STERLING CHEMICALS INC
Form DEF 14A
March 07, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant þ
Filed by a Party other than the Registrant o
Check the appropriate box:
o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

Sterling Chemicals, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

March 7, 2011

Dear Stockholders:

We are pleased to invite you to attend the 2011 Annual Meeting of Stockholders of Sterling Chemicals, Inc. to be held at 10:00 a.m. (Houston time) on April 15, 2011, at the offices of Akin Gump Strauss Hauer & Feld LLP, 1111 Louisiana Street, 44th Floor, Houston, Texas 77002. A notice of the meeting, proxy statement and form of proxy are enclosed with this letter. During the meeting, we will report on our operations during 2010 and our plans for 2011. Representatives from our Board of Directors and our management team will be present to respond to appropriate questions from stockholders.

We hope that you will be able to attend the meeting. If you are unable to attend the meeting in person, it is very important that your shares be represented, and we request that you complete, date, sign and return the enclosed proxy at your earliest convenience. If you choose to attend the meeting in person, you may, of course, revoke your proxy and cast your votes personally at the meeting. We look forward to seeing you at the meeting.

Thank you for your ongoing support and continued interest in Sterling Chemicals, Inc.

Sincerely,

/s/ John V. Genova
John V. Genova
President and Chief Executive Officer

Sterling Chemicals, Inc.
333 Clay Street, Suite 3600
Houston, Texas 77002-4312
(713) 650-3700
Notice of Annual Meeting of Stockholders
To Be Held April 15, 2011

To Our Stockholders:

You are cordially invited to attend our Annual Meeting of Stockholders to be held at the offices of Akin Gump Strauss Hauer & Feld LLP, 1111 Louisiana Street, 44th Floor, Houston, Texas 77002 at 10:00 a.m. (Houston time) on Friday, April 15, 2011 (our *Annual Meeting*). At our Annual Meeting, the following proposals will be presented for your consideration:

The election of seven directors, each of whom will hold office until our Annual Meeting of Stockholders in 2012 and until his successor has been duly elected and qualified.

The ratification and approval (by a non-binding vote) of the appointment of Grant Thornton LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2011 (the *Grant Thornton Appointment*).

If you were the holder of record of any shares of our common stock or our Series A Convertible Preferred Stock at the close of business on March 4, 2011, you are entitled to vote at our Annual Meeting for some or all (as applicable) of our director nominees and on the proposal to ratify and approve the Grant Thornton Appointment. You may also be asked to consider and act upon any other business that may properly come before our Annual Meeting or any adjournment or postponement thereof.

Our Board of Directors recommends that our stockholders vote:

FOR each nominated director for whom they are entitled to vote; and

FOR the ratification and approval of the Grant Thornton Appointment;

Your vote is very important. If you do not expect to attend our Annual Meeting in person, please sign, date and complete the enclosed proxy and return it in the enclosed envelope, which requires no postage if mailed in the United States, or vote your shares of stock by proxy by calling the toll-free number or voting electronically over the Internet at the numbers and addresses provided on the enclosed proxy card. Mailing your completed proxy or voting by proxy by phone or over the Internet will not prevent you from later revoking that proxy and voting in person at our Annual Meeting. If you want to vote at our Annual Meeting but your shares are held by an intermediary, such as a broker or bank, you will need to obtain proof of ownership of your shares as of March 4, 2011 from the intermediary.

By Order of the Board of Directors

/s/ Kenneth M. Hale
Kenneth M. Hale
Corporate Secretary

Sterling Chemicals, Inc.
333 Clay Street, Suite 3600
Houston, Texas 77002-4312
(713) 650-3700

Proxy Statement For
Annual Meeting Of Stockholders
To Be Held April 15, 2011

General Information

Purpose of this Proxy Statement

We have prepared this Proxy Statement to solicit proxies on behalf of our Board of Directors (our ***Board*** **) for use at our 2011 Annual Meeting of Stockholders (our** ***Annual Meeting*** **) and any adjournment or postponement thereof.** We intend to mail this Proxy Statement and accompanying proxy card to all of our stockholders entitled to vote at our Annual Meeting on or about March 7, 2011.

Time and Place of Our Annual Meeting

Our Annual Meeting will be held on Friday, April 15, 2011, at 10:00 a.m. (Houston time) at the offices of Akin Gump Strauss Hauer & Feld LLP, 1111 Louisiana Street, 44th Floor, Houston, Texas 77002.

Admission Rules

Only stockholders of record as of March 4, 2011 and their accompanied guests, or the holders of their valid proxies, will be permitted to attend our Annual Meeting. Each person attending our Annual Meeting will be asked to present valid governmental-issued picture identification, such as a driver s license or a passport, before being admitted to our Annual Meeting. In addition, stockholders who hold their shares through a broker or nominee (*i.e.*, in street name) should provide proof of their beneficial ownership as of March 4, 2011, such as a brokerage statement showing their ownership of shares as of that date. Cameras, recording devices and other electronic devices will not be permitted at our Annual Meeting and attendees will be subject to security inspections.

