TRIUMPH GROUP INC /
Form 10-Q
February 02, 2007

United States

Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-Q

x	**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the Quarterly Period Ended December 31, 2006.**

Or

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

Commission File Number: 1-12235

TRIUMPH GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**51-0347963** (I.R.S. Employer Identification No.)
1550 Liberty Ridge, Suite 100 **Wayne, PA** (Address of principal executive offices)	**19087** (Zip Code)

(610) 251-1000

(Registrant s telephone number, including area code)

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

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

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

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

Common Stock, par value $0.001 per share, 16,387,503 shares as of December 31, 2006.

TRIUMPH GROUP, INC.

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Part I. Financial Information

Item 1. Financial Statements.

Triumph Group, Inc.
Consolidated Balance Sheets
(dollars in thousands)

	DECEMBER 31, 2006 (unaudited)	MARCH 31, 2006
ASSETS		
Current assets:		
Cash	$ 9,349	$ 5,698
Accounts receivable, net	160,989	147,780
Inventories	285,981	235,878
Deferred income taxes	6,868	6,868
Prepaid expenses and other	6,444	4,894
Total current assets	469,631	401,118
Property and equipment, net	274,672	237,325
Goodwill	321,290	272,737
Intangible assets, net	61,827	49,424
Other, net	19,126	14,179
Total assets	$ 1,146,546	$ 974,783

Triumph Group, Inc.
Consolidated Balance Sheets (continued)
(dollars in thousands, except per share data)

	DECEMBER 31, 2006 (unaudited)	MARCH 31, 2006
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 83,443	$ 73,995
Accrued expenses	69,056	68,488
Income taxes payable	5,880	5,195
Current portion of long-term debt	71	8,078
Total current liabilities	158,450	155,756
Long-term debt, less current portion	279,619	153,339
Deferred income taxes and other	98,756	101,985
Stockholders equity:		
Common stock, $.001 par value, 50,000,000 shares authorized,16,388,003 and 16,027,324 shares issued	16	16
Capital in excess of par value	273,151	260,124
Treasury stock, at cost, 500 and 18,311 shares	0	(455)
Accumulated other comprehensive income (loss)	832	(162)
Retained earnings	335,722	304,180
Total stockholders equity	609,721	563,703
Total liabilities and stockholders equity	$ 1,146,546	$ 974,783

SEE ACCOMPANYING NOTES.

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

	THREE MONTHS ENDED DECEMBER 31, 2006	2005	NINE MONTHS ENDED DECEMBER 31, 2006	2005
Net sales	$ 242,341	$ 187,221	$ 691,285	$ 548,551
Operating costs and expenses:				
Cost of products sold	174,997	137,881	500,768	404,577
Selling, general, and administrative	34,333	28,007	98,348	79,781
Depreciation and amortization	9,234	8,130	26,811	24,043
	218,564	174,018	625,927	508,401
Operating income	23,777	13,203	65,358	40,150
Interest expense and other	3,227	3,086	10,754	9,445
Charge for early extinguishment of debt	5,088		5,088	
Income before income taxes	15,462	10,117	49,516	30,705
Income tax expense	4,661	770	16,671	7,145
Net income	$ 10,801	$ 9,347	$ 32,845	$ 23,560
Earnings per share basic:				
Net income	$ 0.66	$ 0.59	$ 2.03	$ 1.48
Weighted average common shares outstanding basic	16,262	15,912	16,168	15,909
Earnings per share diluted:				
Net income	$ 0.66	$ 0.58	$ 2.01	$ 1.47
Weighted average common shares outstanding diluted	16,459	16,052	16,353	16,038
Dividends declared and paid per common share	$ 0.04	$ 0.00	$ 0.08	$ 0.00

SEE ACCOMPANYING NOTES.

Triumph Group, Inc.

Consolidated Statements of Cash Flows

(dollars in thousands)

(unaudited)

	NINE MONTHS ENDED DECEMBER 31, 2006	2005
OPERATING ACTIVITIES		
Net income	$ 32,845	$ 23,560
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	26,811	24,043
Other amortization included in interest expense	1,429	570
Provision for doubtful accounts receivable	680	845
Provision for deferred income taxes	2,573	424
Changes in other current assets and liabilities, excluding the effects of acquisitions:		
Accounts receivable	(1,009)	5,697
Inventories	(40,255)	(17,005)
Prepaid expenses and other	(729)	(645)
Accounts payable, accrued expenses and accrued income taxes payable	(973)	(15,478)
Other	(677)	4,249
Net cash provided by operating activities	20,695	26,260
INVESTING ACTIVITIES		
Capital expenditures	(40,139)	(17,288)
Proceeds from sale of assets	338	112
Cash used for businesses and intangible assets acquired	(94,552)	(12,734)
Net cash used in investing activities	(134,353)	(29,910)

Triumph Group, Inc.

Consolidated Statements of Cash Flows (continued)

(dollars in thousands)

(unaudited)

	NINE MONTHS ENDED DECEMBER 31, 2006	2005
FINANCING ACTIVITIES		
Net increase in revolving credit facility borrowings	$ 35,259	$ 8,200
Proceeds from issuance of long term debt	201,991	3,229
Repayment of debt and capital lease obligations	(53)	(4,490)
Retirement of long-term debt	(124,424)	(2,320)
Payment of deferred financing costs	(6,102)	(1,317)
Proceeds from exercise of stock options, including excess tax benefit of $886 in 2006	11,718	261
Cash dividends on common stock	(1,303)	
Net cash provided by financing activities	117,086	3,563
Effect of exchange rate changes on cash	223	(179)
Net change in cash	3,651	(266)
Cash at beginning of period	5,698	4,844
Cash at end of period	$ 9,349	$ 4,578
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for income taxes, net of refunds	$ 12,561	$ 6,579
Cash paid for interest	$ 15,015	$ 10,434

SEE ACCOMPANYING NOTES.

Triumph Group, Inc.

Consolidated Statements of Comprehensive Income

(dollars in thousands)

(unaudited)

	THREE MONTHS ENDED DECEMBER 31,		NINE MONTHS ENDED DECEMBER 31,	
	2006	2005	2006	2005
Net income	$ 10,801	$ 9,347	$ 32,845	$ 23,560
Other comprehensive income				
Foreign currency translation adjustment	512	(180)	994	(984)
Total comprehensive income	$ 11,313	$ 9,167	$ 33,839	$ 22,576

SEE ACCOMPANYING NOTES.

