was 1.1%. The Securitization Facility is collateralized by substantially all of the Company’s domestic operations’ trade accounts receivable.

***Government Refundable Advances*** - Government refundable advances consist of payments received from the Canadian government to assist in research and development related to commercial aviation. The requirement to repay this advance is solely based on year-over-year commercial aviation revenue growth at CMC Electronics, which is a subsidiary of TransDigm. The balance was $27.9 million at June 27, 2020 and $39.2 million at September 30, 2019.

***Obligations under Finance Leases*** - The Company leases certain buildings and equipment under finance leases. The present value of the minimum capital lease payments, net of the current portion, represents a balance of $57.1 million at June 27, 2020 and $49.9 million at September 30, 2019. Refer to Note 16, "Leases," for further disclosure on the Company's finance lease obligations.

## 10. INCOME TAXES

At the end of each reporting period, TD Group makes an estimate of its annual effective income tax rate. The estimate used in the year-to-date period may change in subsequent periods.

During the thirteen week periods ended June 27, 2020 and June 29, 2019, the effective income tax rate was 113.5% and 30.0%, respectively. During the thirty-nine week periods ended June 27, 2020 and June 29, 2019, the effective income tax rate was 16.9% and 24.9%, respectively. The Company's higher effective tax rate for the thirteen week period ended June 27, 2020, which also was higher than the Federal statutory rate of 21%, was primarily due to the unfavorable economic impact of the COVID-19 pandemic on the Company's net interest deduction limitation, the associated valuation allowance, and a resulting discrete detriment recognized for a cumulative adjustment associated with excess tax benefits for share-based payments. While the CARES Act increased the net interest deduction limitation, the unfavorable economic impact of COVID-19 decreased overall taxable income; and therefore, limited the amount of deductible interest expense. The Company's lower effective tax rate for the thirty-nine week period ended June 27, 2020, which also was lower than the Federal statutory tax rate of 21%, was primarily due to excess tax benefits for share-based payments in addition to the modification of the interest expense limitation under IRC Section 163(j) enacted as part of the CARES Act. The Company’s effective tax rate for the thirteen and thirty-nine week periods ended June 29, 2019 was higher than the Federal statutory tax rate primarily due to a valuation allowance associated with our net interest expense limitation under IRC Section 163(j), foreign earnings taxed at rates higher than the U.S. statutory rate, taxes recognized as part of an entity restructuring during the period, partially offset by the benefit associated with FDII and excess tax benefits for share-based payments.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state, local and foreign jurisdictions. The Company is currently under examination for its federal income taxes in the U.S. for fiscal 2016, in Belgium for fiscal years 2016 through 2018, in Canada for fiscal years 2013 through 2015, in France for fiscal years 2015 through 2018, and in Germany for fiscal years 2014 through 2017. The Company is no longer subject to U.S. federal examinations for years before fiscal year 2015. The Company is subject to state income tax examinations for fiscal years 2013 and later.

At June 27, 2020 and September 30, 2019, TD Group had $41.4 million and $36.5 million, respectively, in unrecognized tax benefits, the recognition of which would have an effect of approximately $36.7 million and $31.4 million on the effective tax rate at June 27, 2020 and September 30, 2019, respectively. The Company believes the tax positions that comprise the unrecognized tax benefits will be reduced by approximately $3.3 million over the next 12 months. The Company recognizes accrued interest and penalties related to unrecognized tax benefits as a component of income tax expense.

## 11. FAIR VALUE MEASUREMENTS

The following table presents our assets and liabilities that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy. The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs (other than quoted prices) that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

The following summarizes the carrying amounts and fair values of financial instruments (in millions):

| | | June 27, 2020 | | September 30, 2019 | |
|---|---|---|---|---|---|
| | Level | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Assets: | | | | | |
| Cash and cash equivalents | 1 | $ 4,549 | $ 4,549 | $ 1,467 | $ 1,467 |
| Interest rate cap agreements [(1)] | 2 | — | — | 1 | 1 |
| Liabilities: | | | | | |
| Interest rate swap agreements [(2)] | 2 | 48 | 48 | 13 | 13 |
| Interest rate swap agreements [(3)] | 2 | 347 | 347 | 202 | 202 |
| Foreign currency forward exchange contracts and other [(2)] | 2 | 6 | 6 | 6 | 6 |
| Short-term borrowings - trade receivable securitization facility [(4)] | 1 | 350 | 350 | 350 | 350 |
| *Long-term debt, including current portion:* | | | | | |
| Term loans [(4)] | 2 | 7,413 | 6,754 | 7,449 | 7,478 |
| Revolving credit facility [(4)] | 2 | 200 | 200 | — | — |
| 6.00% 2022 Notes [(4)] | 1 | — | — | 1,146 | 1,167 |
| 2024 Notes [(4)] | 1 | 1,195 | 1,152 | 1,194 | 1,239 |
| 2025 Notes [(4)] | 1 | 750 | 707 | 750 | 782 |
| 2025 Secured Notes [(4)] | 1 | 1,090 | 1,152 | — | — |
| 6.375% 2026 Notes [(4)] | 1 | 944 | 886 | 943 | 999 |
| 6.875% 2026 Notes [(4)] | 1 | 492 | 470 | 491 | 535 |
| 2026 Secured Notes [(4)] | 1 | 4,347 | 4,411 | 3,942 | 4,290 |
| 7.50% 2027 Notes [(4)] | 1 | 545 | 539 | 545 | 595 |
| 5.50% 2027 Notes [(4)] | 1 | 2,628 | 2,352 | — | — |
| Government Refundable Advances | 2 | 28 | 28 | 39 | 39 |
| Finance Lease Obligations | 2 | 57 | 57 | 50 | 50 |

(1) Included in other non-current assets on the condensed consolidated balance sheets.

(2) Included in accrued liabilities on the condensed consolidated balance sheets.

(3) Included in other non-current liabilities on the condensed consolidated balance sheets.

(4) The carrying amount of the debt instrument is presented net of debt issuance costs, premium and discount. Refer to Note 9, "Debt," for gross carrying amounts.

The Company values its financial instruments using an industry standard market approach, in which prices and other relevant information are generated by market transactions involving identical or comparable assets or liabilities. No financial instruments were recognized using unobservable inputs.

Interest rate swaps were measured at fair value using quoted market prices for the swap interest rate indexes over the term of the swap discounted to present value versus the fixed rate of the contract. The interest rate caps were measured at fair value using implied volatility rates of each individual caplet and the yield curve for the related periods.

The Company’s derivative contracts consist of foreign currency exchange contracts and, from time to time, interest rate swap and cap agreements. These derivative contracts are over-the-counter, and their fair value is determined using modeling techniques that include market inputs such as interest rates, yield curves, and currency exchange rates. These contracts are categorized as Level 2 in the fair value hierarchy.

The estimated fair value of the Company’s term loans was based on information provided by the agent under the Company’s senior secured credit facility. The estimated fair values of the Company’s notes were based upon quoted market prices. There has not been any impact to the fair value of derivative liabilities due to the Company's own credit risk. Similarly, there has not been any impact to the fair value of derivative assets based on the Company's evaluation of counterparties' credit risks.

The fair value of cash and cash equivalents, trade accounts receivable-net and accounts payable approximated book value due to the short-term nature of these instruments at June 27, 2020 and September 30, 2019.

## 12. DERIVATIVES AND HEDGING ACTIVITIES

The Company is exposed to, among other things, the impact of changes in foreign currency exchange rates and interest rates in the normal course of business. The Company’s risk management program is designed to manage the exposure and volatility arising from these risks, and utilizes derivative financial instruments to offset a portion of these risks. The Company uses derivative financial instruments only to the extent necessary to hedge identified business risks and does not enter into such transactions for trading purposes. The Company generally does not require collateral or other security with counterparties to these financial instruments and is therefore subject to credit risk in the event of nonperformance; however, the Company monitors credit risk and currently does not anticipate nonperformance by other parties. These derivative financial instruments do not subject the Company to undue risk, as gains and losses on these instruments generally offset gains and losses on the underlying assets, liabilities, or anticipated transactions that are being hedged. The Company has agreements with each of its swap and cap counterparties that contain a provision whereby if the Company defaults on the credit facility the Company could also be declared in default on its swaps and caps, resulting in an acceleration of payment under the swaps and caps.

All derivative financial instruments are recorded at fair value in the condensed consolidated balance sheets. For a derivative that has not been designated as an accounting hedge, the change in the fair value is recognized immediately through earnings. For a derivative that has been designated as an accounting hedge of an existing asset or liability (a fair value hedge), the change in the fair value of both the derivative and underlying asset or liability is recognized immediately through earnings. For a derivative designated as an accounting hedge of an anticipated transaction (a cash flow hedge), the change in the fair value is recorded on the condensed consolidated balance sheet in accumulated other comprehensive income to the extent the derivative is effective in mitigating the exposure related to the anticipated transaction. The change in the fair value related to the ineffective portion of the hedge, if any, is immediately recognized in earnings. The amount recorded within accumulated other comprehensive income is reclassified into earnings in the same period during which the underlying hedged transaction affects earnings.

***Interest Rate Swap and Cap Agreements*** – Interest rate swap and cap agreements are used to manage interest rate risk associated with floating-rate borrowings under our credit facility. The interest rate swap and cap agreements utilized by the Company effectively modify the Company’s exposure to interest rate risk by converting a portion of the Company’s floating-rate debt to a fixed rate basis through the expiration date of the interest rate swap and cap agreements, thereby reducing the impact of interest rate changes on future interest expense. These agreements involve the receipt of floating rate amounts in exchange for fixed rate interest payments over the term of the agreements without an exchange of the underlying principal amount. These derivative instruments qualify as effective cash flow hedges under US GAAP. For these cash flow hedges, the effective portion of the gain or loss from the financial instruments was initially reported as a component of accumulated other comprehensive income (loss) in stockholders’ deficit and subsequently reclassified into earnings in the same line as the hedged item in the same period or periods during which the hedged item affected earnings. As the interest rate swap and cap agreements are used to manage interest rate risk, any gains or losses from the derivative instruments that are reclassified into earnings are recognized in interest expense - net in the condensed consolidated statements of (loss) income.

The following table summarizes the Company's interest rate swap agreements:

| Aggregate Notional Amount (in millions) | Start Date | End Date | Related Term Loans | Conversion of Related Variable Rate Debt to Fixed Rate of: |
|---|---|---|---|---|
| $750 | 3/31/2016 | 6/30/2020 | Tranche E | 5.05% (2.8% plus the 2.25% margin percentage) |
| $500 | 6/29/2018 | 3/31/2025 | Tranche E | 5.25% (3.0% plus the 2.25% margin percentage) |
| $750 | 6/30/2020 | 6/30/2022 | Tranche E | 4.75% (2.5% plus the 2.25% margin percentage) |
| $1,500 | 6/30/2022 | 3/31/2025 | Tranche E | 5.35% (3.1% plus the 2.25% margin percentage) |
| $1,000 | 6/28/2019 | 12/9/2025 | Tranche F | 4.05% (1.8% plus the 2.25% margin percentage) |
| $1,400 | 6/30/2021 | 12/9/2025 | Tranche F | 5.25% (3.0% plus the 2.25% margin percentage) |
| $500 | 12/30/2016 | 12/31/2021 | Tranche G | 4.15% (1.9% plus the 2.25% margin percentage) |
| $400 | 9/30/2017 | 9/30/2022 | Tranche G | 4.15% (1.9% plus the 2.25% margin percentage) |
| $900 | 12/31/2021 | 6/28/2024 | Tranche G | 5.35% (3.1% plus the 2.25% margin percentage) |
| $400 | 9/30/2022 | 6/28/2024 | Tranche G | 5.25% (3.0% plus the 2.25% margin percentage) |

The following table summarizes the Company's interest rate cap agreements:

| Aggregate Notional Amount (in millions) | Start Date | End Date | Related Term Loans | Offsets Variable Rate Debt Attributable to Fluctuations Above: |
|---|---|---|---|---|
| $750 | 9/30/2015 | 6/30/2020 | Tranche E | Three month LIBO rate of 2.5% |
| $750 | 6/30/2020 | 6/30/2022 | Tranche E | Three month LIBO rate of 2.5% |
| $400 | 6/30/2016 | 6/30/2021 | Tranche F | Three month LIBO rate of 2.0% |
| $400 | 12/30/2016 | 12/31/2021 | Tranche G | Three month LIBO rate of 2.5% |

Certain derivative asset and liability balances are offset where master netting agreements provide for the legal right of setoff. For classification purposes, we record the net fair value of each type of derivative position that is expected to settle in less than one year with each counterparty as a net current asset or liability and each type of long-term position as a net non-current asset or liability. The amounts shown in the table below represent the gross amounts of recognized assets and liabilities, the amounts offset in the condensed consolidated balance sheet and the net amounts of assets and liabilities presented therein (in millions).

| | June 27, 2020 | | September 30, 2019 | |
|---|---|---|---|---|
| | Asset | Liability | Asset | Liability |
| Interest rate cap agreements | $ — | $ — | $ 1 | $ — |
| Interest rate swap agreements [1] | — | (395) | — | (216) |
| Net derivatives as classified in the balance sheet [2] | $ — | $ (395) | $ 1 | $ (216) |

(1) The increase in the interest rate swap liability is primarily attributable to a downward trend in the LIBO rate during the second and third quarters of fiscal 2020.

(2) Refer to Note 11, "Fair Value Measurements," for the condensed consolidated balance sheet classification of our interest rate swap and cap agreements.

Based on the fair values of the interest rate swap and cap agreements determined as of June 27, 2020, the estimated net amount of existing gains and losses and caplet amortization expected to be reclassified into interest expense within the next twelve months is approximately $50.2 million. Subsequent to the end of the third quarter of fiscal 2020, the $750 million notional amount interest rate swap agreement and the $750 million notional amount interest rate cap agreement, both with maturity dates of June 30, 2020, were settled. Upon the settlement of both agreements, the Company recognized interest expense of $2.5 million.

***Foreign Currency Forward Exchange Contracts*** – The Company transacts business in various foreign currencies, which subjects the Company's cash flows and earnings to exposure related to changes in foreign currency exchange rates. These exposures arise primarily from purchases or sales of products and services from third parties. Foreign currency forward exchange contracts provide for the purchase or sale of foreign currencies at specified future dates at specified exchange rates, and are used to offset changes in the fair value of certain assets or liabilities or forecasted cash flows resulting from transactions denominated in foreign currencies. At June 27, 2020, the Company had outstanding foreign currency forward exchange contracts principally to sell U.S. dollars with notional amounts of $78.9 million. These notional values consist primarily of contracts for the Canadian dollar and the European euro and are stated in U.S. dollar equivalents at spot exchange rates at the respective dates. During the thirty-nine week period ended June 27, 2020, the Company recognized gains on foreign currency forward exchange contracts designated as fair value hedges of $2.2 million in cost of sales in the condensed consolidated statements of (loss) income. During the thirty-nine week period ended June 27, 2020, the gains reclassified on foreign currency forward exchange contracts designated as cash flow hedges in the condensed consolidated statements of (loss) income were immaterial. The gains (losses) were previously recorded as a component of accumulated other comprehensive income (loss).