Lists of Stockholders

Lists of our stockholders who are entitled to vote at our Annual Meeting will be available for inspection by any stockholder present at our Annual Meeting and, for ten days prior to our Annual Meeting, by any stockholder, for purposes germane to the meeting, at our offices located at 333 Clay Street, Suite 3600, Houston, Texas 77002. Any inspection of these lists prior to our Annual Meeting must be conducted between 8:00 a.m. and 4:30 p.m. (local time). Please contact our Corporate Secretary before coming to our offices to conduct an inspection prior to our Annual Meeting.

Inspectors of Elections

Our Board has appointed Katherine Holdsworth, our Assistant Secretary, and Kathryn Hall, one of our Executive Assistants, as our inspectors of elections. Our inspectors of elections will separately calculate affirmative, negative and withheld votes, abstentions and broker non-votes for each of the proposals.

Arrangements Regarding Nomination and Election of Directors

The holders of our Series A Convertible Preferred Stock (our *Preferred Stock*), voting separately as a class, are entitled to elect a percentage of our directors determined by the aggregate amount of shares of our Preferred Stock and our common stock, par value $0.01 per share (our *Common Stock*), beneficially owned by Resurgence Asset Management, L.L.C. (*Resurgence*) and its and its affiliates managed funds and accounts, as well as certain permitted transferees. Currently the holders of our Preferred Stock are entitled to elect at least a majority of our directors, and are at this point entitled to elect four out of our seven directors. Each year, the holders of our Preferred Stock send us a designation of the individuals that these holders would like us to include in our proxy statement as nominees for the director seats for which they are entitled to vote. Pursuant to this notice of designation that we received for the Annual Meeting, the holders of our Preferred Stock have notified us of their desire to elect three directors at the Annual Meeting rather than the number of directors that they are entitled to elect separately, voting as a class. Messrs. Daniel M. Fishbane, Karl W. Schwarzfeld and Philip M. Sivin are the nominees for election by the holders of shares of our Preferred Stock (the *Preferred Stock Nominees*).

With the exception of the Preferred Stock Nominees, our directors are elected by the holders of our Preferred Stock and Common Stock, voting together as a single class. Messrs. Richard K. Crump, John V. Genova, John W. Gildea and John L. Teeger are the nominees for election by the holders of our Preferred Stock and Common Stock, voting together as a single class (the *General Nominees*).

Proposals on Which You May Vote

If you owned any shares of our Preferred Stock or our Common Stock on March 4, 2011, as reflected in our stock registers, you may vote at our Annual Meeting on the following matters:

Securities Held of Record on March 4, 2011	Proposals on Which You May Vote
Preferred Stock	Preferred Stock Nominees for Director
	General Nominees for Director
	Approval of Grant Thornton Appointment
Common Stock	General Nominees for Director
	Approval of Grant Thornton Appointment

Voting In Person Or By Proxy

How Do I Vote My Shares of Stock?

You may vote your shares of Preferred Stock or Common Stock in person at our Annual Meeting or you may give us your proxy. We recommend you vote by proxy even if you plan to attend our Annual Meeting you can always change your vote at our Annual Meeting.

You can vote your shares of stock by proxy over the telephone by calling a toll-free number, electronically by using the Internet or through the mail by signing and returning the enclosed proxy card. We have set up telephone and Internet voting procedures for your convenience and designed these procedures to authenticate your identity, allow you to give voting instructions and confirm that your voting instructions have been properly recorded. Telephone and Internet voting of shares of our stock will be available 24 hours a day until 11:59 p.m. (Eastern time) on April 14, 2011. If you would like to vote your shares of stock by telephone or by using the Internet, please refer to the specific instructions set forth on the enclosed proxy card.

How Are My Shares of Stock Voted If I Give You My Proxy?

If you give us your proxy to vote your shares of stock, we will be authorized to vote your shares of stock, but only in the manner that you direct. You may direct us to vote for or withhold authority to vote for all, some or none of the General Nominees and, if you hold Preferred Stock, all, some or none of the Preferred Stock Nominees. You may also direct us to vote your shares of stock for or against the proposal to ratify and approve (by non-binding vote) the appointment of Grant Thornton LLP (*Grant Thornton*) as our independent registered public accounting firm for the fiscal year ending December 31, 2011 (the *Grant Thornton Appointment*). You may also abstain from voting.

If you give us your proxy to vote your shares of stock and do not withhold authority to vote for the election of any of the director nominees, all of your shares of stock will be voted for the election of each General Nominee and, if you hold Preferred Stock, each Preferred Stock Nominee. If you withhold authority to vote your shares of stock for any nominee, none of your shares of stock will be voted for that candidate, but all of your shares of stock will be voted for the election of each General Nominee for whom you have not withheld authority to vote and, if you hold Preferred Stock, each Preferred Stock Nominee for whom you have not withheld authority to vote.