Triumph Group, Inc.

Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

(Unaudited)

1. BASIS OF PRESENTATION

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

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

USE OF ESTIMATES

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

ACCOUNTING FOR STOCK-BASED COMPENSATION

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123R, *Share-Based Payment,* which requires companies to measure compensation cost for all share-based payments (including employee stock options) at fair value. The Company adopted SFAS No. 123R, using the modified-prospective transition method, beginning on April 1, 2006, and therefore, began to expense the fair value of all outstanding options over their remaining vesting periods to the extent the options were not fully vested as of the adoption date and began to expense the fair value of all options granted subsequent to March 31, 2006 over their requisite service periods. During the three and nine months ended December 31, 2006, the Company recorded $600 and $1,764 of share-based compensation expense. Previous periods have not been restated. (See Note 7 for further details).

RECENTLY ISSUED FINANCIAL ACCOUNTING STANDARD

In September 2006, the FASB issued SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans.* This statement amends SFAS Nos. 87, 88, 106 and 132(R). SFAS No. 158 requires employers to recognize the overfunded or underfunded status of a defined benefit plan as an asset or liability in the statement of financial position, and to recognize annual changes in gains or losses, prior service costs, or other credits that have not been recognized as a component of net periodic pension cost, net of tax through comprehensive income. SFAS No. 158 also requires an employer to measure defined benefit plan assets and obligations as of the date of its year-end statement of financial position, with limited exceptions.

Triumph Group, Inc.

Notes to Consolidated Financial Statements

(dollars in thousands, except per share data)

(Unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

We are required to apply the recognition provisions of SFAS No. 158 and provide the required disclosures as of the end of the fiscal year ended March 31, 2007. The March 31, 2007 funded status of our plans will depend on actual benefits paid, the actual return on our plans assets for 2007 and the prevailing interest rates at year-end. We are currently evaluating the impact of adopting SFAS No. 158 on our consolidated balance sheets. The measurement provision of SFAS No. 158 is effective for fiscal years ending after December 15, 2008. The Company uses a December 31 measurement date for its union plans and March 31 for its supplemental executive retirement plan.

In June 2006, the FASB issued Financial Interpretation No. 48 (FIN No. 48), *Accounting for Uncertainty in Income Taxes,* which clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with SFAS No. 109, Accounting for Income Taxes. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact of adopting this interpretation.

INTANGIBLE ASSETS

Intangible assets cost and accumulated amortization at December 31, 2006 were $102,105 and $40,278, respectively. Intangible assets cost and accumulated amortization at March 31, 2006 were $83,459 and $34,035, respectively. Intangible assets consist of two major classes: (i) product rights and licenses, which at December 31, 2006 had a weighted-average life of 11.6 years, and (ii) non-compete agreements, customer relationships and other, which at December 31, 2006 had a weighted-average life of 10.7 years. Gross cost and accumulated amortization of product rights and licenses at December 31, 2006 were $69,452 and $29,368, respectively, and at March 31, 2006 were $69,452 and $24,631, respectively. Gross cost and accumulated amortization of noncompete agreements, customer relationships and other at December 31, 2006 were $32,653 and $10,910, respectively, and at March 31, 2006 were $14,007 and $9,404, respectively. Amortization expense for the three and nine months ended December 31, 2006 was $2,269 and $6,243, respectively. Amortization expense for the fiscal year ending March 31, 2007 and the succeeding five fiscal years by year is expected to be as follows: 2007: $8,516; 2008: $9,055; 2009: $8,816; 2010: $8,625; 2011: $6,801; 2012: $5,258.

RECLASSIFICATIONS

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

Triumph Group, Inc.

Notes to Consolidated Financial Statements (continued)

(dollars in thousands, except per share data)

(Unaudited)

3. ACQUISITIONS

Effective April 1, 2006, the Company acquired the assets and business of Excel Manufacturing, Inc., through a newly organized, wholly-owned subsidiary of the Company, Triumph Structures Wichita, Inc. The acquisition of this business adds a significant new capability to the Company s Aerospace Systems segment with the acquired company s high-speed monolithic machining processes. Triumph Structures Wichita, Inc. specializes in complex, high speed monolithic precision machining, turning, subassemblies and sheet metal fabrication, serving domestic and international aerospace customers.

Effective April 1, 2006 the Company also acquired the assets and business of Air Excellence International, Inc. and its affiliates through two newly organized, wholly-owned subsidiaries of the Company, Triumph Interiors, LLC and Triumph Interiors Limited. The acquisition of this business expands the products and services supplied by our Aftermarket Services segment and allows the Company to provide integrated interior solutions to the airline industry and maintenance service providers. Triumph Interiors, LLC and Triumph Interiors Limited specialize in refurbishing and repairing aircraft interiors such as sidewalls, ceiling panels and overhead storage bins and manufactures a full line of interior lighting and plastic components.

Effective November 1, 2006, the Company acquired Allied Aerospace Industries, Inc. (Allied) through the merger of a newly organized, wholly-owned subsidiary of the Company, with and into Allied. The acquired business has since been consolidated into a single subsidiary of the company, Triumph Aerospace Systems Newport News, Inc. The acquisition of this business allows the Company to meet the growing demand for outsourced technical design and engineering capabilities. Triumph Aerospace Systems Newport News, Inc. specializes in engineering design and manufacturing solutions for complex aerospace and defense programs.

The acquisitions of the assets and businesses of Excel Manufacturing, Inc., Air Excellence International, Inc. and its affiliates, and Allied Aerospace Industries, Inc. are herein referred to as the 2007 Acquisitions . The combined purchase price of the 2007 Acquisitions of $93,583 includes cash paid at closing, estimated deferred payments and direct costs of the transactions. The excess of the combined purchase price over the preliminary estimated fair value of the net assets acquired of $48,123 was recorded as goodwill, all of which is tax-deductible. The Company has also identified intangible assets valued at approximately $18,646 comprised of noncompete agreements, customer relationships, and backlog. The Company has recorded its best estimate of the intangibles and property and equipment subject to appraisals; accordingly, the allocation of the purchase price is not complete and is subject to change.

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

Accounts receivable	$ 12,630
Inventory	10,547
Prepaids and other	816
Property and equipment	17,137
Goodwill	48,123
Intangible assets	18,646
Total assets	$ 107,899
Accounts payable	$ 8,870
Accrued expenses	7,339
Other current liabilities	476
Other long-term liability	7,756
Total liabilities	$ 24,441

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

Triumph Group, Inc.