During the thirty-nine week period ended June 27, 2020, the Company recorded a gain of $3.7 million on foreign currency forward exchange contracts that have not been designated as accounting hedges. These foreign currency exchange gains are included in selling and administrative expenses.

There was an immaterial impact to the Company's earnings related to the ineffective portion of any hedging instruments during the thirty-nine week period ended June 27, 2020. In addition, there was an immaterial impact to the Company's earnings when a hedged firm commitment no longer qualified as a fair value hedge or when a hedged forecasted transaction no longer qualified as a cash flow hedge during the thirty-nine week period ended June 27, 2020.

Amounts related to foreign currency forward exchange contracts included in accumulated other comprehensive income (loss) in stockholders' deficit are reclassified into earnings when the hedged transaction settles. The Company expects to reclassify approximately $6.0 million of net losses into earnings over the next 12 months. The maximum duration of the Company's foreign currency cash flow hedge contracts at June 27, 2020 is 9 months.

## 13. SEGMENTS

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

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

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

The Non-aviation segment includes operations that primarily develop, produce and market products for non-aviation markets. Major product offerings include headsets for high-noise, medium-noise, and dismounted applications, seat belts and safety restraints for ground transportation applications, mechanical/electro-mechanical actuators and controls for space applications, hydraulic/electromechanical actuators and fuel valves for land based gas turbines, and refueling systems for heavy equipment used in mining, construction and other industries and turbine controls for the energy and oil and gas markets. Primary customers of this segment are off-road vehicle suppliers and subsystem suppliers, child restraint system suppliers, satellite and space system suppliers, manufacturers of heavy equipment used in mining, construction and other industries and turbine original equipment manufacturers, gas pipeline builders and electric utilities.

The Esterline businesses were acquired during the second quarter of fiscal 2019 and preliminarily assessed as a separate segment of the Company. During the third quarter of fiscal 2019, the Esterline businesses were integrated into TransDigm's existing Power & Control, Airframe, and Non-Aviation segments. Previously reported operating results for the Esterline businesses were reclassified to conform to the presentation for the thirteen and thirty-nine week periods ended June 29, 2019. The re-segmentation did not impact prior period results.

The primary measurement used by management to review and assess the operating performance of each segment is EBITDA As Defined. The Company defines EBITDA As Defined as earnings before interest, taxes, depreciation and amortization plus certain non-operating items recorded as corporate expenses including refinancing costs, acquisition-related costs, transaction-related costs, foreign currency gains and losses, and non-cash compensation charges incurred in connection with the Company’s stock incentive plans. Acquisition-related costs represent accounting adjustments to inventory associated with acquisitions of businesses and product lines that were charged to cost of sales when the inventory was sold; costs incurred to integrate acquired businesses and product lines into the Company’s operations, facility relocation costs and other acquisition-related costs; transaction related costs comprising deal fees; legal, financial and tax diligence expenses and valuation costs that are required to be expensed as incurred and other acquisition accounting adjustments.

EBITDA As Defined is not a measurement of financial performance under US GAAP. Although the Company uses EBITDA As Defined to assess the performance of its business and for various other purposes, the use of this non-GAAP financial measure as an analytical tool has limitations, and it should not be considered in isolation or as a substitute for analysis of the Company’s results of operations as reported in accordance with US GAAP.

The Company’s segments are reported on the same basis used internally for evaluating performance and for allocating resources. The accounting policies for each segment are the same as those described in the summary of significant accounting policies in the Company’s consolidated financial statements. Intersegment sales and transfers are recorded at values based on market prices, which creates intercompany profit on intersegment sales or transfers that is eliminated in consolidation. Intersegment sales were immaterial for the periods presented below. Certain corporate-level expenses are allocated to the operating segments.

The following table presents net sales by reportable segment (in millions):

| | Thirteen Week Periods Ended | | Thirty-Nine Week Periods Ended | |
|---|---|---|---|---|
| | June 27, 2020 | June 29, 2019 | June 27, 2020 | June 29, 2019 |
| **Net sales to external customers** | | | | |
| **Power & Control** | | | | |
| Commercial OEM | $ 118 | $ 198 | $ 493 | $ 475 |
| Commercial Aftermarket | 112 | 209 | 557 | 552 |
| Defense | 326 | 362 | 1,006 | 933 |
| **Total Power & Control** | 556 | 769 | 2,056 | 1,960 |
| | | | | |
| **Airframe** | | | | |
| Commercial OEM | 155 | 261 | 628 | 568 |
| Commercial Aftermarket | 107 | 241 | 571 | 624 |
| Defense | 172 | 209 | 563 | 417 |
| **Total Airframe** | 434 | 711 | 1,762 | 1,609 |
| | | | | |
| **Total Non-aviation** | 32 | 41 | 112 | 113 |
| | | | | |
| | $ 1,022 | $ 1,521 | $ 3,930 | $ 3,682 |

The following table reconciles EBITDA As Defined by segment to consolidated income from continuing operations before income taxes (in millions):

| | Thirteen Week Periods Ended | | Thirty-Nine Week Periods Ended | |
|---|---|---|---|---|
| | June 27, 2020 | June 29, 2019 | June 27, 2020 | June 29, 2019 |
| **EBITDA As Defined** | | | | |
| Power & Control | $ 270 | $ 378 | $ 1,036 | $ 1,006 |
| Airframe | 166 | 306 | 767 | 740 |
| Non-aviation | 12 | 13 | 39 | 36 |
| **Total segment EBITDA As Defined** | 448 | 697 | 1,842 | 1,782 |
| Less: Unallocated corporate expenses | 24 | 38 | 62 | 70 |
| **Total Company EBITDA As Defined** | 424 | 659 | 1,780 | 1,712 |
| Depreciation and amortization expense | 70 | 63 | 211 | 138 |
| Interest expense - net | 262 | 241 | 762 | 614 |
| Acquisition-related costs | 3 | 135 | 19 | 185 |
| Non-cash stock compensation expense | 21 | 32 | 59 | 70 |
| Refinancing costs | 1 | — | 27 | 3 |
| COVID-19 & 737 MAX restructuring costs | 30 | — | 30 | — |
| Other, net | 3 | 5 | 8 | 6 |
| **Income from continuing operations before income taxes** | $ 34 | $ 183 | $ 664 | $ 696 |

The following table presents total assets by segment (in millions):

| | June 27, 2020 | September 30, 2019 |
|---|---|---|
| **Total assets** | | |
| Power & Control | $ 7,001 | $ 7,037 |
| Airframe | 6,641 | 6,672 |
| Non-aviation | 251 | 262 |
| Corporate | 4,286 | 1,322 |
| Assets of discontinued operations | — | 962 |
| | $ 18,179 | $ 16,255 |

The Company’s sales principally originate from the United States, and the Company’s long-lived assets are principally located in the United States.

## 14. RETIREMENT PLANS

The components of net periodic pension cost for the Company's defined benefit plans were as follows (in millions):

| | Thirteen Week Periods Ended | | | | Thirty-Nine Week Periods Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | June 27, 2020 | | June 29, 2019 | | June 27, 2020 | | June 29, 2019 | |
| | U.S. Pension Plans | Non-U.S. Pension Plans | U.S. Pension Plans | Non-U.S. Pension Plans | U.S. Pension Plans | Non-U.S. Pension Plans | U.S. Pension Plans | Non-U.S. Pension Plans |
| Service cost | $ 2 | $ 1 | $ 2 | $ 2 | $ 6 | $ 3 | $ 3 | $ 2 |
| Interest cost | 3 | 1 | 3 | 1 | 8 | 4 | 5 | 2 |
| Expected return on plan assets | (5) | (2) | (4) | (2) | (14) | (6) | (6) | (2) |
| Amortization of prior service cost | — | — | — | — | — | — | — | — |
| Amortization of actuarial loss | — | 1 | — | — | 1 | 1 | — | — |
| Amortization of transition obligation | — | — | — | — | — | — | — | — |
| **Net periodic pension cost** | $ — | $ 1 | $ 1 | $ 1 | $ 1 | $ 2 | $ 2 | $ 2 |

The net periodic pension cost for the Company's post-retirement pension plans was immaterial for the thirteen and thirty-nine week periods ended June 27, 2020 and June 29, 2019. The defined benefit plan components of total pension cost, other than service cost, are included in other expense in the Company's condensed consolidated statements of (loss) income.

## 15. ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

The following table presents the components of accumulated other comprehensive (loss) income, net of taxes, for the thirty-nine week period ended June 27, 2020 (in millions):

| | Unrealized (loss) gain on derivatives designated and qualifying as cash flow hedges [1] | Defined benefit pension plan activity [2] | Currency translation adjustment | Total |
|---|---|---|---|---|
| Balance at September 30, 2019 | $ (172) | $ (40) | $ (167) | $ (379) |
| Current-period other comprehensive (loss) income | (136) | 6 | 19 | (111) |
| Balance at June 27, 2020 | $ (308) | $ (34) | $ (148) | $ (490) |

(1) Unrealized (loss) gain represents derivative instruments, net of taxes of $(6) million and $22 million for the thirteen week periods ended June 27, 2020 and June 29, 2019, respectively, and $(40) million and $64 million for the thirty-nine week periods ended June 27, 2020 and June 29, 2019, respectively.

(2) There were no material pension liability adjustments, net of taxes, for the thirteen and thirty-nine week periods ended June 27, 2020 and June 29, 2019.

A summary of reclassifications out of accumulated other comprehensive (loss) income for the thirty-nine week periods ended June 27, 2020 and June 29, 2019 is provided below (in millions):

| | Amount reclassified | |
|---|---|---|
| | Thirty-Nine Week Periods Ended | |
| Description of reclassifications out of accumulated other comprehensive (loss) income | June 27, 2020 | June 29, 2019 |
| Amortization from redesignated interest rate swap and cap agreements [1] | $ 3 | $ 2 |
| Gains from settlement of foreign currency forward exchange contracts [2] | (3) | — |
| Deferred tax expense on reclassifications out of accumulated other comprehensive (loss) income | — | 1 |
| Losses reclassified into earnings, net of tax | $ — | $ 3 |

(1) This component of accumulated other comprehensive (loss) income is included in interest expense (see Note 12, “Derivatives and Hedging Activities,” for additional information).

(2) This component of accumulated other comprehensive (loss) income is included in net sales (see Note 12, “Derivatives and Hedging Activities,” for additional information).

## 16. LEASES

The Company leases certain manufacturing facilities, offices, land, equipment and vehicles. Such leases, some of which are noncancelable and, in many cases, include renewals, expire at various dates. Such options to renew are included in the lease term when it is reasonably certain that the option will be exercised. The Company’s lease agreements typically do not contain any significant residual value guarantees or restrictive covenants, and payments within certain lease agreements are adjusted periodically for changes in an index or rate.

The Company determines if an arrangement is a lease at inception. Operating lease assets and liabilities are recognized at the commencement date of the lease based on the present value of lease payments over the lease term. Lease assets represent the Company’s right to use an underlying asset for the lease term and lease liabilities represent the Company’s obligation to make lease payments arising from the lease. The discount rate implicit within our leases is generally not determinable and therefore we determine the discount rate based on our incremental borrowing rate. The incremental borrowing rate for our leases is determined based on the lease term and the currency in which lease payments are made. The length of a lease term includes options to extend or terminate the lease when it is reasonably certain that the Company will exercise those options. The Company made an accounting policy election to not recognize lease assets or liabilities for leases with a term of 12 months or less. Additionally, when accounting for leases, the Company combines payments for leased assets, related services and other components of a lease.

The components of lease expense for the thirteen and thirty-nine week periods ended June 27, 2020 are as follows (in millions):

| | Classification | Thirteen Week Period Ended June 27, 2020 | | Thirty-Nine Week Period Ended June 27, 2020 | |
|---|---|---|---|---|---|
| Operating lease cost | Cost of Sales or Selling and Administrative Expenses | $ | 7 | $ | 21 |
| Finance lease cost | | | | | |
| Amortization of leased assets | Cost of Sales | | 1 | | 2 |
| Interest on lease liabilities | Interest Expense - Net | | 1 | | 3 |
| Total lease cost | | $ | 9 | $ | 26 |

Supplemental cash flow information related to leases for the thirty-nine week period ended June 27, 2020 is as follows (in millions):

| | June 27, 2020 | |
|---|---|---|
| **Cash paid for amounts included in the measurement of lease liabilities:** | | |
| Operating cash outflows from operating leases | $ | 21 |
| Operating cash outflows from finance leases | | 3 |
| Financing cash outflows from finance leases | | 1 |
| | | |
| **Lease assets obtained in exchange for new lease obligations:** | | |
| Operating leases | $ | 21 |

Supplemental balance sheet information related to leases is as follows (in millions):

| | Classification | June 27, 2020 | |
|---|---|---|---|
| **Operating Leases** | | | |
| Operating lease right-of-use assets | Other Assets | $ | 102 |
| | | | |
| Current operating lease liabilities | Accrued Liabilities | | 22 |
| Long-term operating lease liabilities | Other Non-current Liabilities | | 86 |
| Total operating lease liabilities | | $ | 108 |
| | | | |
| **Finance Leases** | | | |
| Finance lease right-of-use assets, net | Property, Plant and Equipment—Net | $ | 68 |
| | | | |
| Current finance lease liabilities | Accrued Liabilities | | 2 |
| Long-term finance lease liabilities | Other Non-current Liabilities | | 55 |
| Total finance lease liabilities | | $ | 57 |

As of June 27, 2020, the Company has the following remaining lease term and weighted average discount rates:

| | |
|---|---|
| **Weighted-average remaining lease term** | |
| Operating leases | 6.1 years |
| Finance leases | 16.6 years |
| | |
| **Weighted-average discount rate** | |
| Operating leases | 6.2% |
| Finance leases | 7.2% |

Maturities of lease liabilities at June 27, 2020 are as follows (in millions):

| | Operating Leases | Finance Leases |
|---|---|---|
| 2020 | $ 7 | $ 1 |
| 2021 | 27 | 6 |
| 2022 | 24 | 6 |
| 2023 | 19 | 6 |
| 2024 | 16 | 6 |
| Thereafter | 39 | 76 |
| Total future minimum lease payments | 132 | 101 |
| Less: imputed interest | 24 | 44 |
| Present value of lease liabilities reported | $ 108 | $ 57 |

A summary of minimum rental commitments at June 27, 2020 under noncancelable operating leases, which expire at various dates and in most cases contain renewal options, for each of the next five years and thereafter in the aggregate, is as follows (in millions):

| | Operating Leases |
|---|---|
| 2020 | $ 7 |
| 2021 | 28 |
| 2022 | 24 |
| 2023 | 19 |
| 2024 | 16 |
| Thereafter | 42 |
| Total lease commitments | $ 136 |

## 17. COMMITMENTS AND CONTINGENCIES

On August 8, 2019, a fire caused significant damage to the Niort, France operating facility of Leach International Europe, which is a subsidiary of TransDigm acquired via the Esterline acquisition. Leach International Europe's results are reported within the Company's Power & Control segment. The facility as well as certain machinery, equipment and inventory sustained damage. The Company suspended operations at the Niort facility as a result of the fire; however, has transferred certain operations to temporary facilities until operations are fully restored at the rebuilt facility. The facility is estimated to be complete and fully operational between the first quarter and second quarter of fiscal 2021.