If you give us your proxy to vote your shares of stock but do not specify how you want your shares voted, all of your shares of stock will be voted in favor of each of the General Nominees and, if you hold Preferred Stock, each of the Preferred Stock Nominees, and all of your shares of stock will be voted in favor of the proposal to ratify and approve the Grant Thornton Appointment.

If you give us your proxy to vote your shares of stock and any additional business properly comes before our stockholders for a vote at our Annual Meeting, the persons named in the enclosed proxy card will vote your shares of stock on those matters as instructed by our Board or, in the absence of any express instructions, in accordance with their own best judgment. As of the date of this Proxy Statement, we were not aware of any other matter that will be raised at our Annual Meeting.

What If My Shares Are Held In Someone Else s Name?

If you want to vote at our Annual Meeting but your shares are held by an intermediary, such as a broker or bank, you will need to obtain proof of ownership of your shares as of March 4, 2011, or obtain a proxy to vote your shares from the intermediary.

Why Did I Receive More Than One Proxy Card?

You may receive more than one proxy or voting card depending on how you hold your shares and the types of shares you own. If you hold your shares through someone else, such as a broker or a bank, you may receive materials from them asking you how you want your shares voted.

What Happens If a Nominee Becomes Unavailable?

If any of our director candidates becomes unavailable for any reason before the election, we may reduce the number of directors serving on our Board or a substitute candidate may be designated. We have no reason to believe that any of our director candidates will be unavailable. If a substitute candidate is designated for any of the Preferred Stock Nominees or any of the General Nominees, the persons named in the enclosed proxy card will vote your shares for such substitute if they are instructed to do so by our Board or, if our Board does not do so, in accordance with their own best judgment.

What If I Change My Mind After I Give You My Proxy?

You may revoke your proxy at any time before your shares of stock are voted at our Annual Meeting by providing us with either a new proxy with a later date (by any method available for giving your original proxy) or by sending us written notice of your desire to revoke your proxy at the following address: Sterling Chemicals, Inc., 333 Clay Street, Suite 3600, Houston, Texas 77002; Attention: Corporate Secretary. You may also revoke your proxy at any time prior to your shares of stock having been voted by attending our Annual Meeting in person and notifying either of our inspectors of elections of your desire to revoke your proxy. However, your proxy will not automatically be revoked merely because you attend our Annual Meeting.

Solicitation of Proxies and Expenses

We are asking for your proxy on behalf of our Board. We will bear the entire cost of preparing, printing and soliciting proxies. We will send proxy solicitation materials to all of our stockholders of record as of March 4, 2011, and to all intermediaries, such as brokers and banks, that held any of our shares on that date on behalf of others. These intermediaries will then forward solicitation materials to the beneficial owners of our shares and we may reimburse them for their reasonable forwarding expenses. Our directors, officers and employees may also solicit proxies in person or by telephone.

Proposals By Stockholders

Our Board does not intend to bring any other matters before our Annual Meeting and has not been informed that any other matters are to be presented by others. Our Bylaws contain several requirements that must be satisfied in order for any of our stockholders to bring a proposal before one of our annual meetings, including a requirement of delivering proper advance notice to us. Stockholders are advised to review our Bylaws if they intend to present a proposal at any of our annual meetings.

Stockholder Communications with the Board

Any stockholder may contact our Board or any of its members through our Corporate Secretary. Our Corporate Secretary forwards any communication intended for our Board that is received from a stockholder to the individual directors specified by the stockholder or, if no directors are specified, to our entire Board. Stockholders may send communications to our Board through our Corporate Secretary by E-Mail or in any other type of writing to the follows addresses or numbers:

By E-mail:	khale@sterlingchemicals.com
By Mail:	Sterling Chemicals, Inc. Board of Directors Attention: Corporate Secretary 333 Clay Street, Suite 3600 Houston, Texas 77002
By Fax:	(713) 654-9577 Attention: Corporate Secretary

Stockholders wishing to submit proposals for inclusion in the proxy statement relating to our 2012 annual meeting of stockholders should follow the procedures specified below under the heading Stockholder Proposals for Next Year s Annual Meeting. Stockholders wishing to nominate directors for election at our 2012 annual meeting of stockholders should follow the procedures specified below under the heading Director Nominations and Qualifications.

Director Nominations and Qualifications

The holders of our Preferred Stock are currently entitled to nominate at least a majority of our directors but are not currently choosing to exercise their full entitlement. We do not have a separate charter addressing director nominations but our Board has adopted Governance Principles (which are posted on our website at www.sterlingchemicals.com) that address among other things, the selection process for nominees for election as one of our directors. Under our Governance Principles, our Board proposes a slate of general nominees to the stockholders for election to our Board. In addition, our Bylaws provide that any stockholder entitled to vote for the election of directors at a meeting of our stockholders who satisfies the eligibility requirements (if any) set forth in our Second Amended and Restated Certificate of Incorporation (our *Certificate of Incorporation*) and complies with the procedures set forth in our Certificate of Incorporation and Bylaws, may nominate persons for election to our Board, subject to any conditions, restrictions and limitations imposed by our Certificate of Incorporation or our Bylaws. These procedures include a requirement that our Corporate Secretary receive timely written notice of the nomination, which, for our 2012 annual meeting of stockholders, means that the nomination must be received on or after November 30, 2011 but no later than January 29, 2012. Each nomination must include, in addition to any other information or matters required by our Certificate of Incorporation or our Bylaws, the following:

- the name and address of the stockholder submitting the nomination, as they appear on our books;
- the nominating stockholder s principal occupation and business and residence addresses and telephone numbers;
- the number of shares of each class of our stock owned of record or beneficially by the nominating stockholder;
- the dates upon which the nominating stockholder acquired such shares and documentary support for any claims of beneficial ownership;

- the exact name of the nominee and such person s age, principal occupation and business and residence addresses and telephone numbers;
- the number of shares of each class of our stock (if any) owned directly or indirectly by the nominee;
- the nominee s written acceptance of such nomination, consent to being named in the proxy statement as a nominee and statement of intention to serve as a director if elected; and
- any other information regarding the nominee that would be required to be included in a proxy statement pursuant to rules of the Securities and Exchange Commission.

Nominations of directors may also be made by our Board or as otherwise provided in our Certificate of Incorporation, including the Restated Certificate of Designations, Preferences, Rights and Limitations for our Preferred Stock (our *Preferred Stock Designations*), or our Bylaws.

Our Board uses the same process to evaluate director candidates, whether nominated by one of our stockholders or by one of our directors, after taking into account the restrictions, requirements and limitations contained in our Certificate of Incorporation, our Preferred Stock Designations, our Bylaws and any other agreements to which we are a party. We do not currently have a charter addressing the evaluation of director candidates but our Governance Principles set forth the basic qualifications we require for a person to serve as one of our directors and the factors our Board considers when evaluating any proposed nominee. In determining whether it will support a particular candidate for a position on our Board, our Board considers those matters it deems relevant, which may include, but are not limited to, integrity, judgment, business specialization, technical skills, independence, potential conflicts of interest and the present needs of our Board. Our Board may also consider the overall diversity of our Board when making such a determination to ensure that it is able to represent the best interests of all of our stockholders and to encourage innovative solutions and viewpoints by considering background, education, experience, business specialization, technical skills and other factors of any particular candidate as compared to the composition of our Board at the time. Our directors are expected to possess the highest personal and professional ethics, integrity and values, be committed to representing the long-term interests of our stockholders and be willing and able to devote sufficient time to carrying out their duties and responsibilities effectively. In addition, our directors are expected to be committed to serve on our Board for an extended period of time and not serve on the board of directors of any business entity that is competitive with us or on the board of directors of more than three other public companies (unless doing so would not impair the director s service on our Board). We do not have a formal process for identifying nominees for directors.

Important Notice Regarding The Availability of Proxy Materials For The Stockholders Meeting To Be Held On April 15, 2011

Our annual report on Form 10-K (including financial statements and the financial statement schedules but without exhibits) for our fiscal year ended December 31, 2010 (our *Form 10-K*) accompanies this Proxy Statement but does not constitute a part of our proxy solicitation materials. **Our Form 10-K and this Proxy Statement are also available over the Internet at http://materials.proxyvote.com/859166. We will furnish additional copies of our Form 10-K, without charge, to any person whose vote is solicited by this Proxy Statement upon written request to the following address: Sterling Chemicals, Inc., 333 Clay Street, Suite 3600, Houston, Texas 77002; Attention: Chief Financial Officer.** In addition, upon written request, we will furnish a copy of any exhibit to our Form 10-K to any person whose vote is solicited by this Proxy Statement upon payment of our reasonable expenses incurred in connection with providing the copy of the exhibit.

Election of Directors
(Item 1 on the Proxy Card)

General Information

Our Board oversees our management, reviews our long-term strategic plans and exercises direct decision making authority in key areas. Each of our directors is elected annually to serve until our next annual meeting and until his or her successor is duly elected and qualified. Only non-employee directors are eligible to serve on our Audit Committee or our Compensation Committee.

All of our director candidates currently serve on our Board. We do not employ any of our current directors or any of our director candidates other than John V. Genova, our President and Chief Executive Officer, who was originally appointed to our Board in May of 2008. Mr. Crump was originally appointed to our Board in December of 2001, Mr. Gildea was originally appointed to our Board in December of 2002 and Mr. Teeger was originally appointed to our Board in March of 2010. The holders of our Preferred Stock appointed Messrs. Schwarzfeld, Sivin and Fishbane to our Board in March of 2006, July of 2004 and November of 2009, respectively, in each case to fill vacancies in seats previously held by designees of the holders of our Preferred Stock.

Our Board held six meetings in 2010. Our directors attended over 98% of the meetings of our Board and any of our committees on which they served during 2010. We do not have a specific policy regarding attendance by directors at annual meetings of our stockholders, but all of our directors are encouraged to attend if available. One of our directors, Mr. John V. Genova, attended our annual meeting of stockholders in 2010.