Notes to Consolidated Financial Statements (continued)

(dollars in thousands, except per share data)

(Unaudited)

The following unaudited pro forma information for the three and nine months ended December 31, 2006 and 2005 have been prepared assuming the 2007 Acquisitions had occurred on April 1, 2005. The pro forma information for the three and nine months ended December 31, 2006 is as follows: Net sales: $244,263 and $713,193; Net income: $9,717 and $33,034; Net income per share basic: $0.60 and $2.04; and Net income per share diluted: $0.59 and $2.02. The pro forma information for the three and nine months ended December 31, 2005 is as follows: Net sales: $205,800 and $576,918; Net income: $8,394 and $20,754; Net income per share basic: $0.53 and $1.30; and Net income per share diluted: $0.52 and $1.29.

The unaudited pro forma information includes adjustments for interest expense that would have been incurred to finance the purchase, additional depreciation based on the estimated fair market value of the property and equipment acquired, and the amortization of the intangible assets arising from the transactions.

The unaudited pro forma financial information is not necessarily indicative of the results of operations as it would have been had the transaction been effected on the assumed date.

4. INVENTORIES

The components of inventories are as follows:

	DECEMBER 31, 2006	MARCH 31, 2006
Raw materials	$ 34,301	$ 27,005
Manufactured and purchased components	92,149	81,149
Work-in-process	104,739	85,597
Finished goods	54,792	42,127
Total inventories	$ 285,981	$ 235,878

5. LONG-TERM DEBT

Long-term debt consists of the following:

	DECEMBER 31, 2006	MARCH 31, 2006
Convertible senior subordinated notes	$ 201,250	$ 0
Senior notes	0	124,424
Revolving credit facility	67,084	31,825
Subordinated promissory notes	5,500	0
Other debt	5,856	5,168
	279,690	161,417
Less current portion	71	8,078
	$ 279,619	$ 153,339

Triumph Group, Inc.

Notes to Consolidated Financial Statements (continued)

(dollars in thousands, except per share data)

(Unaudited)

5. LONG TERM DEBT (continued)

Credit Facility

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

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

On December 22, 2006, the Company amended the Credit Facility with its lenders primarily to eliminate a financial covenant restricting aggregate capital expenditures to 200% of consolidated depreciation expense in any fiscal year. The Company s obligations under the Credit Facility are guaranteed by the Company s subsidiaries.

Convertible Senior Subordinated Notes

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

The Company received net proceeds from the sale of the Notes of approximately $195,148 after deducting offering expenses of approximately $6,102. The intended use of the net proceeds from the sale was for prepayment of the Company s outstanding senior notes, including a make-whole premium, fees and expenses in connection with the prepayment, and to repay a portion of the outstanding indebtedness under the Company s Credit Facility. Approximately $6,102 in debt issuance costs have been recorded as other assets in the accompanying consolidated balance sheets. Debt issuance costs are being amortized over a period of five years.

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

Triumph Group, Inc.

Notes to Consolidated Financial Statements (continued)

(dollars in thousands, except per share data)

(Unaudited)

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

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

Pursuant to the Indenture, the Company agreed to file with the SEC no later than the 90th day after the first date of original issuance of the Notes, a shelf registration statement covering resales of the Notes and the common stock issuable on conversion under Rule 415 under the Securities Act. On December 14, 2006, the Company filed, and the SEC declared effective, the shelf registration statement covering resales of the Notes and common stock issuable on conversion under Rule 415 under the Securities Act.

Prepayment of Senior Notes

On October 4, 2006, the Company prepaid all of its outstanding Class A Senior Notes and Class B Senior Notes (collectively, the Senior Notes) and, accordingly, the rights of the holders of the Senior Notes under the Note Purchase Agreement, dated November 21, 2002, between the Company and such holders, as amended, ceased. The Senior Notes were prepaid with the proceeds from the Company s sale of the Notes as discussed above. Immediately prior to prepayment, $68,375 aggregate principal amount of Class A Senior Notes, which carried a fixed rate of interest of 6.06%, were outstanding, and $56,049 aggregate amount of Class B Senior Notes, which carried a fixed rate of interest of 5.59%, were outstanding. If the Company had not prepaid the outstanding Senior Notes, they would have matured on December 2, 2012, subject to a requirement under the Note Purchase Agreement that the Company annually prepay $8,007 of the outstanding Class B notes starting on December 2, 2006. The Senior Notes were senior unsecured obligations of the Company and ranked junior in right of payment to the rights of the Company s secured creditors to the extent of their security in the Company s assets, equal in right of payment to the rights of creditors under the Company s other existing and future unsecured unsubordinated obligations, senior in right of payment to the rights of creditors under obligations expressly subordinated to the Senior Notes, and effectively subordinated to secured and unsecured creditors of the Company s subsidiaries. The prepayment was made upon proper notice to the holders of the Senior Notes at a price equal to 100% of the principal amount of the outstanding Senior Notes being prepaid, plus accrued and unpaid interest of approximately $2,466, plus a make whole premium of approximately $4,395 based on the value of the remaining scheduled interest payments on the Senior Notes being prepaid. The Company expensed the make whole premium of $4,395 as well as unamortized debt issuance costs related to the Senior Notes of $693 in the third quarter of fiscal 2007.

Triumph Group, Inc.

Notes to Consolidated Financial Statements (continued)

(dollars in thousands, except per share data)

(Unaudited)

6. EARNINGS PER SHARE

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

		THREE MONTHS ENDED DECEMBER 31, (in thousands)		NINE MONTHS ENDED DECEMBER 31, (in thousands)	
		2006	2005	2006	2005
Weighted average common shares outstanding	basic	16,262	15,912	16,168	15,909
Net effect of dilutive stock options		197	140	185	129
Weighted average common shares outstanding	diluted	16,459	16,052	16,353	16,038

7. STOCK COMPENSATION PLANS

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

SFAS No. 123R also requires the benefits of realized tax deductions in excess of previously recognized tax benefits on compensation expense to be reported as a financing cash flow ($886 for the nine months ended December 31, 2006) rather than an operating cash flow, as previously required. In accordance with Staff Accounting Bulletin (SAB) No. 107, the Company classified share-based compensation within selling, general, and administrative expenses to correspond with the same line item as the majority of the cash compensation paid to employees.