The Company's insurance covers damage to the facility, equipment, inventory, and other assets, at replacement cost, as well as business interruption, and recovery-related expenses caused by the fire, subject to a $1 million deductible and certain sub-limits based on the nature of the covered item. Anticipated insurance recoveries related to losses and incremental costs incurred are recognized when receipt is probable. Anticipated insurance recoveries in excess of net book value of the damaged property and inventory will not be recorded until all contingencies relating to the claim have been resolved. As of June 27, 2020, approximately $26 million in insurance recoveries have been received to date for property loss. The recoveries received were previously recorded as an insurance recovery receivable (classified as a component of prepaid expenses and other on the condensed consolidated balance sheets) at the time of loss. The timing of and amounts of insurance recoveries for business interruption is not known at this time.

## 18. DISCONTINUED OPERATIONS

*Current Year Divestitures*

On December 20, 2019, TransDigm completed the divestiture of Souriau-Sunbank to Eaton for approximately $920 million. Souriau-Sunbank was acquired by TransDigm as part of its acquisition of Esterline in March 2019 and was included in TransDigm's Non-aviation segment. The divestiture represented a strategic shift in TransDigm's business and, in accordance with US GAAP, qualified as discontinued operations.

(Loss) Income from discontinued operations, net of tax, in the condensed consolidated statements of (loss) income for the thirteen and thirty-nine week periods ended June 27, 2020 was $(1) million and $66 million, respectively. The $66 million income from discontinued operations, net of tax, for the thirty-nine week period ended June 27, 2020 was comprised of $7 million income from Souriau-Sunbank's operations and a gain on the sale of Souriau-Sunbank, net of tax, of $59 million. Income from discontinued operations, net of tax, was $11 million and $12 million for the thirteen and thirty-nine week periods ended June 29, 2019.

At September 30, 2019, Souriau-Sunbank’s assets held-for-sale and liabilities held-for-sale were $962 million and $157 million, respectively. Under US GAAP, assets held for sale are to be reported at lower of its carrying amount or fair value less cost to sell. The following is the summarized balance sheet of Souriau-Sunbank’s assets held-for-sale and liabilities held-for-sale as of September 30, 2019 (in millions):

| **Assets and Liabilities of Discontinued Operations Held-for-Sale** | **Fiscal Year Ended September 30, 2019** | |
|---|---|---|
| Cash and cash equivalents | $ | 29 |
| Trade accounts receivable—Net | | 67 |
| Inventories—Net | | 88 |
| Prepaid expenses and other | | 2 |
| Property, plant and equipment—Net | | 101 |
| Goodwill | | 480 |
| Other intangibles—Net | | 194 |
| Other | | 1 |
| Total assets of discontinued operations | $ | 962 |
| | | |
| Accounts payable | $ | 33 |
| Accrued liabilities | | 55 |
| Long-term debt | | 6 |
| Deferred income taxes | | 42 |
| Other | | 21 |
| Total liabilities of discontinued operations | $ | 157 |

*Prior Year Divestitures*

On September 20, 2019, TransDigm completed the divestiture of EIT to an affiliate of KPS Capital Partners, LP for approximately $190 million. EIT was acquired by TransDigm as part of its acquisition of Esterline in March 2019 and was included in TransDigm’s Non-aviation segment. The divestiture represented a strategic shift in TransDigm’s business and, in accordance with US GAAP, qualified as discontinued operations.

There was no impact to the (loss) income from discontinued operations, net of tax, in the condensed consolidated statements of (loss) income for the thirteen and thirty-nine week periods ended June 27, 2020. Income from discontinued operations, net of tax was $6 million and $7 million for the thirteen and thirty-nine week periods ended June 29, 2019.

*Operating Results Summary*

The following is the summarized operating results for Souriau-Sunbank for the thirteen and thirty-nine week periods ended June 27, 2020 and June 29, 2019 and EIT for the thirteen and thirty-nine week periods ended June 29, 2019 (in millions):

| | Thirteen Week Period Ended | | Thirty-Nine Week Period Ended | |
|---|---|---|---|---|
| | June 27, 2020 | June 29, 2019 | June 27, 2020 | June 29, 2019 |
| Net sales | $ — | $ 138 | $ 79 | $ 166 |
| (Loss) Income from discontinued operations before income taxes | (1) | 23 | 12 | 26 |
| Income tax expense | — | 6 | 5 | 7 |
| (Loss) Income from discontinued operations, net of tax | (1) | 17 | 7 | 19 |
| Gain from sale of discontinued operations, net of tax | — | — | 59 | — |
| (Loss) Income from discontinued operations, net of tax | $ (1) | $ 17 | $ 66 | $ 19 |

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

### Forward-looking Statements

The following discussion of the Company's financial condition and results of operations should be read together with TD Group's consolidated financial statements and the related notes included elsewhere in this Quarterly Report on Form 10-Q. References in this section to "TransDigm," "the Company," "we," "us," "our," and similar references refer to TD Group, TransDigm Inc. and TransDigm Inc.'s subsidiaries, unless the context otherwise indicates.

This Quarterly Report on Form 10-Q contains both historical and "forward-looking statements" within the meaning of Section 21E of the Exchange Act, and 27A of the Securities Act. All statements other than statements of historical fact included that address activities, events or developments that we expect, believe or anticipate will or may occur in the future are forward-looking statements, including, in particular, the statements about our plans, objectives, strategies and prospects regarding, among other things, our financial condition, results of operations and business. We have identified some of these forward-looking statements with words like "believe," "may," "will," "should," "expect," "intend," "plan," "predict," "anticipate," "estimate" or "continue" and other words and terms of similar meaning. These forward-looking statements may be contained throughout this Quarterly Report on Form 10-Q. These forward-looking statements are based on current expectations about future events affecting us and are subject to uncertainties and factors relating to, among other things, our operations and business environment, all of which are difficult to predict and many of which are beyond our control. Many factors mentioned in our discussion in this Quarterly Report on Form 10-Q, including the risks outlined under "Risk Factors," will be important in determining future results. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we do not know whether our expectations will prove correct. They can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties, including those described under "Risk Factors" in the Quarterly Report on Form 10-Q. Since our actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking statements, we cannot give any assurance that any of the events anticipated by these forward-looking statements will occur or, if any of them does occur, what impact they will have on our business, results of operations and financial condition. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date they are made. We do not undertake any obligation to update these forward-looking statements or the risk factors contained in this Quarterly Report on Form 10-Q to reflect new information, future events or otherwise, except as may be required under federal securities laws.

Important factors that could cause actual results to differ materially from the forward-looking statements made in this Quarterly Report on Form 10-Q include but are not limited to: the impact that the COVID-19 pandemic has on our business, results of operations, financial condition and liquidity; the sensitivity of our business to the number of flight hours that our customers' planes spend aloft and our customers' profitability, both of which are affected by general economic conditions; future geopolitical or other worldwide events; cyber-security threats and natural disasters; our reliance on certain customers; the U.S. defense budget and risks associated with being a government supplier including government audits and investigations; failure to maintain government or industry approvals; failure to complete or successfully integrate acquisitions, including our acquisition of Esterline; our indebtedness; potential environmental liabilities; liabilities arising in connection with litigation; increases in raw material costs, taxes and labor costs that cannot be recovered in product pricing; risks and costs associated with our international sales and operations; and other factors. Refer to Item IA included in this Quarterly Report on Form 10-Q and to Item 1A of the Annual Report on Form 10-K for additional information regarding the foregoing factors that may affect our business.

### Overview

We believe we are a leading global designer, producer and supplier of highly engineered aircraft components for use on nearly every commercial and military aircraft in service today. Our business is well diversified due to the broad range of products we offer to our customers. Some of our more significant product offerings, substantially all of which are ultimately provided to end-users in the aerospace industry, include mechanical/electro-mechanical actuators and controls, ignition systems and engine technology, specialized pumps and valves, power conditioning devices, specialized AC/DC electric motors and generators, batteries and chargers, engineered latching and locking devices, engineered rods, engineered connectors and elastomer sealing solutions, databus and power controls, cockpit security components and systems, specialized and advanced cockpit displays, aircraft audio systems, specialized lavatory components, seat belts and safety restraints, engineered and customized interior surfaces and related components, advanced sensor products, switches and relay panels, thermal protection and insulation, lighting and control technology, parachutes, high performance hoists, winches and lifting devices, and cargo loading, handling and delivery systems. Each of these product offerings is composed of many individual products that are typically customized to meet the needs of a particular aircraft platform or customer.

For the third quarter of fiscal year 2020, we generated net sales of $1,022 million and a net loss attributable to TD Group of $(6) million. This included a net loss from continuing operations attributable to TD Group of $(5) million and a loss from discontinued operations, net of tax, of $(1) million. EBITDA As Defined was $424 million, or 41.5% of net sales. See the "Non-GAAP Financial Measures" section for certain information regarding EBITDA and EBITDA As Defined, including reconciliations of EBITDA and EBITDA As Defined to (loss) income from continuing operations and net cash provided by operating activities.

In December 2019, COVID-19 surfaced in Wuhan, China, and has since spread to other countries, including the United States. In March 2020, the World Health Organization characterized COVID-19 as a pandemic. The pandemic has resulted in governments around the world implementing stringent measures to help control the spread of the virus, including quarantines, “shelter in place” and “stay at home” orders, travel restrictions, business curtailments and other measures. As a result, demand for travel declined at a rapid pace and has remained depressed. The exact timing and pace of the recovery is indeterminable as certain markets have reopened, some of which have since experienced a resurgence of COVID-19 cases, while others, particularly international markets, remain closed or are enforcing extended quarantines. Governments and central banks in several parts of the world have enacted fiscal and monetary stimulus measures to counteract the impact of COVID-19. The commercial aerospace industry, in particular, has been significantly disrupted, both domestically and internationally.

Since the early days of the pandemic, we have been following guidance from the World Health Organization and the U.S. Center for Disease Control to protect employees and prevent the spread of the virus within all of our facilities globally. Some of the actions implemented include: flexible work-from-home scheduling; alternate shift schedules; pre-shift temperature screenings, where allowed by law; social distancing; appropriate personal protective equipment; facility deep cleaning; and paid quarantine time for impacted employees.

Within the United States, our business has been designated as "essential," which has allowed us to continue to serve our customers; nonetheless, the COVID-19 pandemic has significantly disrupted our operations. The outbreak of COVID-19 has heightened the risk that a significant portion of our workforce will suffer illness or otherwise be unable to work. Furthermore, in light of enacted and any additional reductions in our workforce as a result of declines in our business caused by the COVID-19 pandemic, we cannot assure that we will be able to rehire our workforce once our business has begun to recover. Certain of our facilities have experienced temporary disruptions as a result of the COVID-19 pandemic, and we cannot predict whether our facilities will experience more significant disruptions in the future. Finally, our acquisition strategy, which is a key element of our overall business strategy, may be impacted by our efforts to maintain the Company’s cash liquidity position in response to the COVID-19 pandemic.

The COVID-19 pandemic has caused a significant adverse impact on our sales, net income and EBITDA as Defined for the third quarter of fiscal 2020 and is expected to continue to do so for at least the remainder of fiscal 2020. This is under the assumption that the COVID-19 pandemic will continue to adversely impact customer demand for all market channels with commercial OEM and commercial aftermarket being the most adversely impacted due to the pandemic's impact on air travel worldwide. The defense market channel is also impacted to a lesser extent due to certain supply chain disruptions as well as the "stay at home" orders, quarantines, etc. impacting the government procurement workforce. The magnitude of the impact of COVID-19 remains unpredictable and we, therefore, continue to anticipate potential supply chain disruptions, employee absenteeism and short-term suspensions of manufacturing facilities, and additional health and safety costs related to the COVID-19 pandemic that could unfavorably impact our business. Longer term, because the duration of the pandemic is unclear, it is difficult to forecast a precise impact on the Company’s future results.

As part of the Company’s response to the impact of the COVID-19 pandemic on its business, the Company began taking certain cost reduction measures in the third quarter of fiscal 2020 such as: (1) reducing its workforce by at least 30% to align operations with customer demand. These actions are in addition to the cost mitigation efforts implemented earlier this calendar year in response to the 737 MAX production rate changes; (2) implementing unpaid furloughs of various lengths at many businesses over approximately the next six months in response to business specific situations; (3) TransDigm’s senior management team substantially reducing its cash compensation for the balance of fiscal 2020; (4) members of TransDigm's Board of Directors forgoing their annual retainer fees for fiscal 2020; and (5) delaying non-essential capital projects and minimizing discretionary spending to only those activities and projects deemed essential in the near term.

For the thirteen and thirty-nine week periods ended June 27, 2020, COVID-19 restructuring costs incurred were approximately $24 million, of which $19 million is recorded in cost of sales and $5 million is recorded in selling and administrative expenses. These were costs related to the Company's actions to reduce its workforce to align with customer demand. Additionally, the Company incurred approximately $3 million in incremental costs related to the pandemic that are not expected to recur once the pandemic has subsided and are clearly separable from normal operations (e.g., additional cleaning and disinfecting of facilities by contractors above and beyond normal requirements, personal protective equipment, etc.). The Company expects to incur restructuring and incremental costs of between approximately $40 million to $60 million during fiscal 2020 related to the COVID-19 pandemic. The Company continues to analyze its cost structure and may implement additional cost reduction measures as necessary due to the ongoing business challenges resulting from the COVID-19 pandemic. The Company is continuing to focus on the application of its three core value-driven operating strategies (obtaining profitable new business, continually improving its cost structure and providing highly engineered value-added products to customers).

**Critical Accounting Policies and Estimates**

The preparation and fair presentation of the consolidated unaudited interim financial statements and accompanying notes included in this report are the responsibility of management. The financial statements and footnotes have been prepared in accordance with U.S. generally accepted accounting principles for interim financial statements and contain certain amounts that were based upon management's best estimates, judgments and assumptions that were believed to be reasonable under the circumstances. On an ongoing basis, we evaluate the accounting policies and estimates used to prepare financial statements. Estimates are based on historical experience, judgments and assumptions believed to be reasonable under current facts and circumstances. Actual amounts and results could differ from these estimates used by management.