As discussed above in Arrangements Regarding Nomination and Election of Directors, the holders of our Preferred Stock, voting separately as a class, are currently entitled to elect at least a majority of our directors but are not currently choosing to exercise their full entitlement. All of our remaining directors are elected by the holders of our Preferred Stock and Common Stock, voting together as a single class. The procedures for these separate votes by the holders of our Preferred Stock and the holders of our Preferred Stock and our Common Stock (as a single class), together with information about the respective candidates, are presented below under the headings Preferred Stock Nominees and General Nominees.

Risk Oversight

Our Board oversees an enterprise-wide approach to risk management designed to support the achievement of our organizational objectives, including strategic objectives, improvement of our long-term organizational performance and the enhancement of shareholder value. Our Board assesses the risks we face on an ongoing basis, including risks associated with our financial position, our chemical manufacturing operations, our reliance on a single customer for most of our revenues, the funded status of our pension plans, our net interest expense and the impact of discontinued operations on our cost structure. Our Board dedicates time at each of its meetings to review and consider these and other risks we face from time to time. Our approach to risk management includes developing an understanding of the risks we face and determining the steps that should be taken to manage those risks, as well as the level of risk that is appropriate for us given our size, financial condition, prospects and plans for the future. Each year, our management team conducts a comprehensive review of the risks we face, our controls to manage those risks and the effectiveness of those controls. As a part of this process, we group these risks into several categories and then rank these categories of risks based on the potential impact of the risks, the likelihood of the risks occurring and the effectiveness of our controls in managing those risks. After each calendar quarter occurring between our comprehensive risk reviews, we review these rankings to determine if any adjustments for specific business risks are warranted.

While our Board has ultimate oversight responsibility for our risk management process, the committees of our Board also have a role in our risk management. Our Audit Committee, which is responsible for assessing and overseeing our exposure to financial risks, reviews our disclosure controls and our internal controls over financial reporting on a quarterly basis, including our overall risk assessment, our processes or procedures for assessing risks and any changes to the rankings of any of our specific business risks. Our Compensation Committee, in setting performance metrics for short-term and long-term incentive compensation, strives to create incentives for our senior executives that encourage a level of risk-taking behavior that is consistent with our business strategy and the risks we face. Our Environmental, Health & Safety Committee reviews our programs and practices in minimizing risks related to the nature of our operations, including employee and contractor safety programs and our process safety management initiatives.

Board Composition and Qualifications

Each Preferred Nominee, General Nominee and current Board member brings a strong and unique background and set of skills to our Board, giving our Board as a whole competence and experience in a wide variety of areas, including board service, executive management, petrochemicals, oil and gas, energy, international trade, accounting, finance, risk assessment, manufacturing and marketing. Mr. Crump served as our President and Chief Executive Officer for over six years and has been with us since our inception in 1986, bringing to our Board a wealth of experience and history with our operations, our strategic partners and the types of issues we face on a recurring basis. Mr. Genova, our current President and Chief Executive Officer, previously served in high-level positions at Tesoro Corporation and ExxonMobil Corporation and on the board of Encore Acquisition Company and has demonstrated ability in project development, mergers and acquisitions, corporate and business planning, capital management, competitor assessment, benchmarking and manufacturing. Mr. Fishbane, through his education, training and employment as a certified public accountant, an auditor and as the chief financial officer of several private equity and investment firms, has valuable experience dealing with accounting principles and financial reporting rules and regulations, evaluating financial results and generally overseeing the financial reporting process of a public company. Mr. Gildea, a managing director and principal of Gildea Management Company, has significant experience as an investment advisor to distressed companies and special situation investments and as a director, audit committee member and compensation committee member for several private and public companies. Mr. Schwarzfeld, a Vice President of Resurgence, which beneficially owns a substantial majority of the voting power of our equity securities, has extensive experience in financial and business matters. Mr. Sivin has served as an officer and as legal counsel of M.D. Sass Investor Services, Inc. (*M.D. Sass*) and several of its affiliates and has experience as a director of numerous companies and as a corporate and securities lawyer at Sullivan & Cromwell LLP, a national and international law firm. Mr. Teeger is a partner and the President of Founders Equity and has extensive experience in public accounting, finance and investment banking.

Board Leadership Structure

Our Board does not have a lead director or a Chairman. Our President and Chief Executive Officer serves as a director on our Board, sets the agenda for each of our Board meetings and generally presides over the meetings of our Board. However, each of our directors is expected to provide leadership for our Board in the areas where they have particular expertise and each of our Board members from time to time suggests topics for inclusion on the agenda for future Board meetings. We believe that our leadership structure is appropriate because it strikes an effective balance between management and non-employee director participation in our Board process. The role of our President and Chief Executive

Officer helps to ensure communication between management and our non-employee directors, encourages each of our non-employee directors to participate and contribute to our Board process, permits us to capitalize on each director s particular area of expertise as needed and increases our non-employee directors understanding of management decisions and our operations.