Triumph Group, Inc.

Notes to Consolidated Financial Statements (continued)

(dollars in thousands, except per share data)

(Unaudited)

7. STOCK COMPENSATION PLANS (Continued)

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

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

	Nine months ended December 31, 2005
Weighted average risk-free interest rate	4.0 %
Expected dividend yield	
Weighted average volatility factor of the expected market price of the Company s common stock	.42
Weighted average expected life of the options	6 years

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

During the three and nine months ended December 31, 2006, the Company recorded $600 and $1,764, respectively, of share-based compensation expense. Total share-based compensation expense was comprised of stock option expense of $168 and $482 for the three and nine months ended December 31, 2006, respectively, and restricted stock expense of $432 and $1,282 for the three and nine months ended December 31, 2006, respectively. The Company estimates it will record share-based compensation expense of approximately $2,400 in fiscal 2007. This estimate may be impacted by potential changes to the structure of the Company s share-based compensation plans which could impact the number of stock options granted in fiscal 2007, changes in valuation assumptions, and changes in the market price of the Company s common stock, among other things and, as a result, the actual share-based compensation expense in fiscal 2007 may differ from the Company s current estimate.

Triumph Group, Inc.
Notes to Consolidated Financial Statements (continued)
(dollars in thousands, except per share data)
(Unaudited)

7. STOCK COMPENSATION PLANS (Continued)

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

	Three months ended December 31, 2006		Nine months ended December31, 2006	
	As Reported	Impact of Share-Based Compensation	As Reported	Impact of Share-Based Compensation
Operating income	$ 23,777	$ 600	$ 65,358	$ 1,764
Net income	$ 10,801	$ 408	$ 32,845	$ 1,200
Earnings per share:				
Basic	$ 0.66	$ 0.03	$ 2.03	$ 0.07
Diluted	$ 0.66	$ 0.02	$ 2.01	$ 0.07

A summary of the Company s stock option activity and related information for its option plans for the nine months ended December 31, 2006 was as follows:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate IntrinsicValue
Outstanding at March 31, 2006	944,096	$ 35.28		
Granted	-	-		
Exercised	(335,823)	$ 33.44		
Forfeited	(16,290)	$ 34.42		
Outstanding at December 31, 2006	591,983	$ 36.35	5.1 years	$ 7,750
Exercisable at December 31, 2006	519,160	$ 37.14	5.1 years	$ 6,388

Triumph Group, Inc.
Notes to Consolidated Financial Statements (continued)
(dollars in thousands, except per share data)
(Unaudited)

7. STOCK COMPENSATION PLANS (Continued)

A summary of the status of the Company s nonvested options as of December 31, 2006 and changes during the nine months ended December 31, 2006, is presented below:

	Options	Weighted Average Grant Date Fair Value
Nonvested at March 31, 2006	123,154	$ 14.29
Granted	-	-
Vested	(43,941)	$ 14.35
Forfeited	(6,390)	$ 14.25
Nonvested at December 31, 2006	72,823	$ 14.25

Expected future compensation expense relating to the 72,823 nonvested options outstanding as of December 31, 2006 is approximately $750.

There are 51,411 nonvested restricted shares outstanding as of December 31, 2006. Expected future compensation expense on these shares is approximately $1,377.

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

Triumph Group, Inc.
Notes to Consolidated Financial Statements (continued)
(dollars in thousands, except per share data)
(Unaudited)

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

7. STOCK COMPENSATION PLANS (Continued)

	Three Months Ended December 31, 2005	Nine months Ended December 31, 2005
Net income, as reported.	$ 9,347	$ 23,560
Add: Stock-related compensation expense included in reported net income, net of income taxes	81	221
Deduct: Stock-related compensation expense determined under the fair value method, net of income taxes	(238)	(3,263)
Pro forma net income	$ 9,190	$ 20,518
Earnings per share:		
Basic, as reported	$ 0.59	$ 1.48
Basic, pro forma	$ 0.58	$ 1.29
Diluted, as reported	$ 0.58	$ 1.47
Diluted, pro forma	$ 0.58	$ 1.29

8. GOODWILL

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

	Aerospace Systems	Aftermarket Services	Total
Balance, March 31, 2006	$ 241,777	$ 30,960	$ 272,737
Goodwill recognized through the 2007 Acquisitions	42,274	5,843	48,117
Effect of exchange rate changes	430	6	436
Balance, December 31, 2006	$ 284,481	$ 36,809	$ 321,290

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Triumph Group, Inc.
Notes to Consolidated Financial Statements (continued)
(dollars in thousands, except per share data)
(Unaudited)

9. SEGMENTS

The Company has two reportable segments: Aerospace Systems and Aftermarket Services. The Company s Aerospace Systems segment consists of 34 operating locations and the Aftermarket Services segment consists of 17 operating locations at December 31, 2006.

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

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

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

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

Prior year period segment results have been changed to classify certain revenue and costs from the Aftermarket Services segment to the Aerospace Systems segment for the operations of Triumph Fabrications-Phoenix and Triumph Fabrications-Fort Worth due to the fact that most of their product line has been transitioned to aerospace OEM products. The transitioning of these business units resulted in the shift of approximately $5,609 in revenue and $1,743 in operating loss, previously reported in the Aftermarket Services segment, to the Aerospace Systems segment s results for the three months ended December 31, 2005, and $15,018 in revenue and $4,303 in operating loss for the nine months ended December 31, 2005. Segment results have been adjusted to reflect these changes.

Triumph Group, Inc.