A comprehensive discussion of the Company's critical accounting policies and management estimates and significant accounting policies followed in the preparation of the financial statements is included in Item 7 of our Annual Report on Form 10-K for the fiscal year ended September 30, 2019. Other than the adoption of ASC 842, "Leases," there have been no significant changes in critical accounting policies, management estimates or accounting policies since the fiscal year ended September 30, 2019. Refer to Note 4, "Recent Accounting Pronouncements," and Note 16, "Leases," for further disclosure of accounting standards recently adopted or required to be adopted in the future.

**Acquisitions and Divestitures**

Recent acquisitions and divestitures are described in Note 3, "Acquisitions and Divestitures," to the condensed consolidated financial statements.

**Results of Operations**

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

| | Thirteen Week Periods Ended | | | |
|---|---|---|---|---|
| | June 27, 2020 | % of Sales | June 29, 2019 | % of Sales |
| Net sales | $ 1,022 | 100.0 % | $ 1,521 | 100.0 % |
| Cost of sales | 531 | 52.0 % | 808 | 53.1 % |
| Selling and administrative expenses | 163 | 15.9 % | 252 | 16.6 % |
| Amortization of intangible assets | 42 | 4.1 % | 38 | 2.5 % |
| Income from operations | 286 | 28.0 % | 423 | 27.8 % |
| Interest expense, net | 262 | 25.6 % | 241 | 15.8 % |
| Refinancing costs | 1 | 0.1 % | — | — % |
| Other income | (11) | (1.1)% | (1) | (0.1)% |
| Income tax provision | 39 | 3.8 % | 55 | 3.6 % |
| (Loss) Income from continuing operations | (5) | (0.5)% | 128 | 8.4 % |
| Less: Net income attributable to noncontrolling interests | — | — % | — | — % |
| (Loss) Income from continuing operations attributable to TD Group | (5) | (0.5)% | 128 | 8.4 % |
| (Loss) Income from discontinued operations, net of tax | (1) | (0.1)% | 17 | 1.1 % |
| Net (loss) income attributable to TD Group | $ (6) | (0.6)% | $ 145 | 9.5 % |

| | Thirty-Nine Week Periods Ended | | | |
|---|---|---|---|---|
| | June 27, 2020 | % of Sales | June 29, 2019 | % of Sales |
| Net sales | $ 3,930 | 100.0 % | $ 3,682 | 100.0 % |
| Cost of sales | 1,819 | 46.3 % | 1,755 | 47.7 % |
| Selling and administrative expenses | 544 | 13.8 % | 535 | 14.5 % |
| Amortization of intangible assets | 128 | 3.3 % | 80 | 2.2 % |
| Income from operations | 1,439 | 36.6 % | 1,312 | 35.6 % |
| Interest expense, net | 762 | 19.4 % | 614 | 16.7 % |
| Refinancing costs | 27 | 0.7 % | 3 | 0.1 % |
| Other income | (14) | (0.4)% | (1) | — % |
| Income tax provision | 112 | 2.8 % | 172 | 4.7 % |
| Income from continuing operations | 552 | 14.0 % | 524 | 14.2 % |
| Less: Net income attributable to noncontrolling interests | (1) | — % | — | — % |
| Income from continuing operations attributable to TD Group | 551 | 14.0 % | 524 | 14.2 % |
| Income from discontinued operations, net of tax | 66 | 1.7 % | 19 | 0.5 % |
| Net income attributable to TD Group | $ 617 | 15.7 % | $ 543 | 14.7 % |

**Changes in Results of Operations**

**Thirteen week period ended June 27, 2020 compared with the thirteen week period ended June 29, 2019**

**Total Company**

- ***Net Sales.*** Net sales and the related dollar and percentage changes for the thirteen week periods ended June 27, 2020 and June 29, 2019 were as follows (amounts in millions):

| | Thirteen Week Periods Ended | | | |
|---|---|---|---|---|
| | June 27, 2020 | June 29, 2019 | Change | % Change Total Sales |
| Organic sales | $ 1,022 | $ 1,521 | $ (499) | (32.8)% |
| Acquisition sales | — | — | — | — % |
| | $ 1,022 | $ 1,521 | $ (499) | (32.8)% |

The decrease in organic sales for the thirteen week period ended June 27, 2020 compared to the thirteen week period ended June 29, 2019, is primarily related to a decrease in commercial aftermarket sales ($228 million, a decrease of 52.1%), commercial OEM sales ($178 million, a decrease of 41.6%), defense sales ($73 million, a decrease of 12.6%) and other non-aerospace sales ($20 million, a decrease of 25.2%). The decreases in the commercial aftermarket and commercial OEM markets are attributable to the adverse impact that the COVID-19 pandemic had on customer demand for all market channels with commercial OEM and commercial aftermarket being the most adversely impacted due to the pandemic's impact on air travel worldwide. Commercial OEM was also impacted to a lesser extent by the 737 MAX production stoppage. The defense market channel is also impacted to a lesser extent due to certain supply chain disruptions as well as the "stay at home" orders, quarantines, etc. impacting the government procurement workforce.

Acquisition sales represent sales of acquired businesses for the period up to one year subsequent to their respective acquisition date. There were no acquisition sales for the thirteen week period ended June 27, 2020 as the Esterline acquisition was completed on March 14, 2019. All sales after the one year measurement expired on March 14, 2020 are classified as organic sales.

- ***Cost of Sales and Gross Profit.*** Cost of sales decreased by $277 million, or 34.3%, to $531 million for the thirteen week period ended June 27, 2020 compared to $808 million for the thirteen week period ended June 29, 2019. Cost of sales and the related percentage of total sales for the thirteen week periods ended June 27, 2020 and June 29, 2019 were as follows (amounts in millions):

| | Thirteen Week Periods Ended | | | |
|---|---|---|---|---|
| | June 27, 2020 | June 29, 2019 | Change | % Change |
| Cost of sales - excluding costs below | $ 511 | $ 708 | $ (197) | (27.8)% |
| % of total sales | 50.0 % | 46.5 % | | |
| COVID-19 restructuring costs | 19 | — | 19 | 100.0 % |
| % of total sales | 1.9 % | — % | | |
| Foreign currency losses | 5 | 5 | — | — % |
| % of total sales | 0.5 % | 0.3 % | | |
| Non-cash stock compensation expense | 2 | 3 | (1) | (33.3)% |
| % of total sales | 0.2 % | 0.2 % | | |
| Acquisition integration costs | — | 8 | (8) | (100.0)% |
| % of total sales | — % | 0.5 % | | |
| Inventory acquisition accounting adjustments | — | 89 | (89) | (100.0)% |
| % of total sales | — % | 5.9 % | | |
| Loss contract amortization | (6) | (5) | (1) | (20.0)% |
| % of total sales | (0.6)% | (0.3)% | | |
| Total cost of sales | $ 531 | $ 808 | $ (277) | (34.3)% |
| % of total sales | 52.0 % | 53.1 % | | |
| Gross profit | $ 491 | $ 713 | $ (222) | (31.1)% |
| Gross profit percentage | 48.0 % | 46.9 % | | |

The decrease in the dollar amount of cost of sales during the thirteen week period ended June 27, 2020 was primarily due to lower sales volume from decreased customer demand due to the COVID-19 pandemic and the other factors summarized above. Also, fixed overhead costs incurred were spread over a lower production volume because of the COVID-19 pandemic resulting in an adverse impact to gross profit during the third quarter of fiscal 2020.

Gross profit as a percentage of sales increased by 1.1 percentage points to 48.0% for the thirteen week period ended June 27, 2020 from 46.9% for the thirteen week period ended June 29, 2019. The increase in the gross profit percentage is driven by the lack of inventory acquisition accounting adjustments during the thirteen week period ended June 27, 2020. This was partially offset by COVID-19 restructuring costs and fixed overhead costs incurred which were spread over lower production volume.

- ***Selling and Administrative Expenses.*** Selling and administrative expenses decreased by $89 million to $163 million, or 15.9% of sales, for the thirteen week period ended June 27, 2020 from $252 million, or 16.6% of sales, for the thirteen week period ended June 29, 2019. Selling and administrative expenses and the related percentage of total sales for the thirteen week periods ended June 27, 2020 and June 29, 2019 were as follows (amounts in millions):

| | Thirteen Week Periods Ended | | | |
|---|---|---|---|---|
| | June 27, 2020 | June 29, 2019 | Change | % Change |
| Selling and administrative expenses - excluding costs below | $ 128 | $ 183 | $ (55) | (30.1)% |
| % of total sales | 12.5 % | 12.0 % | | |
| Non-cash stock compensation expense | 19 | 29 | (10) | (34.5)% |
| % of total sales | 1.9 % | 1.9 % | | |
| Bad debt expense | 9 | 2 | 7 | 350.0 % |
| % of total sales | 0.9 % | 0.1 % | | |
| COVID-19 restructuring costs | 5 | — | 5 | 100.0 % |
| % of total sales | 0.5 % | — % | | |
| Acquisition-related expenses | 2 | 38 | (36) | (94.7)% |
| % of total sales | 0.2 % | 2.5 % | | |
| Total selling and administrative expenses | $ 163 | $ 252 | $ (89) | (35.3)% |
| % of total sales | 15.9 % | 16.6 % | | |

The decrease in selling and administrative expenses during the thirteen week period ended June 27, 2020 is primarily due to lower sales volume and cost mitigation measures enacted in response to the COVID-19 pandemic in addition to the other factors summarized above. The cost mitigation measures enacted during the third quarter of fiscal 2020 are described in Note 1, "Description of the Business and Impact of COVID-19 Pandemic."

- ***Amortization of Intangible Assets.*** Amortization of intangible assets was $42 million for the thirteen week period ended June 27, 2020 compared to $38 million in the thirteen week period ended June 29, 2019. The increase in amortization expense of $4 million was due to additional amortization expense on definite-lived intangible assets recorded in connection with the acquisition of Esterline based on the final third party valuation of intangible assets completed in the second quarter of fiscal 2020.
- ***Interest Expense-net.*** Interest expense-net includes interest on borrowings outstanding, amortization of debt issuance costs, original issue discount and premium and revolving credit facility fees; slightly offset by interest income. Interest expense-net increased $21 million, or 8.7%, to $262 million for the thirteen week period ended June 27, 2020 from $241 million for the comparable thirteen week period last year. The net increase in interest expense-net was primarily due to an increase in the weighted average level of outstanding borrowings, which was approximately $19.9 billion for the thirteen week period ended June 27, 2020 and approximately $17.0 billion for the thirteen week period ended June 29, 2019. The increase in the weighted average level of borrowings was primarily due to the activity in fiscal 2020 consisting of the issuance of $2.65 billion in 5.50% 2027 Notes, $1.1 billion in 2025 Secured Notes, $400 million in 6.25% 2026 New Notes and a $200 million draw on the revolving credit facility. The increases in new debt described above were slightly offset by the redemption of $1.15 billion in 6.00% 2022 Notes in the first quarter of fiscal 2020, as well as the attributable LIBO rate decrease, when comparing the period ended June 27, 2020 to June 29, 2019. The weighted average interest rate for cash interest payments on total borrowings outstanding for the thirteen week period ended June 27, 2020 was 5.03%.
- ***Refinancing Costs.*** Refinancing costs of $1 million were recorded for the thirteen week period ended June 27, 2020 and primarily related to certain fees incurred for the Company's fiscal 2020 financing activities described herein.
- ***Other Income.*** Other income of $11 million was recorded for the thirteen week period ended June 27, 2020 and primarily related to proceeds received from a business interruption insurance settlement and non-service related components of net periodic benefit costs on the Company's defined benefit pension plans.

- ***Income Taxes.*** Income tax expense as a percentage of income before income taxes was approximately 113.5% for the thirteen week period ended June 27, 2020 compared to 30.0% for the thirteen week period ended June 29, 2019. On March 27, 2020, President Trump signed into law the CARES Act in response to the COVID-19 pandemic. The CARES Act was intended to infuse negatively affected companies with various tax cash benefits to ease the impact of the pandemic and, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer social security payments, net operating loss carryback periods, alternative minimum tax credit refunds and modifications to the net interest deduction limitations. The most significant impact of the CARES Act for the Company is an increase of the IRC 163(j) interest disallowance limitations from 30% to 50% of adjusted taxable income which will allow the Company to deduct additional interest expense for fiscal years 2020 (retroactive to October 1, 2019 for the Company) and 2021. The Company's higher effective tax rate for the thirteen week period ended June 27, 2020, which also was higher than the Federal statutory tax rate of 21%, was primarily due to the unfavorable economic impact of the COVID-19 pandemic on the Company’s net interest expense deduction limitation, the associated valuation allowance and a resulting discrete detriment recognized for a cumulative adjustment associated with excess tax benefits for share-based payments. While the CARES Act increased the net interest expense deduction limitation, the unfavorable economic impact of COVID-19 decreased overall taxable income and therefore limited the amount of deductible interest expense.

- ***(Loss) Income from Discontinued Operations.*** The loss from discontinued operations for the thirteen week period ended June 27, 2020 is $(1) million and is driven by certain wind down activity associated with the dispositions of the Souriau-Sunbank Connection Technologies business and Esterline Interface Technology ("EIT") group of businesses. Income from discontinued operations for the thirteen week period ended June 29, 2019 is $17 million and includes the results of operations of the Souriau-Sunbank and EIT businesses.

  Both businesses were acquired by TransDigm as part of its acquisition of Esterline in March 2019. On December 20, 2019, TransDigm completed the divestiture of Souriau-Sunbank to Eaton Corporation plc (“Eaton”) for approximately $920 million. On September 20, 2019, TransDigm completed the divestiture of EIT to an affiliate of KPS Capital Partners, LP for approximately $190 million.

- ***Net (Loss) Income Attributable to TD Group.*** Net income attributable to TD Group decreased $151 million, or 104%, to a net loss of $(6) million for the thirteen week period ended June 27, 2020 compared to net income attributable to TD Group of $145 million for the thirteen week period ended June 29, 2019, primarily due to the adverse impact that the COVID-19 pandemic had on the Company's operations as well as the other factors referred to above.

- ***(Loss) Earnings per Share.*** Basic and diluted (loss) earnings per share was $(0.10) for the thirteen week period ended June 27, 2020 and $2.57 per share for the thirteen week period ended June 29, 2019. Basic and diluted (loss) earnings per share from continuing operations and discontinued operations was $(0.09) and $(0.01), respectively, for the thirteen week period ended June 27, 2020. Basic and diluted earnings per share from continuing operations and discontinued operations was $2.27 and $0.30, respectively, for the thirteen week period ended June 29, 2019.