Director Independence

Messrs. Gildea and Teeger are considered independent under the listing standards of the New York Stock Exchange. Mr. Schwarzfeld is employed by Resurgence, which has beneficial ownership of a substantial majority of the voting power of our equity securities due to its investment and disposition authority over securities owned by its and its affiliates managed funds and accounts. As a result of this beneficial ownership, Resurgence may be considered our affiliate under Securities and Exchange Commission guidelines. Messrs. Fishbane and Sivin are employed by M.D. Sass, which wholly owns Resurgence. Mr. Sivin is also the son-in-law of Martin Sass, the Chief Executive Officer of Resurgence and of M.D. Sass. Consequently, Messrs. Schwarzfeld, Fishbane and Sivin may be considered not independent under the listing standards of the New York Stock Exchange. Mr. Genova is our President and Chief Executive Officer and Mr. Crump was formerly our President and Chief Executive Officer. Consequently, neither Mr. Genova nor Mr. Crump is considered independent under the listing standards of the New York Stock Exchange.

Board Committees

Our Board has created various standing committees (our *Board Committees*) to help carry out its duties, including an Audit Committee, a Compensation Committee and an Environmental, Health & Safety Committee. Generally speaking, our Board Committees work on key issues in greater detail than would be possible at full Board meetings. Each of our Board Committees consults, from time to time, with outside experts concerning the performance of its duties. Currently, we do not have a nominating committee and believe that our entire Board is able to fulfill the functions of a nominating committee.

Audit Committee

Our Audit Committee, which met four times in 2010, is currently comprised of two of our non-employee directors, Daniel M. Fishbane (Chairman) and John W. Gildea. Our Audit Committee operates under a written charter, a current copy of which is filed as an Exhibit to our Form 10-K and is posted on our website at www.sterlingchemicals.com/audit.html.

Our Audit Committee oversees our accounting and financial reporting processes and the audits of our financial statements and monitors the qualifications, independence and performance of our independent and internal auditors. Our Audit Committee is directly responsible for the appointment, compensation and oversight of our independent external and internal auditors, and approves the audit, audit-related or tax services to be provided by these auditors, as well as all non-audit related services to be provided by our independent external auditors. In addition, our Audit Committee reviews our Form 10-K and Form 10-Q reports, our practices in preparing published financial statements and our internal and disclosure controls. Finally, our Audit Committee provides oversight with respect to the establishment of and adherence to our corporate compliance programs, codes of conduct and other policies and procedures concerning our business and our compliance with all relevant laws and reviewing our insurance and indemnity arrangements for directors and officers. Upon the recommendation of our Audit Committee, our Board adopted a Code of

Ethics for the Chief Executive Officer and Senior Financial Officers, a current copy of which is posted on our website at www.sterlingchemicals.com/ethics.html. This Code of Ethics, which applies to our Chief Executive Officer, our Chief Financial Officer, our Corporate Controller and our Treasurer, and anyone performing similar functions on our behalf, is administered by our Audit Committee and provides for the reporting of violations to our Audit Committee on a confidential and anonymous basis.

Mr. Gildea is considered independent under the listing standards of the New York Stock Exchange for purposes of serving on our Audit Committee, while Mr. Fishbane may be considered not independent under these listing standards due to his employment by M.D. Sass. However, because Mr. Fishbane qualifies as a financial expert, as discussed below, our Board determined that it was appropriate to appoint Mr. Fishbane to our Audit Committee. Under the charter of our Audit Committee, each member of our Audit Committee must:

- be independent of management and be free from any relationship that, in the opinion of our Board, would interfere with the exercise of his independent judgment;
- have, in the opinion of our Board and in the opinion of each member of our Audit Committee, sufficient time available to devote reasonable attention to the responsibilities of our Audit Committee;
- be financially literate (*i.e.*, have the ability to read and understand fundamental financial statements, including a balance sheet, income statement and statement of cash flows, and the ability to understand key financial risks and related controls and control processes); and
- not simultaneously serve on the audit committee of more than three public companies.

In addition, at least one member of our Audit Committee must, in the opinion of our Board, be an audit committee financial expert or have accounting or related financial management expertise. Our Board has determined that Mr. Fishbane is an audit committee financial expert within the meaning ascribed to such term under the rules promulgated under the Sarbanes-Oxley Act of 2002, due to his education, training and employment as a certified public accountant, auditor and chief financial officer and other relevant experience acquired through his work at M.D. Sass and other companies.