Notes to Consolidated Financial Statements (continued)

(dollars in thousands, except per share data)

(Unaudited)

9. SEGMENTS (Continued)

Selected financial information for each reportable segment is as follows:

	THREE MONTHS ENDED DECEMBER 31, 2006	2005	NINE MONTHS ENDED DECEMBER 31, 2006	2005
Net sales:				
Aerospace systems	$ 190,100	$ 147,215	$ 544,002	$ 431,148
Aftermarket services	52,650	40,837	149,134	120,005
Elimination of inter-segment sales	(409)	(831)	(1,851)	(2,602)
	$ 242,341	$ 187,221	$ 691,285	$ 548,551
Income before income taxes:				
Operating income (expense):				
Aerospace systems	$ 25,809	$ 15,762	$ 71,455	$ 46,644
Aftermarket services	2,748	1,616	6,741	4,303
Corporate	(4,780)	(4,175)	(12,838)	(10,797)
	23,777	13,203	65,358	40,150
Interest expense and other	3,227	3,086	10,754	9,445
Charge for early extinguishment of debt	5,088		5,088	
	$ 15,462	$ 10,117	$ 49,516	$ 30,705
Depreciation and amortization:				
Aerospace systems	$ 6,567	$ 6,001	$ 19,323	$ 17,764
Aftermarket services	2,610	2,088	7,320	6,174
Corporate	57	41	168	105
	$ 9,234	$ 8,130	$ 26,811	$ 24,043
Capital expenditures:				
Aerospace systems	$ 10,482	$ 3,437	$ 25,354	$ 9,701
Aftermarket services	3,439	3,110	14,597	7,286
Corporate	43	268	188	301
	$ 13,964	$ 6,815	$ 40,139	$ 17,288

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	DECEMBER 31, 2006	MARCH 31, 2006
Total Assets:		
Aerospace systems	$ 870,125	$ 737,864
Aftermarket services	233,517	212,335
Corporate	42,904	24,584
	$ 1,146,546	$ 974,783

During the three months ended December 31, 2006 and 2005, the Company had foreign sales of $53,010 and $41,379, respectively. During the nine month period ended December 31, 2006 and 2005, the Company had foreign sales of $153,677 and $126,417, respectively.

Triumph Group, Inc.

Notes to Consolidated Financial Statements (continued)

(dollars in thousands, except per share data)

(Unaudited)

10. SUBSEQUENT EVENT

In January 2007, the Company acquired the assets and business of Grand Prairie Accessory Services, LLC, through the Company s subsidiary, Triumph Accessory Services-Grand Prairie, Inc., which is located in Grand Prairie, Texas. Triumph Accessory Services-Grand Prairie provides comprehensive maintenance solutions for engine accessories related to the CF34, CFM56, CF6, CT7 and V2500 family of engines. Capabilities include fuel, oil, pneumatic, hydraulic and mechanical engine accessories for these and other aero and aero-derivative gas turbine engines. The purchase price of approximately $40,060, which was paid in cash at closing, was funded by borrowings under the Company s Credit Facility.

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

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

OVERVIEW

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

Financial highlights for the third quarter fiscal 2007 include:

- Net sales for the third quarter of fiscal 2007 increased 29% to $242.3 million
- Operating income in the third quarter of fiscal 2007 increased 80% to $23.8 million
- Net income for the third quarter of fiscal 2007 increased 16% to $10.8 million
- Backlog increased 29% over prior year to $1.1 billion

For the quarter ended December 31, 2006, net sales totaled $242.3 million, a 29% increase from last year s third quarter net sales of $187.2 million. Net income for the third quarter of fiscal 2007 increased 16% to $10.8 million, or $0.66 per diluted common share, versus $9.3 million, or $0.58 per diluted common share, for the third quarter of the prior year. During the quarter, we generated $15.5 million of cash flow from operating activities.

RESULTS OF OPERATIONS

Three months ended December 31, 2006 compared to three months ended December 31, 2005

	Three Months Ended December 31,	
	2006	**2005**
	(in thousands)	
Net Sales	$ 242,341	$ 187,221
Segment Operating Income	$ 28,557	$ 17,378
Corporate General and Administrative Expenses	(4,780)	(4,175)
Total Operating Income	23,777	13,203
Interest Expense and Other	3,227	3,086
Charge for early extinguishment of debt	5,088	
Income Tax Expense	4,661	770
Net Income	$ 10,801	$ 9,347

Management s Discussion and Analysis of

Financial Condition and Results of Operations

(continued)

Net sales increased by $55.1 million, or 29.4%, to $242.3 million for the quarter ended December 31, 2006 from $187.2 million for the quarter ended December 31, 2005. The acquisitions of the assets and businesses of Excel Manufacturing, Inc., Air Excellence International, Inc. and its affiliates, and Allied Aerospace Industries, Inc. , herein referred to as the 2007 Acquisitions , contributed $18.8 million of the net sales increase. Excluding the effects of the 2007 Acquisitions, organic sales growth was $36.4 million, or 19.4%.

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

Segment operating income increased by $11.2 million or 64.3%, to $28.6 million for the quarter ended December 31, 2006 from $17.4 million for the quarter ended December 31, 2005. Operating income growth was a direct result of margins attained on increased sales volume as described above and the contribution of $5.3 million from the 2007 Acquisitions, partially offset by increases in payroll, healthcare and costs associated with the startup of our new Thailand maintenance and repair facility.

Corporate general and administrative expenses increased by $0.6 million, or 14.5%, to $4.8 million for the quarter ended December 31, 2006 from $4.2 million for the quarter ended December 31, 2005, primarily due to recognition of stock-based compensation and increased bonus accruals.

Interest expense and other increased by $0.1 million, or 4.6%, to $3.2 million for the quarter ended December 31, 2006 compared to $3.1 million for the prior year period. This increase was due to higher average borrowings outstanding resulting from the 2007 Acquisitions and our capital expenditures, offset by lower interest on our new convertible notes issued on September 18, 2006 as compared to the Class A Senior Notes and Class B Senior Notes (collectively, the Senior Notes).

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

The effective income tax rate for the quarter ended December 31, 2006 was 30.1% compared to 7.6% for the quarter ended December 31, 2005. The effective tax rates of 30.1% and 7.6% for the three months ended December 31, 2006 and 2005, respectively, vary from the Federal statutory tax rate of 35% primarily due to tax benefits realized from export sales and domestic production activities and from the research and development tax credit. Additionally, the third quarter of fiscal 2006 included a $2.0 million reduction of income tax resulting from adjusting the income tax rate at which reversals of temporary differences were taxed.