**Business Segments**

- ***Segment Net Sales.*** Net sales by segment for the thirteen week periods ended June 27, 2020 and June 29, 2019 were as follows (amounts in millions):

| | Thirteen Week Periods Ended | | | | | |
|---|---|---|---|---|---|---|
| | June 27, 2020 | % of Sales | June 29, 2019 | % of Sales | Change | % Change |
| Power & Control | $ 556 | 54.4 % | $ 769 | 50.6 % | $ (213) | (27.7)% |
| Airframe | 434 | 42.5 % | 711 | 46.7 % | (277) | (39.0)% |
| Non-aviation | 32 | 3.1 % | 41 | 2.7 % | (9) | (22.0)% |
| | $ 1,022 | 100.0 % | $ 1,521 | 100.0 % | $ (499) | (32.8)% |

Sales for the Power & Control segment decreased $213 million, a decrease of 27.7%, for the thirteen week period ended June 27, 2020 compared to the thirteen week period ended June 29, 2019. The sales decrease resulted primarily from decreases in commercial aftermarket sales ($95 million, a decrease of 47.2%), commercial OEM sales ($75 million, a decrease of 42.3%) and defense sales ($35 million, a decrease of 9.8%).

Sales for the Airframe segment decreased $277 million, a decrease of 39.0%, for the thirteen week period ended June 27, 2020 compared to the thirteen week period ended June 29, 2019. The sales decrease resulted primarily from decreases in commercial aftermarket sales ($132 million, a decrease of 56.4%), commercial OEM sales ($105 million, an increase of 42.1%) and defense sales ($37 million, an increase of 17.6%).

Sales for the Non-aviation segment decreased $9 million, or a decrease of 22.0%, for the thirteen week period ended June 27, 2020 compared to the thirteen week period ended June 29, 2019. The sales decrease resulted primarily from decreases in other, non-aerospace sales ($9 million, a decrease of 29%).

- ***EBITDA As Defined.*** EBITDA As Defined by segment for the thirteen week periods ended June 27, 2020 and June 29, 2019 were as follows (amounts in millions):

| | Thirteen Week Periods Ended | | | | | |
|---|---|---|---|---|---|---|
| | June 27, 2020 | % of Segment Sales | June 29, 2019 | % of Segment Sales | Change | % Change |
| Power & Control | $ 270 | 48.6 % | $ 378 | 49.2 % | $ (108) | (28.6)% |
| Airframe | 166 | 38.2 % | 306 | 43.0 % | (140) | (45.8)% |
| Non-aviation | 12 | 37.5 % | 13 | 31.7 % | (1) | (7.7)% |
| | $ 448 | 43.8 % | $ 697 | 45.8 % | $ (249) | (35.7)% |

EBITDA As Defined for the Power & Control segment decreased approximately $108 million, a decrease of 28.6%, resulting from sales decreases in the commercial aftermarket and commercial OEM markets as a result of COVID-19 pandemic and, to a lesser extent, supply chain disruptions in the defense market and "stay at home" orders, quarantines and other actions impacting the government procurement workforce.

EBITDA as Defined for the Airframe segment decreased approximately $140 million, a decrease of 45.8%, resulting from sales decreases in the commercial aftermarket and commercial OEM markets as a result of COVID-19 pandemic and, to a lesser extent, supply chain disruptions in the defense market and "stay at home" orders, quarantines and other actions impacting the government procurement workforce.

EBITDA As Defined for the Non-aviation segment decreased approximately $1 million, a decrease of 7.7%, resulting from decreases in other, non-aerospace sales as a result of the COVID-19 pandemic.

**Thirty-nine week period ended June 27, 2020 compared with the thirty-nine week period ended June 29, 2019**

**Total Company**

- ***Net Sales.*** Net organic sales and acquisition sales and the related dollar and percentage changes for the thirty-nine week periods ended June 27, 2020 and June 29, 2019 were as follows (amounts in millions):

| | Thirty-Nine Week Periods Ended | | | |
|---|---|---|---|---|
| | June 27, 2020 | June 29, 2019 | Change | % Change Total Sales |
| Organic sales | $ 3,231 | $ 3,586 | $ (355) | (9.6)% |
| Acquisition sales | 699 | 96 | 603 | 16.4 % |
| | $ 3,930 | $ 3,682 | $ 248 | 6.7 % |

The decrease in organic sales for the thirty-nine week period ended June 27, 2020 compared to the thirty-nine week period ended June 29, 2019, is primarily related to decreases in commercial aftermarket sales ($186 million, a decrease of 16.2%), commercial OEM sales ($156 million, a decrease of 15.7%), other non-aerospace sales ($13 million, a decrease of 7.2%) and defense sales ($1 million, a decrease of 0.1%). The decreases in the commercial aftermarket and commercial OEM markets are attributable to the adverse impact that the COVID-19 pandemic had on customer demand beginning in March 2020 for all market channels with commercial OEM and commercial aftermarket being the most adversely impacted due to the pandemic's impact on air travel worldwide. Commercial OEM was also impacted to a lesser extent by the 737 MAX production stoppage. The defense market channel is also impacted to a lesser extent due to certain supply chain disruptions as well as the "stay at home" orders, quarantines, etc. impacting the government procurement workforce.

Acquisition sales represent sales of acquired businesses for the period up to one year subsequent to their respective acquisition date. The acquisition sales in the table above for the thirty-nine week period ended June 27, 2020 and June 29, 2019 were attributable to the sales recorded by the Esterline businesses between March 14, 2019, which was the acquisition date by TransDigm, and March 14, 2020 in consideration of the respective thirty-nine week periods ended June 27, 2020 and June 29, 2019 presented above.

• ***Cost of Sales and Gross Profit.*** Cost of sales increased by $64 million, or 3.6%, to $1,819 million for the thirty-nine week period ended June 27, 2020 compared to $1,755 million for the thirty-nine week period ended June 29, 2019. Cost of sales and the related percentage of total sales for the thirty-nine week periods ended June 27, 2020 and June 29, 2019 were as follows (amounts in millions):

| | Thirty-Nine Week Periods Ended | | | |
|---|---|---|---|---|
| | June 27, 2020 | June 29, 2019 | Change | % Change |
| Cost of sales - excluding costs below | $ 1,818 | $ 1,635 | $ 183 | 11.2 % |
| % of total sales | 46.3 % | 44.4 % | | |
| COVID-19 restructuring costs | 19 | — | 19 | 100.0 % |
| % of total sales | 0.5 % | — % | | |
| Non-cash stock compensation expense | 6 | 7 | (1) | (14.3)% |
| % of total sales | 0.2 % | 0.2 % | | |
| Foreign currency losses | 4 | 3 | 1 | (33.3)% |
| % of total sales | 0.1 % | 0.1 % | | |
| Acquisition integration costs | 4 | 11 | (7) | (63.6)% |
| % of total sales | 0.1 % | 0.3 % | | |
| Inventory acquisition accounting adjustments | — | 109 | (109) | (100.0)% |
| % of total sales | — % | 3.0 % | | |
| Loss contract amortization | (32) | (10) | (22) | (220.0)% |
| % of total sales | (0.8)% | (0.3)% | | |
| Total cost of sales | $ 1,819 | $ 1,755 | $ 64 | 3.6 % |
| % of total sales | 46.3 % | 47.7 % | | |
| Gross profit | $ 2,111 | $ 1,927 | $ 184 | 9.5 % |
| Gross profit percentage | 53.7 % | 52.3 % | | |

The increase in the dollar amount of cost of sales during the thirty-nine week period ended June 27, 2020 was primarily due to the increase in sales from a full fiscal year of ownership of the Esterline businesses in fiscal 2020 in addition to the other factors summarized above. Partially offsetting the increase in cost of sales is the lower sales volume since March 2020 from decreased customer demand attributable to the COVID-19 pandemic.

Gross profit as a percentage of sales increased by 1.4 percentage points to 53.7% for the thirty-nine week period ended June 27, 2020 from 52.3% for the thirty-nine week period ended June 29, 2019. The increase in the gross profit percentage is primarily driven by the increase in loss contract amortization and the lack of inventory acquisition accounting adjustments during the thirty-nine week period ended June 27, 2020.

- ***Selling and Administrative Expenses.*** Selling and administrative expenses increased by $9 million to $544 million, or 13.8% of sales, for the thirty-nine week period ended June 27, 2020 from $535 million, or 14.5% of sales, for the thirty-nine week period ended June 29, 2019. Selling and administrative expenses and the related percentage of total sales for the thirty-nine week periods ended June 27, 2020 and June 29, 2019 were as follows (amounts in millions):

| | Thirty-Nine Week Periods Ended | | | |
|---|---|---|---|---|
| | June 27, 2020 | June 29, 2019 | Change | % Change |
| Selling and administrative expenses - excluding costs below | $ 447 | $ 404 | $ 43 | 10.6 % |
| % of total sales | 11.4 % | 11.0 % | | |
| Non-cash stock compensation expense | 53 | 63 | (10) | (15.9)% |
| % of total sales | 1.3 % | 1.7 % | | |
| Bad debt expense | 24 | 3 | 21 | 700.0 % |
| % of total sales | 0.6 % | 0.1 % | | |
| Acquisition-related expenses | 15 | 65 | (50) | (76.9)% |
| % of total sales | 0.4 % | 1.8 % | | |
| COVID-19 restructuring costs | 5 | — | 5 | 100.0 % |
| % of total sales | 0.1 % | — % | | |
| Total selling and administrative expenses | $ 544 | $ 535 | $ 9 | 1.7 % |
| % of total sales | 13.8 % | 14.5 % | | |

The increase in the dollar amount of selling and administrative expenses during the thirty-nine week period ended June 27, 2020 is primarily due to the increase in sales from a full fiscal year of ownership of the Esterline businesses in fiscal 2020 in addition to the other factors summarized above. Partially offsetting the increase in selling and administrative expenses is a reduction in expenses as a result of the cost mitigation measures enacted during the third quarter of fiscal 2020 in response to the COVID-19 pandemic. The cost mitigation measures enacted during the third quarter of fiscal 2020 are described in Note 1, "Description of the Business and Impact of COVID-19 Pandemic."

- ***Amortization of Intangible Assets.*** Amortization of intangible assets was $128 million for the thirty-nine week period ended June 27, 2020 compared to $80 million in the thirty-nine week period ended June 29, 2019. The increase in amortization expense of $48 million was due to the amortization expense on the definite-lived intangible assets recorded in connection with the acquisition of Esterline.

- ***Interest Expense-net.*** Interest expense-net includes interest on borrowings outstanding, amortization of debt issuance costs, original issue discount and premium and revolving credit facility fees slightly offset by interest income. Interest expense-net increased $148 million, or 24.1%, to $762 million for the thirty-nine week period ended June 27, 2020 from $614 million for the comparable thirty-nine week period last year. The net increase in interest expense-net was primarily due to an increase in the weighted average level of outstanding borrowings, which was approximately $18.5 billion for the thirty-nine week period ended June 27, 2020 and approximately $15.1 billion for the thirty-nine week period ended June 29, 2019. The increase in weighted average level of borrowings was primarily due to the activity in the second quarter of fiscal 2019 consisting of the issuance of $4.0 billion in 2026 Secured Notes and the issuance of $550 million in 7.50% 2027 Notes and the activity in fiscal 2020 consisting of the issuance of $2.65 billion in 5.50% 2027 Notes, $1.1 billion in 2025 Secured Notes, $400 million 6.25% 2026 New Notes and a $200 million draw on the revolving credit facility. The increases in new debt described above were slightly offset by the redemptions of $550 million in 5.50% 2020 Notes and $1.15 billion in 6.00% 2022 Notes. The weighted average interest rate for cash interest payments on total borrowings outstanding for the thirty-nine week period ended June 27, 2020 was 4.93%.

- ***Refinancing Costs.*** Refinancing costs of $27 million were recorded for the thirty-nine week period ended June 27, 2020 and primarily related to the fees incurred on the redemption of the 2022 Notes that occurred in the first quarter of fiscal 2020.

- ***Other Income.*** Other income of $14 million was recorded for the thirty-nine week period ended June 27, 2020 and primarily relates to proceeds received from a business interruption insurance settlement during the third quarter of fiscal 2020 and non-service related components of net periodic benefit costs on the Company's defined benefit pension plans.

- ***Income Taxes.*** Income tax expense as a percentage of income before income taxes was approximately 16.9% for the thirty-nine week period ended June 27, 2020 compared to 24.9% for the thirty-nine week period ended June 29, 2019. On March 27, 2020, President Trump signed into law the CARES Act in response to the COVID-19 pandemic. The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer social security payments, net operating loss carryback periods, alternative minimum tax credit refunds and modifications to the net interest deduction limitations. The most significant impact of the CARES Act for the Company is an increase of the IRC 163(j) interest disallowance limitations from 30% to 50% of adjusted taxable income which will allow the Company to deduct additional interest expense for fiscal years 2020 and 2021. The Company's lower effective tax rate for the thirty-nine week period ended June 27, 2020, which also was lower than the Federal statutory tax rate of 21%, was primarily due to a discrete benefit recognized for excess tax benefits for share-based payments, in addition to the modification of the interest expense limitation under IRC Section 163(j) enacted as part of the CARES Act.
- ***Income from Discontinued Operations.*** Discontinued operations for the thirty-nine week period ended June 27, 2020 include the results of the operations of Souriau-Sunbank. Discontinued operations for the thirty-nine week period ended June 29, 2019 include the results of the operations of Souriau-Sunbank and the Esterline Interface Technology ("EIT") group of businesses. Both businesses were acquired by TransDigm as part of its acquisition of Esterline in March 2019. On December 20, 2019, TransDigm completed the divestiture of Souriau-Sunbank to Eaton for approximately $920 million. On September 20, 2019, TransDigm completed the divestiture of EIT to an affiliate of KPS Capital Partners, LP for approximately $190 million.

  Income from discontinued operations for the thirty-nine week period ended June 27, 2020 was $66 million and included $7 million from Souriau-Sunbank's operations and a gain on the sale of Souriau-Sunbank, net of tax, of $59 million. Income from discontinued operations for the thirty-nine week period ended June 29, 2019 was $19 million and included the results of operations of the Souriau-Sunbank and EIT group of businesses.
- ***Net Income Attributable to TD Group.*** Net income attributable to TD Group increased $74 million, or 13.6%, to $617 million for the thirty-nine week period ended June 27, 2020 compared to net income attributable to TD Group of $543 million for the thirty-nine week period ended June 29, 2019, primarily as a result of the factors referred to above. The COVID-19 pandemic has adversely impacted the results of operations since March 2020.
- ***Earnings per Share.*** Basic and diluted earnings per share was $7.53 for the thirty-nine week period ended June 27, 2020 and $9.22 per share for the thirty-nine week period ended June 29, 2019. Basic and diluted earnings per share from continuing operations and discontinued operations was $6.38 and $1.15, respectively, for the thirty-nine week period ended June 27, 2020. Basic and diluted earnings per share from continuing operations and discontinued operations was $8.87 and $0.35, respectively, for the thirty-nine week period ended June 29, 2019. Net income attributable to TD Group for the thirty-nine week period ended June 27, 2020 of $617 million was decreased by special dividend and dividend equivalent payments paid of $185 million, or $3.22 per share, resulting in net income available to common shareholders of $432 million, or $7.53 per share. Net income for the thirty-nine week period ended June 29, 2019 of $543 million was decreased by dividend equivalent payments of $24 million, or $0.43 per share, resulting in net income available to common shareholders of $519 million, or $9.22 per share.