Compensation Committee

Our Compensation Committee is currently comprised of two of our non-employee directors, John L. Teeger (Chairman) and Karl W. Schwarzfeld. Our Compensation Committee did not have any in-person meetings in 2010 but took several actions by written consent. Our Compensation Committee operates under a written charter, a current copy of which is posted on our website at www.sterlingchemicals.com/compensation.html. Our Compensation Committee is responsible for discharging the compensation responsibilities of our Board, including:

reviewing and approving corporate goals and objectives relevant to compensation of our Chief Executive Officer, evaluating our Chief Executive Officer s performance in light of those goals and objectives and determining and approving our Chief Executive Officer s compensation level based on this evaluation;

determining and approving the compensation levels for our other executive officers;

making recommendations to our Board with respect to the adoption, amendment or termination of our incentive compensation plans and equity-based plans;

administering our compensation programs for executive officers (including bonus plans, long-term incentive plans, stock option and other equity-based programs, deferred compensation plans and other cash or stock incentive programs);

reviewing and making recommendations to our Board with respect to other significant employee benefit programs; and

reviewing and approving our annual merit budget.

In addition, our Compensation Committee establishes the annual fees and meeting fees to be paid to our non-employee directors.

The roles of our executive officers and of consultants in determining compensation of our executive officers and directors, and the ability of the Compensation Committee to delegate its authority, are discussed under Compensation Discussion and Analysis.

As discussed above, Mr. Teeger is considered independent under the listing standards of the New York Stock Exchange, while Mr. Schwarzfeld may be considered not independent under these listing standards due to his employment by Resurgence. Under the Charter of our Compensation Committee, each member of our Compensation Committee must be independent of management and be free from any relationship that, in the opinion of our Board, would interfere with the exercise of his independent judgment, and have, in the opinion of our Board and each member of our Compensation Committee, sufficient time available to devote reasonable attention to the responsibilities of our Compensation Committee.

Environmental, Health & Safety Committee

Our Environmental, Health & Safety Committee, which met four times in 2010, is currently comprised of two of our non-employee directors, Richard K. Crump (Chairman) and John L. Teeger. Our Environmental, Health & Safety Committee establishes policies, practices and procedures for employee safety and health, environmental protection and product safety to ensure that our operations are conducted in compliance with environmental laws, rules, regulations, permits and licenses. Our Environmental, Health & Safety Committee also conducts ongoing environmental planning activities and makes recommendations to our Board concerning the selection of external environmental auditors, including their compensation and the proposed terms of their engagement.

Compensation Committee Interlocks and Insider Participation

During 2010, Messrs. Gildea, Schwarzfeld and Teeger served on our Compensation Committee. Mr. Teeger replaced Mr. Gildea as a member and Chairman of our Compensation Committee on March 12, 2010, after our Board reassessed the membership of each of our Board committees in an effort to more evenly disperse the responsibilities of each of our Board members. None of these directors has ever been one of our officers or employees. With the exception of those matters described below under Related Person Transactions pertaining to Mr. Schwarzfeld, none of our directors serving on our Compensation Committee in 2010 had any relationship that requires disclosure in this Proxy Statement as a transaction with a related person. During 2010:

- none of our executive officers served as a member of the compensation committee of another entity, one of whose executive officers served on our Compensation Committee;
- none of our executive officers served as a director of another entity, one of whose executive officers served on our Compensation Committee; and
- none of our executive officers served as a member of the compensation committee of another entity, one of whose executive officers served as one of our directors.

Governance Principles

Our Board adopted formal Governance Principles in August of 2005, a current copy of which is posted on our website at www.sterlingchemicals.com and filed as an Exhibit to our Form 10-K. Our Governance Principles contain policies and guidelines related to:

- the respective roles and functions of our Board and management;
- the size of our Board, our Board Committees and criteria for membership;
- compensation paid to our directors;
- executive sessions of independent directors;
- self-evaluations by our Board and our Board Committees;
- ethics and conflicts of interest;
- annual compensation reviews of our senior executives;
- access to management and independent advisors; and
- director orientation and education.

Preferred Stock Nominees

Who May Vote

If you owned any shares of our Preferred Stock on March 4, 2011, as reflected in our stock register, you may vote in the election for the Preferred Stock Nominees. Our shares of Common Stock do not vote in the election for the Preferred Stock Nominees.

Outstanding Shares

On March 4, 2011, there were 7,673.160 shares of our Preferred Stock outstanding (currently convertible into 7,673,160 shares of our Common Stock at the option of the holders), none of which were owned by us or any of our subsidiaries.

Quorum

In order to conduct the election for the Preferred Stock Nominees, we must have a quorum. This means that we must have at least a majority of the shares of our Preferred Stock represented at our Annual Meeting, either in person or by proxy. Any shares of Preferred Stock owned by us or by any of our subsidiaries are not counted for purposes of determining whether a quorum is present. Shares of our Preferred Stock held by intermediaries that are voted for at least one matter at our Annual Meeting are counted as being present for the election for the Preferred Stock Nominees, even if the beneficial owner s discretion has been withheld for voting on some or all of the other matters (commonly referred to as a broker non-vote).

Votes Needed

Each share of our Preferred Stock has the right to cast one vote for each of the Preferred Stock Nominees. Directors are elected by a plurality and the three Preferred Stock Nominees who receive the most votes cast by the shares of our Preferred Stock will be elected to our Board. Under this format, abstentions and broker non-votes will not affect the outcome of the election.