Business Segment Performance

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

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

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Management s Discussion and Analysis of
Financial Condition and Results of Operations
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Business Segment Performance Three months ended December 31, 2006 compared to three months ended December 31, 2005

	Three Months Ended December 31, 2006 (in thousands)	2005	% Change	% of Total Sales 2006	2005
NET SALES					
Aerospace Systems	$190,100	$147,215	29.1	% 78.4 %	78.6 %
Aftermarket Services	52,650	40,837	28.9	% 21.7 %	21.8 %
Elimination of inter-segment sales	(409)	(831)	(50.8)%	(0.1)%	(0.4)%
Total Net Sales	$242,341	$187,221	29.4	% 100.0 %	100.0 %

	Three Months Ended December 31, 2006 (in thousands)	2005	% Change	% of Segment Sales 2006	2005
SEGMENT OPERATING INCOME					
Aerospace Systems	$ 25,809	$ 15,762	63.7	% 13.6 %	10.7 %
Aftermarket Services	2,748	1,616	70.0	% 5.2 %	4.0 %
Corporate	(4,780)	(4,175)	(14.5)%	n/a	n/a
Total Segment Operating Income	$ 23,777	$ 13,203	80.1	% 9.8 %	7.1 %

Prior year period segment results have been changed to classify certain revenue and costs from the Aftermarket Services segment to the Aerospace Systems segment for the operations of Triumph Fabrications-Phoenix and Triumph Fabrications-Fort Worth as most of their product line has been transitioned to aerospace OEM products. The transitioning of these business units resulted in the shift of approximately $5.6 million in revenue and $1.7 million in operating loss for the quarter ended December 31, 2005, previously reported in the Aftermarket Services segment, to the Aerospace Systems segment. Segment results have been adjusted to reflect these changes.

Aerospace Systems: The Aerospace Systems segment net sales increased by $42.9 million, or 29.1%, to $190.1 million for the quarter ended December 31, 2006 from $147.2 million for the quarter ended December 31, 2005. The increase was primarily due to increased sales to our OEM customers driven by increased aircraft build rates and the net sales contributed from the acquisition of the assets and business of Excel Manufacturing, Inc. (now Triumph Structures-Wichita) and Allied Aerospace Industries, Inc. (now Triumph Aerospace Systems Newport News).

Aerospace Systems segment operating income increased by $10.0 million, or 63.7%, to $25.8 million for the quarter ended December 31, 2006 from $15.8 million for the quarter ended December 31, 2005. Operating income increased primarily due to margins attained on increased sales volume and the margins contributed from the Triumph Structures-Wichita and Triumph Aerospace Systems Newport News acquisitions, partially offset by increases in payroll, healthcare and research and development costs.

Aftermarket Services: The Aftermarket Services segment net sales increased by $11.8 million, or 28.9%, to $52.7 million for the quarter ended December 31, 2006 from $40.8 million for the quarter ended December 31, 2005. This increase was primarily due to global air traffic growth, resulting in increased demand for our repair and overhaul services and the net sales contributed from the acquisition of the assets and business of Air Excellence International, Inc. and its affiliates (now Triumph Interiors).

Aftermarket Services segment operating income increased by $1.1 million, or 70.0%, to $2.7 million for the quarter ended December 31, 2006 from $1.6 million for the quarter ended December 31, 2005. Operating income increased primarily due to margins attained on increased sales volume and the contribution from the acquisition of Triumph Interiors partially offset by increases in payroll, healthcare and costs associated with the start up of our new Thailand maintenance and repair facility.

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Management s Discussion and Analysis of
Financial Condition and Results of Operations
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Nine months ended December 31, 2006 compared to nine months ended December 31, 2005

	Nine months Ended December 31, 2006 (in thousands)	2005
Net Sales	$ 691,285	$ 548,551
Segment Operating Income	78,196	$ 50,947
Corporate General and Administrative Expenses	(12,838)	(10,797)
Total Operating Income	65,358	40,150
Interest Expense and Other	10,754	9,445
Charge for early extinguishment of debt	5,088	
Income Tax Expense	16,671	7,145
Net Income	$ 32,845	$ 23,560

Net sales increased by $142.7 million, or 26.0%, to $691.3 million for the nine months ended December 31, 2006 from $548.6 million for the nine months ended December 31, 2005. The 2007 Acquisitions contributed $44.4 million. Excluding the effects of the 2007 Acquisitions, organic sales growth was $98.4 million, or 17.9%.

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

Segment operating income increased by $27.2 million or 53.5%, to $78.2 million for the nine months ended December 31, 2006 from $50.9 million for the nine months ended December 31, 2005. Operating income growth was a direct result of margins attained on increased sales volume as described above and the contribution of $13.1 million from the 2007 Acquisitions, partially offset by increases in payroll, healthcare, litigation and costs associated with the startup of our new Thailand maintenance and repair facility.

Corporate general and administrative expenses increased by $2.0 million, or 18.9%, to $12.8 million for the nine months ended December 31, 2006 from $10.8 million for the nine months ended December 31, 2005, primarily due to recognition of stock-based compensation and increased bonus accruals partially offset by decreased regulatory costs.

Interest expense and other increased by $1.3 million, or 13.8%, to $10.8 million for the nine months ended December 31, 2006 compared to $9.4 million for the prior year period. This increase was due to higher average borrowings outstanding resulting from the 2007 Acquisitions and our capital expenditures, offset by lower interest on the convertible debt as compared to the Senior Notes and lower imputed interest related to our CFM56 Program.

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

The effective income tax rate was 33.7% for the nine months ended December 31, 2006 and 23.3% for the nine months ended December 31, 2005. The effective tax rates of 33.7% and 23.3% for the nine months ended December 31, 2006 and 2005, respectively, vary from the Federal statutory tax rate of 35% primarily due to tax benefits realized from export sales and domestic production activities and from the research and development tax credit. Additionally, the third quarter of fiscal 2006 included a $2.0 million reduction of income tax resulting from adjusting the income tax rate at which reversals of temporary differences were taxed.

Management s Discussion and Analysis of

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(continued)

Business Segment Performance Nine months ended December 31, 2006 compared to nine months ended December 31, 2005

	Nine months Ended December 31, 2006 (in thousands)	2005	% Change	% of Total Sales 2006	2005
NET SALES					
Aerospace Systems	$ 544,002	$ 431,148	26.2 %	78.7 %	78.6 %
Aftermarket Services	149,134	120,005	24.3 %	21.6 %	21.9 %
Elimination of inter-segment sales	(1,851)	(2,602)	(28.9)%	(0.3)%	(0.5)%
Total Net Sales	$ 691,285	$ 548,551	26.0 %	100.0 %	100.0 %

	Nine months Ended December 31, 2006 (in thousands)	2005	% Change	% of Segment Sales 2006	2005
SEGMENT OPERATING INCOME					
Aerospace Systems	$ 71,455	$ 46,644	53.2 %	13.1 %	10.8 %
Aftermarket Services	6,741	4,303	56.7 %	4.5 %	3.6 %
Corporate	(12,838)	(10,797)	(18.9)%	n/a	n/a
Total Segment Operating Income	$ 65,358	$ 40,150	62.8 %	9.5 %	7.3 %

Prior year period segment results have been changed to classify certain revenue and costs from the Aftermarket Services segment to the Aerospace Systems segment for the operations of Triumph Fabrications-Phoenix and Triumph Fabrications-Fort Worth as most of their product line has been transitioned to aerospace OEM products. The transitioning of these business units resulted in the shift of approximately $15.0 million in revenue and $4.3 million in operating loss for the nine months ended December 31, 2005, previously reported in the Aftermarket Services segment, to the Aerospace Systems segment. Segment results have been adjusted to reflect these changes.