**Business Segments**

- ***Segment Net Sales.*** Net sales by segment for the thirty-nine week periods ended June 27, 2020 and June 29, 2019 were as follows (amounts in millions):

| | Thirty-Nine Week Periods Ended | | | | | |
|---|---|---|---|---|---|---|
| | June 27, 2020 | % of Sales | June 29, 2019 | % of Sales | Change | % Change |
| Power & Control | $ 2,056 | 52.4 % | $ 1,960 | 53.2 % | $ 96 | 4.9 % |
| Airframe | 1,762 | 44.8 % | 1,609 | 43.7 % | 153 | 9.5 % |
| Non-aviation | 112 | 2.8 % | 113 | 3.1 % | (1) | (0.9)% |
| | $ 3,930 | 100.0 % | $ 3,682 | 100.0 % | $ 248 | 6.7 % |

Acquisition sales for the Power & Control segment increased $196 million, or an increase of 10.0%, resulting from the acquisition of Esterline. Organic sales for the Power & Control segment decreased $100 million, a decrease of 5.1%, for the thirty-nine week period ended June 27, 2020 compared to the thirty-nine week period ended June 29, 2019. The organic sales decrease resulted primarily from decreases in commercial OEM sales ($59 million, a decrease of 13.7%), a decrease in commercial aftermarket sales ($54 million, a decrease of 10.0%); partially offset by an increase in defense sales ($13 million, an increase of 1.4%). The decreases in organic commercial OEM and aftermarket sales are attributable to the COVID-19 pandemic.

Acquisition sales for the Airframe segment increased $401 million, or an increase of 24.9%, resulting from the acquisition of Esterline. Organic sales for the Airframe segment decreased $248 million, a decrease of 15.4%, for the thirty-nine week period ended June 27, 2020 compared to the thirty-nine week period ended June 29, 2019. The organic sales decrease resulted primarily from decreases in commercial aftermarket sales ($132 million, a decrease of 21.5%), commercial OEM sales ($98 million, a decrease of 17.9%), defense sales ($15 million, a decrease of 3.6%) and other non-aerospace sales ($3 million, a decrease of 8.9%). The decreases in organic commercial OEM and aftermarket sales are attributable to the COVID-19 pandemic.

Acquisition sales for the Non-aviation segment increased $7 million, or an increase of 6.2%, resulting from the acquisition of Esterline. Organic sales for the Non-aviation segment decreased by $8 million, a decrease of 7.1%, for the thirty-nine week period ended June 27, 2020 compared to the thirty-nine week period ended June 29, 2019.

- ***EBITDA As Defined.*** EBITDA As Defined by segment for the thirty-nine week periods ended June 27, 2020 and June 29, 2019 were as follows (amounts in millions):

| | Thirty-Nine Week Periods Ended | | | | | |
|---|---|---|---|---|---|---|
| | June 27, 2020 | % of Segment Sales | June 29, 2019 | % of Segment Sales | Change | % Change |
| Power & Control | $ 1,036 | 50.4 % | $ 1,006 | 51.3 % | $ 30 | 3.0 % |
| Airframe | 767 | 43.5 % | 740 | 46.0 % | 27 | 3.6 % |
| Non-aviation | 39 | 34.8 % | 36 | 31.9 % | 3 | 8.3 % |
| | $ 1,842 | 46.9 % | $ 1,782 | 48.4 % | $ 60 | 3.4 % |

EBITDA As Defined for the Power & Control segment from the acquisition of Esterline increased approximately $55 million for the thirty-nine week period ended June 27, 2020. Organic EBITDA As Defined for the Power & Control segment decreased approximately $25 million, a decrease of 2.5%, as a result of lower sales volume in the commercial OEM and commercial aftermarket market channels as a result of the COVID-19 pandemic.

EBITDA As Defined for the Airframe segment from the acquisition of Esterline increased approximately $153 million for the thirty-nine week period ended June 27, 2020. Organic EBITDA as Defined for the Airframe segment decreased approximately $126 million, a decrease of 17.0%, primarily as a result of lower volume in the commercial OEM and commercial aftermarket channels as a result of the COVID-19 pandemic.

EBITDA As Defined for the Non-aviation segment from the acquisition of Esterline increased approximately $1 million for the thirty-nine week period ended June 27, 2020. Organic EBITDA As Defined for the Non-aviation segment increased approximately $2 million, an increase of 5.6%.

**Backlog**

As of June 27, 2020, the Company estimated its sales order backlog at $3,425 million compared to $3,856 million as of June 29, 2019. The decrease in backlog is due to the adverse impact that the COVID-19 pandemic has had on customer demand, particularly our commercial customers, domestically and internationally. The uncertainty of the duration of the pandemic and its impact on the aerospace industry is expected to continue to inhibit sales order backlog growth in the commercial OEM and commercial aftermarket channels for at least the remainder of fiscal 2020.

The majority of the purchase orders outstanding as of June 27, 2020 are scheduled for delivery within the next twelve months. Purchase orders may be subject to cancellation or deferral by the customer prior to shipment. The level of unfilled purchase orders at any given date during the year will be materially affected by the timing of the Company’s receipt of purchase orders and the speed with which those orders are filled. Accordingly, the Company’s backlog as of June 27, 2020 may not necessarily represent the actual amount of shipments or sales for any future period.

**Foreign Operations**

Although we manufacture a significant portion of our products in the United States, we manufacture certain products in Europe, Asia, Canada, Mexico and other countries globally. We sell our products in the United States as well as in foreign countries. Although the majority of sales of our products are made to customers (including distributors) located in the United States, our products are ultimately sold to and used by customers, including airlines and other end users of aircraft, throughout the world. A number of risks inherent in international operations could have a material adverse effect on our results of operations, including the COVID-19 pandemic, currency fluctuations, difficulties in staffing and managing multi-national operations, general economic and political uncertainties and potential for social unrest in countries in which we operate, limitations on our ability to enforce legal rights and remedies, restrictions on the repatriation of funds, change in trade policies, tariff regulation, difficulties in obtaining export and import licenses and the risk of government financed competition.

There can be no assurance that foreign governments will not adopt regulations or take other action that would have a direct or indirect adverse impact on the business or market opportunities of the Company within such governments' countries. Furthermore, there can be no assurance that the political, cultural and economic climate outside the United States will be favorable to our operations and growth strategy.

**Liquidity and Capital Resources**

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

We continually evaluate our debt facilities to assess whether they most efficiently and effectively meet the current and future needs of our business. The Company evaluates from time to time the appropriateness of its current leverage, taking into consideration the Company's debt holders, equity holders, credit ratings, acquisition opportunities and other factors.

If the Company has excess cash, it generally prioritizes allocating the excess cash in the following manner: (1) capital spending at existing businesses, (2) acquisitions of businesses, (3) payment of a special dividend and/or repurchases of our common stock and (4) prepayment of indebtedness or repurchase of debt. Whether the Company undertakes common stock repurchases or other aforementioned activities will depend on prevailing market conditions, the Company's liquidity requirements, contractual restrictions and other factors. The amounts involved may be material. In addition, the Company may issue additional debt if prevailing market conditions are favorable to doing so.

The Company's ability to make scheduled interest payments on, or to refinance, the Company's indebtedness, or to fund non-acquisition related capital expenditures and research and development efforts, will depend on the Company's ability to generate cash in the future. This is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond its control, including the ongoing COVID-19 pandemic.

The COVID-19 pandemic has caused a significant adverse impact on our sales, net income and EBITDA as Defined for the third quarter of fiscal 2020 and is expected to continue to do so for at least the remainder of fiscal 2020. This is under the assumption that the COVID-19 pandemic will continue to adversely impact customer demand for all market channels with commercial OEM and commercial aftermarket being the most adversely impacted due to the pandemic's impact on air travel worldwide. The defense market channel is also impacted to a lesser extent due to certain supply chain disruptions as well as the "stay at home" orders, quarantines, etc. impacting the government procurement workforce. The magnitude of the impact of COVID-19 remains unpredictable and we, therefore, continue to anticipate potential supply chain disruptions, employee absenteeism and short-term suspensions of manufacturing facilities, and additional health and safety costs related to the COVID-19 pandemic that could unfavorably impact our business. Longer term, because the duration of the pandemic is unclear, it is difficult to forecast a precise impact on the Company's future results.

The Company is actively managing the business to maintain cash flow, including the cost mitigation efforts described in Note 1, "Description of the Business and Impact of COVID-19 Pandemic," to the condensed consolidated financial statements in response to the COVID-19 pandemic and are continuing to focus on the application of its three core value-driven operating strategies (obtaining profitable new business, continually improving its cost structure and providing highly engineered value-added products to customers).

In March 2020, the President of the United States signed the CARES Act, a substantial tax-and-spending package intended to provide additional economic stimulus to address the impact of the COVID-19 pandemic. The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, and modifications to the net interest deduction limitations. The most significant impact of the CARES Act for the Company is an increase of the IRC 163(j) Interest Disallowance Limitations from 30% to 50% of adjusted taxable income which will allow the Company to deduct additional interest for fiscal years 2020 and 2021. The Company continues to assess the impact of the CARES Act and ongoing government guidance related to COVID-19 that may be issued.

In March 2020, the Company drew $200 million on its revolving credit facility to increase the Company's liquidity as a precautionary response to macroeconomic conditions caused by the COVID-19 pandemic. Also, in further actions to increase the Company's liquidity, the Company executed two notes offerings in April 2020 in which the proceeds received are for general Corporate purposes. On April 8, 2020, the Company entered into a purchase agreement in connection with a private offering of $1,100 million in aggregate principal amount of 8.00% Senior Secured Notes due 2025 at an issue price of 100% of the principal amount. On April 17, 2020, the Company entered into a purchase agreement in connection with a private offering of $400 million in aggregate principal amount of 6.25% Senior Secured Notes due 2026 at an issue price of 101% of the principal amount.

As of June 27, 2020, the Company has significant cash liquidity as illustrated in the table presented below (in millions):

| | As of June 27, 2020 |
|---|---|
| Cash and cash equivalents | $ 4,549 |
| Availability on revolving credit facility | 523 |
| Cash liquidity | $ 5,072 |

We believe our significant cash liquidity will allow us to meet our anticipated funding requirements. We expect to meet our short-term cash liquidity requirements (including interest obligations and capital expenditures) through net cash from operating activities, cash on hand and, if needed, additional draws on the revolving credit facility. Long-term cash liquidity requirements consist primarily of obligations under our long-term debt agreements. There is no maturity on any tranche of term loans or notes until July 2024.

*Operating Activities.* The Company generated $991 million of net cash from operating activities during the thirty-nine week period ended June 27, 2020 compared to $768 million during the thirty-nine week period ended June 29, 2019.

The change in accounts receivable during the thirty-nine week period ended June 27, 2020 was a source of cash of $347 million compared to a use of cash of $65 million during the thirty-nine week period ended June 29, 2019. The increase in the source of cash of $412 million is primarily attributable to a decline in sales, and the related accounts receivable, in the third quarter due to the COVID-19 pandemic. The Company also continues to actively manage its accounts receivable, the related agings and collection efforts.

The change in inventories during the thirty-nine week period ended June 27, 2020 was a use of cash of $126 million compared to a use of cash of $100 million during the thirty-nine week period ended June 29, 2019. The increase in the use of cash is primarily driven by higher inventory levels due to reduced demand as a result of the COVID-19 pandemic.

The change in accounts payable during the thirty-nine week period ended June 27, 2020 was a use of cash of $48 million compared to a use of cash of $7 million during the thirty-nine week period ended June 29, 2019. The increase in the use of cash is primarily driven by a corresponding decline in accounts payable as inventory and other purchases have slowed as a result of the COVID-19 pandemic.

*Investing Activities*. Net cash provided by investing activities was $842 million during the thirty-nine week period ended June 27, 2020, consisting of proceeds of $904 million from the divestiture of Souriau-Sunbank and partially offset by capital expenditures of $62 million. We do not expect to incur material capital expenditures for the remainder of fiscal 2020 in response to the cost mitigation measures enacted in response to the COVID-19 pandemic. Planned capital expenditures for the remainder of the fiscal year are limited to those deemed to be essential.

Net cash used in investing activities was $4,037 million during the thirty-nine week period ended June 29, 2019, consisting of capital expenditures of $80 million and payments for acquisitions, net of cash acquired, of $3,957 million which is primarily comprised of the acquisitions of Esterline for $3,536 million and NavCom for $27 million.

*Financing Activities.* Net cash provided by financing activities during the thirty-nine week period ended June 27, 2020 was $1,245 million. The source of cash was primarily attributable to $2,625 million in net proceeds from the completion of the 5.50% 2027 Notes offering, $1,092 million in net proceeds from the completion of the 2025 Secured Notes offering, $401 million in net proceeds from the completion of the 6.25% 2026 New Notes offering, $200 million drawn from the existing revolving credit facility and $89 million in proceeds from stock option exercises. This was partially offset by special dividend and dividend equivalent payments of $1,928 million, the redemption of the 2022 Notes outstanding for $1,168 million, repayments on term loans of $38 million and the purchase of treasury stock of $19 million.

Net cash provided by financing activities during the thirty-nine week period ended June 29, 2019 was $3,912 million. The source of cash was primarily attributable to $4,480 million in net proceeds from the completion of the 2026 Secured Notes and 2027 Notes offerings in the second quarter of fiscal 2019 and $64 million in proceeds from stock option exercises. Sources were partially offset by the cash tender and redemption of the 2020 Notes for $550 million, repayments on term loans of $57 million and dividend equivalent payments of $24 million.

*Contractual Obligations*

We have future obligations under various contracts relating to debt and interest payments, finance and operating leases, pension and post-retirement benefit plans and purchase obligations. During the thirty-nine week period ended June 27, 2020, other than the debt financing transactions described herein and in Note 9, "Debt," to the condensed consolidated financial statements, there were no material changes to these obligations as reported in our Annual Report on Form 10-K for the fiscal year ended September 30, 2019.