Aerospace Systems: The Aerospace Systems segment net sales increased by $112.9 million, or 26.2%, to $544.0 million for the nine months ended December 31, 2006 from $431.1 million for the nine months ended December 31, 2005. The increase was primarily due to increased sales to our OEM customers driven by increased aircraft build rates and the net sales contributed from the acquisition of the assets and businesses of Excel Manufacturing, Inc. (now Triumph Structures-Wichita) and Allied Aerospace Industries, Inc. (now Triumph Aerospace Systems Newport News).

Aerospace Systems segment operating income increased by $24.8 million, or 53.2%, to $71.5 million for the nine months ended December 31, 2006 from $46.6 million for the nine months ended December 31, 2005. Operating income increased primarily due to margins attained on increased sales volume and the margins contributed from the Triumph Structures-Wichita and Triumph Aerospace Systems Newport News acquisitions, partially offset by increases in payroll, healthcare and litigation costs.

Aftermarket Services: The Aftermarket Services segment net sales increased by $29.1 million, or 24.3%, to $149.1 million for the nine months ended December 31, 2006 from $120.0 million for the nine months ended December 31, 2005. This increase was primarily due to global air traffic growth, resulting in increased demand for our repair and overhaul services and the net sales contributed from the acquisition of the assets and business of Air Excellence International, Inc. and its affiliates (now Triumph Interiors).

Aftermarket Services segment operating income increased by $2.4 million, or 56.7%, to $6.7 million for the nine months ended December 31, 2006 from $4.3 million for the nine months ended December 31, 2005. Operating income increased primarily due to margins attained on increased sales volume and the contribution from the acquisition of Triumph Interiors partially offset by increases in payroll, healthcare and costs associated with the start up of our new Thailand maintenance and repair facility.

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Management s Discussion and Analysis of

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Liquidity and Capital Resources

Our working capital needs are generally funded through cash flows from operations and borrowings under our credit arrangements. During the nine months ended December 31, 2006, we generated approximately $20.7 million of cash flows from operating activities, used approximately $134.4 million in investing activities and generated approximately $117.1 million in financing activities.

In April 2006, the Company acquired the assets and business of Excel Manufacturing, Inc., located in Wichita, KS. In April 2006, the Company also acquired the assets and business of Air Excellence International, Inc. and its affiliates which is headquartered in Pittsburgh, PA, and operates three other strategically located facilities: Dallas, TX, Portland, OR and Shannon, Ireland. In November 2006, the Company acquired Allied Aerospace Industries, Inc. located in Newport News, VA. The total cash paid at these closings of approximately $83.5 million was funded by borrowings under the Company s revolving credit facility.

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

On September 18, 2006, the Company issued $201.3 million in convertible senior subordinated notes to qualified institutional buyers pursuant to Rule 144A of the Securities Act of 1933, as amended (the Notes). The Notes are direct, unsecured, senior subordinated obligations of the Company, and rank (i) junior in right of payment to all of the Company s existing and future senior indebtedness, (ii) equal in right of payment with any other future senior subordinated indebtedness, and (iii) senior in right of payment to all subordinated indebtedness. In connection with the issuance and sale of the Notes, the Company entered into an indenture (the Indenture), dated as of September 18, 2006, with The Bank of New York Trust Company, N.A., as trustee.

The Company received net proceeds from the sale of the Notes of approximately $195.1 million after deducting estimated offering expenses of approximately $6.1 million. The intended use of the net proceeds from the sale was for prepayment of the Company s outstanding Senior Notes, including a make-whole premium, fees and expenses in connection with the prepayment, and to repay a portion of the outstanding indebtedness under the Company s credit facility. Approximately $6.1 million in debt issuance costs have been recorded as other assets in the accompanying consolidated balance sheets. Debt issuance costs are being amortized over a period of five years.

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

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(continued)

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

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

Pursuant to the Indenture, the Company agreed to file with the SEC no later than the 90th day after the first date of original issuance of the Notes, a shelf registration statement covering resales of the Notes and the common stock issuable on conversion under Rule 415 under the Securities Act. On December 14, 2006, the Company filed, and the SEC declared effective, the shelf registration statement covering resales of the Notes and common stock issuable on conversion under Rule 415 under the Securities Act.

On October 4, 2006, the Company prepaid all of its outstanding Senior Notes and, accordingly, the rights of the holders of the Senior Notes under the Note Purchase Agreement, dated November 21, 2002, between the Company and such holders, as amended, ceased. Immediately prior to prepayment, $68.4 million aggregate principal amount of Class A Senior Notes, which carried a fixed rate of interest of 6.06%, were outstanding, and $56.0 million aggregate amount of Class B Senior Notes, which carried a fixed rate of interest of 5.59%, were outstanding. If the Company had not prepaid the outstanding Senior Notes, they would have matured on December 2, 2012, subject to a requirement under the Note Purchase Agreement that the Company annually prepay $8.0 million of the outstanding Class B notes starting on December 2, 2006. The Senior Notes were senior unsecured obligations of the Company and ranked junior in right of payment to the rights of the Company s secured creditors to the extent of their security in the Company s assets, equal in right of payment to the rights of creditors under the Company s other existing and future unsecured unsubordinated obligations, senior in right of payment to the rights of creditors under obligations expressly subordinated to the Senior Notes, and effectively subordinated to secured and unsecured creditors of the Company s subsidiaries.

The prepayment was made upon proper notice to the holders of the Senior Notes at a price equal to 100% of the principal amount of the outstanding Senior Notes being prepaid, plus accrued and unpaid interest of approximately $2.5 million, plus a make whole premium of approximately $4.4 million based on the value of the remaining scheduled interest payments on the Senior Notes being prepaid. The Company expensed the make whole premium of $4.4 million as well as unamortized debt issuance costs related to the Senior Notes of $0.7 million in the third quarter of fiscal 2007.

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(continued)

On October 20, 2006, the Company amended the Credit Facility with its lenders to increase the Credit Facility to $350.0 million from $250.0 million, extend the maturity date to June 30, 2011 and amend certain other terms and covenants. The Credit Facility bears interest at either (i) LIBOR plus between 0.625% and 2.00% or (ii) the prime rate or (iii) an overnight rate at the option of the Company. The applicable interest rate is based upon the Company s ratio of total indebtedness to earnings before interest, taxes, depreciation and amortization. In addition, the Company is required to pay a commitment fee of between 0.175% and 0.400% on the unused portion of the Credit Facility. On December 22, 2006, the Company amended the Credit Facility with its lenders primarily to eliminate a financial covenant restricting aggregate capital expenditures to 200% of consolidated depreciation expense in any fiscal year. The Company s obligations under the Credit Facility are guaranteed by the Company s subsidiaries.

Effective January 1, 2007, the Company acquired the assets and business of Grand Prairie Accessory Services, LLC, located in Grand Prairie, Texas. The total cash paid at closing of approximately $40.1 million was funded by borrowings under the Company s revolving credit facility.

Capital expenditures were approximately $40.1 million for the nine months ended December 31, 2006 primarily for manufacturing machinery and equipment. We funded these expenditures through borrowings under our Credit Facility. We expect capital expenditures to be up to $55.0 million for our fiscal year ending March 31, 2007. The expenditures are expected to be used mainly to expand capacity or replace old equipment at several facilities.

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

Contractual Obligations	**Payments Due by Period (in thousands)**				
	Total	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
Debt Principal (1)	$ 279,690	$ 5,572	$ 155	$ 67,084	$ 206,879
Debt-Interest (2)	26,601	5,473	10,564	10,564	0
Operating Leases	72,048	15,537	25,604	13,708	17,199
Purchase Obligations	232,313	174,847	54,559	2,873	34
Other Long Term Obligations (1) (3)	5,932	5,927	5	0	0
Total	$ 616,584	$ 207,356	$ 90,887	$ 94,229	$ 224,112

(1) Included in the Company s balance sheet at December 31, 2006.

(2) Includes fixed-rate interest only.

(3) Includes interest component.

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

Management s Discussion and Analysis of

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(continued)

Critical Accounting Policies

The Company s critical accounting policies are discussed in Management s Discussion and Analysis of Financial Condition and Results of Operations and notes accompanying the consolidated financial statements that appear in the Annual Report on Form 10-K for the fiscal year ended March 31, 2006. Except as otherwise disclosed in the financial statements and accompanying notes included in this report, there were no material changes subsequent to the filing of the Annual Report on Form 10-K for the fiscal year ended March 31, 2006 in the Company s critical accounting policies or in the assumptions or estimates used to prepare the financial information appearing in this report.

Forward Looking Statements

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 relating to our future operations and prospects, including statements that are based on current projections and expectations about the markets in which we operate, and our beliefs concerning future performance and capital requirements based upon current available information. Such statements are based on our beliefs as well as assumptions made by and information currently available to us. When used in this document, words like may , might , will , expect , anticipate , believe , potential , and similar expressions are intended to identify forward looking statements. Actual resu could differ materially from our current expectations. For example, there can be no assurance that additional capital will not be required or that additional capital, if required, will be available on reasonable terms, if at all, at such times and in such amounts as may be needed by us. In addition to these factors, among other factors that could cause actual results to differ materially are uncertainties relating to the integration of acquired businesses, general economic conditions affecting our business, dependence of certain of our businesses on certain key customers as well as competitive factors relating to the aviation industry. For a more detailed discussion of these and other factors affecting us, see the risk factors described in our Annual Report on Form 10-K for the fiscal year ended March 31, 2006, filed with the SEC in June 2006.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

For information regarding our exposure to certain market risks, see Item 7A. Quantitative and Qualitative Disclosures About Market Risk in our Annual Report on Form 10-K for the fiscal year ended March 31, 2006. There has been no material change in this information.

TRIUMPH GROUP, INC.

Item 4. Controls and Procedures.

(a) Evaluation of disclosure controls and procedures.

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

As of December 31, 2006, we completed an evaluation, under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of December 31, 2006.

(b) Changes in internal control over financial reporting.

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

Part II. Other Information

Item 1. Legal Proceedings.

One of our subsidiaries, Triumph Controls, LLC. (TCI), has been a party to administrative proceedings before the National Labor Relations Board (the NLRB). In these proceedings, TCI s union has alleged that TCI engaged in unfair labor practices involving unilateral changes to existing terms and conditions of employment without first bargaining with the union. As previously disclosed, the parties recently agreed to a settlement of all matters. The settlement was completed during the quarter ended December 31, 2006.

Item 6. Exhibits.

Exhibit 10.1	Second Amendment to Amended and Restated Credit Agreement, dated October 20, 2006 (Incorporated by reference to Exhibit 10.2 to the Company s Current Report on Form 8-K filed on October 26, 2006).
Exhibit 10.2	Third Amendment to Amended and Restated Credit Agreement, dated December 22, 2006 (Incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed on December 29, 2006).
Exhibit 31.1	Certification by President and CEO Pursuant to Rule 13a-14(a)/15d-14(a).
Exhibit 31.2	Certification by Senior Vice President and CFO Pursuant to Rule 13a-14(a)/15d-14(a).
Exhibit 32.1	Certification of Periodic Report by President and CEO Furnished Pursuant to 18 U.S.C. Section 1350 Adopted Pursuant to Section 906 Sarbanes-Oxley Action of 2002.
Exhibit 32.2	Certification of Periodic Report by Senior Vice President and CFO Furnished Pursuant to 18 U.S.C. Section 1350 Adopted Pursuant to Section 906 Sarbanes-Oxley Action of 2002.

Signatures

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

Triumph Group, Inc.
(Registrant)

/s/ Richard C. Ill Richard C. Ill, President & CEO	February 2, 2007
/s/ John R. Bartholdson John R. Bartholdson, Senior Vice President & CFO (Principal Financial Officer)	February 2, 2007
/s/ Kevin E. Kindig Kevin E. Kindig, Vice President & Controller (Principal Accounting Officer)	February 2, 2007

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