*Description of Senior Secured Term Loans and Indentures*

*Senior Secured Term Loans Facility*

TransDigm has $7,487 million in fully drawn term loans (the “Term Loans Facility”) and a $760 million revolving credit facility, on which the Company drew approximately $200 million on March 24, 2020. The Term Loans Facility consists of three tranches of term loans as follows (aggregate principal amount disclosed is as of June 27, 2020):

| Term Loans Facility | Aggregate Principal | Maturity Date | Interest Rate |
|---|---|---|---|
| Tranche E | $2,210 million | May 30, 2025 | LIBO rate + 2.25% |
| Tranche F | $3,507 million | December 9, 2025 | LIBO rate + 2.25% |
| Tranche G | $1,770 million | August 22, 2024 | LIBO rate + 2.25% |

The Term Loans Facility requires quarterly aggregate principal payments of $18.8 million. The revolving commitments consist of two tranches which includes up to $151.5 million of multicurrency revolving commitments. At June 27, 2020, the Company had $36.8 million in letters of credit outstanding and $523.2 million in borrowings available under the revolving commitments. The interest rates per annum applicable to the loans under the Credit Agreement are, at TransDigm’s option, equal to either an alternate base rate or an adjusted LIBO rate for one, two, three or six-month (or to the extent agreed to by each relevant lender, nine or twelve-month) interest periods chosen by TransDigm, in each case plus an applicable margin percentage. The adjusted LIBO rate related to the tranche E, tranche F and tranche G term loans are not subject to a floor. For the thirty-nine week period ended June 27, 2020, the applicable interest rates ranged from approximately 2.4% to 3.2% on the existing term loans. Interest rate swaps and caps used to hedge and offset, respectively, the variable interest rates on the credit facility are described in Note 12, “Derivatives and Hedging Activities,” to the condensed consolidated financial statements.

*Recent Amendments to the Credit Agreement*

On February 6, 2020, the Company entered into Amendment No. 7 and Refinancing Facility Agreement (herein, "Amendment No. 7"). Under the terms of Amendment No. 7, the Company, among other things, (i) incurred new tranche E term loans in an aggregate principal amount equal to approximately $2,216 million, new tranche F term loans in an aggregate principal amount equal to approximately $3,515 million and new tranche G term loans, (collectively, the "New Term Loans") in an aggregate principal amount equal to approximately $1,774 million, (ii) repaid in full all of the existing tranche E term loans, tranche F term loans and tranche G term loans outstanding under the Credit Agreement immediately prior to Amendment No. 7 and (iii) extended the maturity date of the tranche F term loans to December 9, 2025, (iv) modified the definition of consolidated EBITDA in the Credit Agreement to add back certain cost savings and non-recurring cost and expenses and (v) modified certain negative covenants to provide additional flexibility to enable TransDigm to incur additional debt and make additional investments and asset sales.

The New Term Loans were fully drawn on February 6, 2020. The LIBO rate per annum applicable to the New Term Loans is 2.25%, down from the previous rate of 2.50%. The other terms and conditions that apply to the New Term Loans are substantially the same as the terms and conditions that applied to the term loans immediately prior to Amendment No. 7.

On March 14, 2019, the Company entered into Amendment No. 6 to the Second Amended and Restated Credit Agreement ("Amendment No. 6"). Under the terms of Amendment No. 6, the capacity of the revolving credit facility increased from $600 million to $760 million. The revolving credit facility consist of two tranches which include up to $151.5 million of multicurrency revolving commitments. The terms and conditions that apply to the revolving credit facility, other than the additional revolving credit commitments, are substantially the same as the terms and conditions that applied to the revolving credit facility immediately prior to Amendment No. 6.

*Indentures*

The following table represents the notes outstanding as of June 27, 2020:

| Description | Aggregate Principal | Maturity Date | Interest Rate |
|---|---|---|---|
| 2024 Notes | $1,200 million | July 15, 2024 | 6.50% |
| 2025 Notes | $750 million | May 15, 2025 | 6.50% |
| 2025 Secured Notes | $1,100 million | December 15, 2025 | 8.00% |
| 2026 Secured Notes | $4,400 million | March 15, 2026 | 6.25% |
| 6.875% 2026 Notes | $500 million | May 15, 2026 | 6.875% |
| 6.375% 2026 Notes | $950 million | June 15, 2026 | 6.375% |
| 7.50% 2027 Notes | $550 million | March 15, 2027 | 7.50% |
| 5.50% 2027 Notes | $2,650 million | November 15, 2027 | 5.50% |

The 2024 Notes, the 6.375% 2026 Notes, the 2025 Secured Notes, the 7.50% 2027 Notes and the 5.50% 2027 Notes (the “TransDigm Inc. Notes”) were issued at a price of 100% of the principal amount. The initial $450 million offering of the 2025 Notes (also considered to be part of the “TransDigm Inc. Notes”) were issued at a price of 100% of the principal amount and the subsequent $300 million offering of 2025 Notes in the second quarter of fiscal 2017 were issued at a price of 101.5% of the principal amount, resulting in gross proceeds of $304.5 million. The 6.875% 2026 Notes (the "TransDigm UK Notes" and together with the TransDigm Inc. Notes, the "Notes," are further described below) offered in May 2018 were issued at a price of 99.24% of the principal amount, resulting in gross proceeds of $496.2 million. The initial $3,800 million offering of the 2026 Secured Notes (the "Secured Notes") were issued at a price of 100% of their principal amount and the subsequent $200 million and $400 million offerings of the 2026 Secured Notes in the second quarter of fiscal 2019 and the third quarter of fiscal 2020, respectively, were issued at a price of 101% of their principal amount, resulting in gross proceeds of $4,400 million.

The Notes do not require principal payments prior to their maturity. Interest under the Notes is payable semi-annually. The Notes represent our unsecured obligations ranking subordinate to our senior debt, as defined in the applicable indentures.

The Notes are subordinated to all of our existing and future senior debt, rank equally with all of our existing and future senior subordinated debt and rank senior to all of our future debt that is expressly subordinated to the Notes. The TransDigm Inc. Notes are guaranteed on a senior subordinated unsecured basis by TD Group and TransDigm Inc.'s domestic restricted subsidiaries. The TransDigm UK Notes are guaranteed on a senior subordinated basis by TransDigm Inc., TD Group and TransDigm Inc.'s domestic restricted subsidiaries. The guarantees of the Notes are subordinated to all of the guarantors’ existing and future senior debt, rank equally with all of their existing and future senior subordinated debt and rank senior to all of their future debt that is expressly subordinated to the guarantees of the Notes. The Notes are structurally subordinated to all of the liabilities of TD Group’s non-guarantor subsidiaries. The Notes contain many of the restrictive covenants included in the Credit Agreement. TransDigm is in compliance with all of the covenants contained in the Notes.

On November 13, 2019, the Company issued $2,650 million in aggregate principal amount of 5.50% Senior Subordinated Notes due 2027 (herein the "5.50% 2027 Notes") at an issue price of 100% of the principal amount thereof in a private offering. The 2027 Notes were issued pursuant to an indenture, dated as of November 13, 2019, among TransDigm, as issuer, TD Group, TD UK and the other subsidiaries of TransDigm named therein, as guarantors.

On November 26, 2019, the Company used a portion of the net proceeds from the offering of the 5.50% 2027 Notes to redeem all of its outstanding 6.00% 2022 Notes. The Company redeemed the principal amount of $1,150 million, plus accrued interest of approximately $25.5 million and early redemption premium of $17.3 million.

In April 2020, the Company executed two notes offerings for general Corporate purposes, including increasing its cash liquidity as a result of the COVID-19 pandemic. On April 8, 2020, the Company entered into a purchase agreement in connection with a private offering of $1,100 million in aggregate principal amount of 8.00% Senior Secured Notes due 2025 (herein the "2025 Secured Notes") at an issue price of 100% of the principal amount. On April 17, 2020, the Company entered into a purchase agreement in connection with a private offering of $400 million in aggregate principal amount of 6.25% Senior Secured Notes due 2026 (also considered to be part of the "2026 Secured Notes") at an issue price of 101% of the principal amount. Refer to Note 9, "Debt," to the condensed consolidated financial statements for further information.

TransDigm Inc's 2024 Notes, 2025 Notes, 6.375% 2026 Notes, 2026 Secured Notes, 7.50% Notes 2027 Notes, 5.50% 2027 Notes and 2025 Secured Notes are jointly and severally guaranteed, on a senior subordinated basis, by TD Group, TransDigm UK Holdings plc ("TransDigm UK") and TransDigm Inc.'s Domestic Restricted Subsidiaries, as defined in the applicable Indentures. TransDigm UK's 6.875% 2026 Notes are jointly and severally guaranteed, on a senior subordinated basis, by TD Group, TransDigm Inc. and TransDigm Inc.'s Domestic Restricted Subsidiaries, as defined in the applicable Indenture.

Separate financial statements of TransDigm Inc. are not presented because TransDigm Inc.'s 2024 Notes, 2025 Notes, 6.375% 2026 Notes, 2026 Secured Notes, 7.50% 2027 Notes, 5.50% 2027 Notes and 2025 Secured Notes are fully and unconditionally guaranteed on a senior subordinated basis by TD Group, TransDigm UK and all of TransDigm Inc.'s Domestic Restricted Subsidiaries and because TD Group has no significant operations or assets separate from its investment in TransDigm Inc.

Separate financial statements of TransDigm UK are not presented because TransDigm UK's 6.875% 2026 Notes, issued in May 2018, are fully and unconditionally guaranteed on a senior subordinated basis by TD Group, TransDigm Inc. and all of TransDigm Inc.'s Domestic Restricted Subsidiaries.

The financial information presented is that of TD Group and the Guarantors, which includes TransDigm Inc. and TransDigm UK, on a combined basis and the financial information of non-issuer and non-guarantor subsidiaries has been excluded. Intercompany balances and transactions between TD Group and Guarantors have been eliminated, and amounts due from, amounts due to, and transactions with non-issuer and non-guarantor subsidiaries have been presented separately.

| (in millions) | June 27, 2020 | September 30, 2019 |
|---|---|---|
| Current assets | $ 5,166 | $ 2,458 |
| Noncurrent assets | 9,162 | 8,286 |
| Current liabilities | 966 | 742 |
| Noncurrent liabilities | 20,392 | 17,328 |
| Amounts due to subsidiaries that are non-issuers and non-guarantors - net | 55 | 171 |

| (in millions) | Thirty-Nine Week Period Ended June 27, 2020 |
|---|---|
| Net sales | $ 3,123 |
| Sales to subsidiaries that are non-issuers and non-guarantors | 24 |
| Cost of products sold | 1,371 |
| Expense from subsidiaries that are non-issuers and non-guarantors - net | 32 |
| Income from continuing operations | 499 |
| Net income attributable to TD Group | 613 |

*Certain Restrictive Covenants in Our Debt Documents*

The Credit Agreement and the Indentures governing the Notes contain restrictive covenants that, among other things, limit the incurrence of additional indebtedness, the payment of special dividends, transactions with affiliates, asset sales, acquisitions, mergers and consolidations, liens and encumbrances, and prepayments of certain other indebtedness.

The restrictive covenants included in the Credit Agreement are subject to amendments executed periodically. The most recent amendment that impacted the restrictive covenants contained in the Credit Agreement is Amendment No. 7. The restrictive covenants are described above in the *Recent Amendments to the Credit Agreement* section.

Under the terms of the Credit Agreement, TransDigm is entitled, on one or more occasions, to request additional term loans or additional revolving commitments to the extent that the existing or new lenders agree to provide such incremental term loans or additional revolving commitments provided that, among other conditions, our consolidated net leverage ratio would be no greater than 7.25 to 1.00 and the consolidated secured net debt ratio would be no greater than 5.00 to 1.00, in each case, after giving effect to such incremental term loans or additional revolving commitments.

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

With the exception of the revolving credit facility, the Company has no maintenance covenants in its existing term loan and indenture agreements. Under the Credit Agreement, if the usage of the revolving credit facility exceeds 35%, or $266 million, of the total revolving commitments, the Company is required to maintain a maximum consolidated net leverage ratio of net debt to trailing four-quarter EBITDA As Defined of 7.25x as of the last day of the fiscal quarter.

As of June 27, 2020, the Company was in compliance with its debt covenants and expects to remain in compliance with its debt covenants in subsequent periods.

*Trade Receivables Securitization Facility*

During fiscal 2014, the Company established a trade receivable securitization facility (the “Securitization Facility”). The Securitization Facility effectively increases the Company’s borrowing capacity depending on the amount of the domestic operations’ trade accounts receivable. The Securitization Facility includes the right for the Company to exercise annual one year extensions as long as there have been no termination events as defined by the agreement. The Company uses the proceeds from the Securitization Facility as an alternative to other forms of debt, effectively reducing borrowing costs.

On July 22, 2020, the Company amended the Securitization Facility to extend the maturity date to July 27, 2021. As of June 27, 2020, the Company has borrowed $350 million under the Securitization Facility, which bears interest at a rate of 0.9% plus LIBOR. At June 27, 2020, the applicable interest rate was 1.1%. The Securitization Facility is collateralized by substantially all of the Company’s domestic operations’ trade accounts receivable.

*Stock Repurchase Program*

On November 8, 2017, our Board of Directors, authorized a stock repurchase program permitting repurchases of our outstanding shares not to exceed $650 million in the aggregate, subject to any restrictions specified in the Credit Agreement and/or Indentures governing the existing Notes.

During March 2020, the Company repurchased 36,900 shares of its common stock at a gross cost of $18.9 million at the weighted average cost of $512.67 under the $650 million stock repurchase program. As of June 27, 2020, the remaining amount of repurchases allowable under the $650 million program was $631.1 million subject to any restrictions specified in the Credit Agreement and/or Indentures governing the existing Notes.

*Off-Balance Sheet Arrangements*

The Company utilizes letters of credit to back certain payment and performance obligations. Letters of credit are subject to limits based on amounts outstanding under the Company’s revolving credit facility. As of June 27, 2020, the Company had $36.8 million in letters of credit outstanding.

**Non-GAAP Financial Measures**

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

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

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

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

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

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

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

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The following table sets forth a reconciliation of (loss) income from continuing operations to EBITDA and EBITDA As Defined (in millions):

| | Thirteen Week Periods Ended | | Thirty-Nine Week Periods Ended | |
|---|---|---|---|---|
| | June 27, 2020 | June 29, 2019 | June 27, 2020 | June 29, 2019 |
| (Loss) Income from continuing operations | $ (5) | $ 128 | $ 552 | $ 524 |
| Adjustments: | | | | |
| Depreciation and amortization expense | 70 | 63 | 211 | 138 |
| Interest expense, net | 262 | 241 | 762 | 614 |
| Income tax provision | 39 | 55 | 112 | 172 |
| EBITDA | 366 | 487 | 1,637 | 1,448 |
| Adjustments: | | | | |
| Inventory acquisition accounting adjustments (1) | — | 89 | — | 109 |
| Acquisition integration costs (2) | 3 | 41 | 18 | 49 |
| Acquisition transaction-related expenses (3) | — | 5 | 1 | 27 |
| Non-cash stock compensation expense (4) | 21 | 32 | 59 | 70 |
| Refinancing costs (5) | 1 | — | 27 | 3 |
| COVID-19 & 737 MAX restructuring costs (6) | 30 | — | 30 | — |
| Other, net (7) | 3 | 5 | 8 | 6 |
| EBITDA As Defined | $ 424 | $ 659 | $ 1,780 | $ 1,712 |

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

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

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

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

(5) Represents costs expensed related to debt financing activities, including new issuances, extinguishments, refinancings and amendments to existing agreements.

(6) Represents restructuring costs related to the Company's cost reduction measures in response to the COVID-19 pandemic ($24 million) and 737 MAX production rate changes ($3 million). These were costs related to the Company's actions to reduce its workforce to align with customer demand. This also includes $3 million of incremental costs related to the pandemic that are not expected to recur once the pandemic has subsided and are clearly separable from normal operations (e.g., additional cleaning and disinfecting of facilities by contractors above and beyond normal requirements, personal protective equipment, etc.).

(7) Primarily represents foreign currency transaction gain or loss, payroll withholding taxes related to special dividend and dividend equivalent payments and stock option exercises, non-service related pension costs, deferred compensation, and gain or loss on sale of fixed assets.

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

| | Thirty-Nine Week Periods Ended | |
|---|---|---|
| | June 27, 2020 | June 29, 2019 |
| Net cash provided by operating activities | $ 991 | $ 768 |
| Adjustments: | | |
| Changes in assets and liabilities, net of effects from acquisitions of businesses | (134) | (8) |
| Interest expense, net (1) | 737 | 594 |
| Income tax provision - current | 129 | 167 |
| Non-cash stock compensation expense (2) | (59) | (70) |
| Refinancing costs (3) | (27) | (3) |
| EBITDA | 1,637 | 1,448 |
| Adjustments: | | |
| Inventory acquisition accounting adjustments (4) | — | 109 |
| Acquisition integration costs (5) | 18 | 49 |
| Acquisition transaction-related expenses (6) | 1 | 27 |
| Non-cash stock compensation expense (2) | 59 | 70 |
| Refinancing costs (3) | 27 | 3 |
| COVID-19 & 737 MAX restructuring costs (7) | 30 | — |
| Other, net (8) | 8 | 6 |
| EBITDA As Defined | $ 1,780 | $ 1,712 |

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

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

(3) Represents costs expensed related to debt financing activities, including new issuances, extinguishments, refinancings and amendments to existing agreements.

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

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

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

(7) Represents restructuring costs related to the Company's cost reduction measures in response to the COVID-19 pandemic ($24 million) and 737 MAX production rate changes ($3 million). These were costs related to the Company's actions to reduce its workforce to align with customer demand. This also includes $3 million of incremental costs related to the pandemic that are not expected to recur once the pandemic has subsided and are clearly separable from normal operations (e.g., additional cleaning and disinfecting of facilities by contractors above and beyond normal requirements, personal protective equipment, etc.).

(8) Primarily represents foreign currency transaction gain or loss, payroll withholding taxes related to special dividend and dividend equivalent payments and stock option exercises, non-service related pension costs, deferred compensation, and gain or loss on sale of fixed assets.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The information called for by this item is provided under the caption '*Description of Senior Secured Credit Facilities and Indentures*' under Item 2 - "Management's Discussion and Analysis of Financial Condition and Results of Operations." Market risks are described more fully within “Quantitative and Qualitative Disclosures About Market Risk” in Part II, Item 7A of our most recent Form 10-K (for the fiscal year ended September 30, 2019).

*Interest Rate Risk*

In 2017, the United Kingdom’s Financial Conduct Authority announced that after 2021 it would no longer compel banks to submit the rates required to calculate LIBOR and other interbank offered rates, which have been widely used as reference rates for various securities and financial contracts, including loans, debt and derivatives. This announcement indicates that the continuation of LIBOR on the current basis is not guaranteed after 2021. Regulators in the U.S. and other jurisdictions have been working to replace these rates with alternative reference interest rates that are supported by transactions in liquid and observable markets, such as the Secured Overnight Financing Rate ("SOFR"). Currently, our credit agreement and certain of our debt and derivative instruments reference LIBOR-based rates. The discontinuation of LIBOR will require these arrangements to be modified in order to replace LIBOR with an alternative reference interest rate, which could impact our future interest expense. Amendment No. 7 to our Credit Agreement includes a provision for the determination of a successor LIBOR rate.

Except for the broad effects of the COVID-19 pandemic as a result of its adverse impact on the global economy and major financial markets, the other market risks have not materially changed since the date our most recent Form 10-K was filed with the SEC.

## ITEM 4. CONTROLS AND PROCEDURES

As of June 27, 2020, TD Group carried out an evaluation, under the supervision and with the participation of TD Group’s management, including its President, Chief Executive Officer and Director (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer), of the effectiveness of the design and operation of TD Group’s disclosure controls and procedures. Based upon that evaluation, the President, Chief Executive Officer and Director and Chief Financial Officer concluded that TD Group’s disclosure controls and procedures are effective to ensure that information required to be disclosed by TD Group in the reports it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported, within the time periods specified by the Securities and Exchange Commission’s rules and forms, and that such information is accumulated and communicated to TD Group’s management, including the President, Chief Executive Officer and Director and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, TD Group’s 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 designing and evaluating the controls and procedures.

### Changes in Internal Control over Financial Reporting

There have been no changes in the Company’s internal control over financial reporting that occurred during the fiscal quarter ended June 27, 2020, that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

## PART II: OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

We and certain of our current or former officers and directors were defendants in a consolidated securities class action captioned *In re TransDigm Group, Inc. Securities Litigation*, Case No. 1:17-cv-01677-DCN (N.D. Ohio). The plaintiffs alleged that the defendants made false or misleading statements with respect to, or failed to disclose, the impact of certain alleged business practices in connection with sales to the U.S. government on the Company's growth and profitability. The plaintiffs asserted claims under Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder and Section 20(a) of the Exchange Act, and sought unspecified monetary damages and other relief. On February 19, 2020, the Court granted our motion to dismiss and the case was dismissed. Although plaintiffs originally appealed the dismissal, on May 8, 2020, the appeal was also dismissed pursuant to stipulation by the parties.

### ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the risk factors disclosed in Item 1A of our Annual Report on Form 10-K for the fiscal year ended September 30, 2019, filed on November 19, 2019. Except as presented below, there have been no material changes to the risk factors described in the Form 10-K.

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

**We face risks related to the current COVID-19 pandemic and other health epidemics and outbreaks.**

The global outbreak of COVID-19 is currently impacting countries, communities, supply chains, and markets. The COVID-19 pandemic has adversely impacted our commercial OEM and commercial aftermarket sales and will continue to do so for an indeterminate length of time. The impact of the COVID-19 pandemic is fluid and continues to evolve, and therefore, we cannot predict the extent to which our business, results of operations, financial condition or liquidity will ultimately be impacted. Because this situation is ongoing and because the duration and severity of the outbreak are unclear, it is difficult to forecast the impact on the Company's future results. However, we currently expect COVID-19 to have a significant adverse impact on our sales, net income and EBITDA as Defined for the remainder of fiscal 2020 under the assumption that the COVID-19 outbreak will adversely affect our non-defense customers and their demand for our products and services for at least the near term.

The COVID-19 pandemic has also disrupted our operations. The outbreak of COVID-19 has heightened the risk that a significant portion of our workforce will suffer illness or otherwise be unable to work. Furthermore, in light of our determination that planned reductions in our workforce were necessary as a result of declines in our business caused by the COVID-19 pandemic, we cannot assure that we will be able to rehire our entire workforce once our business has recovered. Certain of our facilities have experienced temporary disruptions as a result of the COVID-19 pandemic, and we cannot predict whether our facilities will experience more significant disruptions in the future. Finally, our acquisition strategy, which is a key element of our overall business strategy, may be impacted by our efforts to maintain the Company's liquidity position in response to the COVID-19 pandemic.

The impact of COVID-19 may also exacerbate other risks discussed in Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended September 30, 2019, any of which could have a material effect on us. This situation continues to evolve and additional impacts may arise that we are not aware of currently.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS: PURCHASES OF EQUITY SECURITIES BY THE ISSUER

On November 8, 2017, our Board of Directors, authorized a stock repurchase program permitting repurchases of our outstanding shares not to exceed $650 million in the aggregate, subject to any restrictions specified in the Credit Agreement and/or Indentures governing the existing Notes.

During March 2020, the Company repurchased 36,900 shares of its common stock at a gross cost of $18.9 million at the weighted average cost of $512.67 under the $650 million stock repurchase program. As of June 27, 2020, the remaining amount of repurchases allowable under the $650 million program was $631.1 million subject to any restrictions specified in the Credit Agreement and/or Indentures governing the existing Notes.

**ITEM 6. EXHIBITS**

| Exhibit No. | Description |
|---|---|
| 22 | Listing of Subsidiary Guarantors |
| 31.1 | Certification by Principal Executive Officer of TransDigm Group Incorporated pursuant to Rule 13a-14(a) or 15d- 14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification by Principal Financial Officer of TransDigm Group Incorporated pursuant to Rule 13a-14(a) or 15d- 14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification by Principal Executive Officer of TransDigm Group Incorporated pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | Certification by Principal Financial Officer of TransDigm Group Incorporated pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.INS | Inline XBRL Instance Document: The XBRL Instance Document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document |
| 101.SCH | Inline XBRL Taxonomy Extension Schema |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase |
| 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase |
| 104 | Cover Page Interactive Data File: the cover page XBRL tags are embedded within the Inline XBRL document and are contained within Exhibit 101 |

**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.

**TRANSDIGM GROUP INCORPORATED**

| SIGNATURE | TITLE | DATE |
|---|---|---|
| /s/ Kevin Stein<br>Kevin Stein | President, Chief Executive Officer and Director<br>(Principal Executive Officer) | August 4, 2020 |
| /s/ Michael Lisman<br>Michael Lisman | Chief Financial Officer<br>(Principal Financial Officer) | August 4, 2020 |

**Exhibit 22**

## List of Subsidiary Guarantors

| Registered Notes Issued | Subsidiary Guarantors |
|---|---|
| 2024 Notes,<br>2025 Notes,<br>2025 Secured Notes,<br>6.375% 2026 Notes,<br>6.875% 2026 Notes,<br>2026 Secured Notes,<br>7.50% 2027 Notes, 5.50% 2027 Notes | 17111 Waterview Pkwy LLC, Acme Aerospace, Inc., Adams Rite Aerospace Inc., Aerocontrolex Group, Inc., Aerosonic LLC, Airborne Aquisition, Inc., Airborne Global, Inc., Airborne Holdings, Inc., Airborne Systems NA Inc., Airborne Systems North America Inc., Airborne Systems North America of CA Inc., Airborne Systems North America of NJ Inc., AmSafe Global Holdings, Inc., AmSafe, Inc., Angus Electronics Co., Arkwin Industries, Inc., Armtec Countermeasures Co., Armtect Countermeasures TNO Co., Armtec Defense Products Co., Auxitrol Weston USA, Inc., Aviation Technologies, Inc., Avionic Instruments LLC, Avionics Specialties, Inc., Avista, Incorporated, AvtechTyee, Inc., Beta Transformer Technology Corporation, Beta Transformer Technology LLC, Breeze-Eastern LLC, Bridport Erie Aviation, Inc., Bridport Holdings, Inc., Bridport-Air Carrier, Inc., Bruce Aerospace, Inc., CDA Intercorp LLC, CEF Industries, LLC, Champion Aerospace LLC, CMC Electronics Aurora LLC, Data Device Corporation, Dukes Aerospace, Inc., Electromech Technologies LLC, Esterline Europe Company LLC, Esterline International Company, Esterline Technologies Corporation, Esterline Technologies SGIP, LLC, Extant Components Group Holdings, Inc., Extant Components Group Intermediate, Inc., HarcoSemco LLC, Hartwell Corporation, Hytek Finishes Co., ILC Holdings, Inc., Janco Corporation, Johnson Liverpool LLC, Kirkhill Inc., Korry Electronics Co., Leach Holding Corporation, Leach International Corporation, Leach Technology Group, Inc., MarathonNorco Aerospace Inc., Mason Electric Co., McKechnie Aerospace DE, Inc., McKechnie Aerospace Holdings, Inc., McKechnie Aerospace US LLC, NMC Group, Inc., North Hills Signal Processing Corp., North Hills Signal Processing Overseas Corp., Norwich Aero Products Inc., Palomar Products, Inc., Pexco Aerospace, Inc., Pneudraulics, Inc., Racal Acoustics, Inc., Schneller LLC, Scioteq LLC, Semco Instruments, Inc., Shield Restraint Systems, Inc., Skandia, Inc., Skurka Aerospace Inc., Symetrics Industries, LLC, Symetrics Technology Group LLC, TA Aerospace Co., Tactair Fluid Controls, Inc., TDG ESL Holdings Inc., TEAC Aerospace Holdings, Inc., TEAC Aerospace Technologies, Inc., Telair International LLC, Telair US LLC, Texas Rotronics, Inc., TransDigm Inc.*, TransDigm UK Holdings plc*, Transcoil LLC, Treality SVS LLC, Whippany Actuation Systems, LLC, Young & Franklin Inc.<br><br>*Entity is also a subsidiary issuer |

**Exhibit 31.1**

**CERTIFICATION**

I, Kevin Stein, certify that:

1. I have reviewed this quarterly report on Form 10-Q of TransDigm Group Incorporated;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's third fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors:

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2020

/s/ Kevin Stein

Name: Kevin Stein

Title: President, Chief Executive Officer and Director

(Principal Executive Officer)

**Exhibit 31.2**

**CERTIFICATION**

I, Michael Lisman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of TransDigm Group Incorporated;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's third fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors:

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2020

/s/ Michael Lisman

Name: Michael Lisman
Title: Chief Financial Officer
(Principal Financial Officer)

**Exhibit 32.1**

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of TransDigm Group Incorporated (the "Company") for the quarter ended June 27, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kevin Stein, President, Chief Executive Officer and Director (Principal Executive Officer), certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and

2. The information contained in the Report fairly presents in all material respects, the financial condition of the Company as of the dates indicated and results of operations of the Company for the periods indicated.

Date: August 4, 2020

/s/ Kevin Stein

Name: Kevin Stein
Title: President, Chief Executive Officer and Director
(Principal Executive Officer)

Exhibit 32.2

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of TransDigm Group Incorporated (the "Company") for the quarter ended June 27, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael Lisman, Chief Financial Officer (Principal Financial Officer) certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and
2. The information contained in the Report fairly presents in all material respects, the financial condition of the Company as of the dates indicated and results of operations of the Company for the periods indicated.

Date: August 4, 2020

/s/ Michael Lisman

Name: Michael Lisman
Title: Chief Financial Officer
(Principal Financial Officer)