Designation of Nominees

Under our Preferred Stock Designations, the holders of our Preferred Stock, voting separately as a class, are entitled to elect a percentage of our directors determined by the aggregate amount of shares of our Preferred Stock and Common Stock beneficially owned by Resurgence and its and its affiliates managed funds and accounts, as well as certain permitted transferees. Currently, the holders of our Preferred Stock are entitled to elect at least a majority of our directors but are not currently choosing to exercise their full entitlement. Each year, the holders of our Preferred Stock send us a designation of the individuals that these holders would like us to include in our proxy statement as nominees for the director seats for which they are entitled to vote.

Information about each of the Preferred Stock Nominees is provided below.

Our Board recommends that the holders of shares of our Preferred Stock vote FOR the election to our Board of each of the following candidates:

Daniel M. Fishbane Age 49 Director Since November 2009	Mr. Fishbane is a Senior Vice President, Chief Financial Officer and Chief Operating Officer of M.D. Sass, which wholly owns Resurgence. Resurgence beneficially owns a substantial majority of the voting power of our equity securities. Prior to joining M.D. Sass in January of 2008, Mr. Fishbane served as Chief Financial Officer for Pequot Capital, a $7 billion multi-strategy hedge fund organization based in Connecticut, from 2005 to 2008. Prior to that time, Mr. Fishbane was Managing Director and Chief Financial Officer of Swiss Re Financial Products Corp. from 2001 to 2005, Executive Vice President and Chief Financial Officer of National Discount Brokers Group from 2000 to 2001 and Managing Director-Finance & Operations, CFO at D.E. Shaw from 1990 until 2000.
Karl W. Schwarzfeld Age 34 Director Since March 2006	Mr. Schwarzfeld is a Vice President of Resurgence, which beneficially owns a substantial majority of the voting power of our equity securities. Prior to becoming Vice President in 2006, Mr. Schwarzfeld held several positions at Resurgence, including Director of Operations from 2004 through 2006, Vice President of Operations from 2003 through 2004, Assistant Vice President of Operations from 2002 through 2003, Operations Manager from August of 2000 through 2002 and Portfolio Administrator from August of 1998 through July of 2000. Mr. Schwarzfeld previously served as a member of the Board of Directors of Furniture.com, Inc. during 2007 and 2008.
Philip M. Sivin Age 39 Director Since July 2004	Mr. Sivin is a member of the Board of Directors and a Senior Managing Director of M.D. Sass Associates, Inc. and M.D. Sass, which wholly owns Resurgence, a Senior Managing Director of M.D. Sass Macquarie Financial Strategies Management Company, LLC (*FinStrat*) and M.D. Sass Tax Liens Management, L.L.C. and a Vice President of Resurgence. Resurgence beneficially owns a substantial majority of the voting power of our equity securities. Mr. Sivin has worked at M.D. Sass and/or its affiliated companies since 2000 in various capacities, including Senior Vice President of FinStrat and M.D. Sass from 2006 through 2009, Vice President of Resurgence from 2004 through 2007 and Senior Vice President and General Counsel of M.D. Sass and M.D. Sass Associates, Inc. from 2000 through 2005. Prior to joining M.D. Sass in 2000, Mr. Sivin was an attorney at Sullivan & Cromwell LLP in New York specializing in corporate, securities, real estate and investment management transactions. Mr. Sivin has also served as a member of the Board of Directors and an executive officer of M.D. Sass Associates, Inc. and M.D. Sass Management, Inc. since 2000 and a member of the Board of Directors

of Taurus Fund Management Pty Limited, Taurus SM Holdings Pty Limited and New Holland Capital Pty Limited since 2008 and of Furniture.com since 2006. Previously, Mr. Sivin served as a member of the Board of Directors of RDA Sterling Holdings Corporation during 2007 and 2008, a member of the Liquidating Trust Board of

SmarTalk TeleServices, Inc. and its affiliates during 2006 and a member of the Board of Directors of First Commercial Credit Corp. from 2006 through March 1, 2010.

General Nominees

Who May Vote

If you owned any shares of our Preferred Stock or Common Stock on March 4, 2011, as reflected in our stock register, you may vote in the election for the General Nominees.

Outstanding Shares

On March 4, 2011, there were 7,673.160 shares of our Preferred Stock outstanding (currently convertible into 7,673,160 shares of our Common Stock at the option of the holders), and 2,828,460 shares of our Common Stock outstanding, none of which were owned by us or any of our subsidiaries.

Quorum

In order to conduct the vote for the General Nominees, we must have a quorum. This means that we must have at least a majority of the voting power of our outstanding shares of Preferred Stock and Common Stock represented at our Annual Meeting, either in person or by proxy.

In the election for the General Nominees, our shares of Preferred Stock and Common Stock vote together as a single class. For purposes of class voting, each share of our Common Stock has the right to one vote and each share of our Preferred Stock has the right to one vote for each share of our Common Stock into which such share of Preferred Stock is convertible on the record date for such vote. Each share of our Preferred Stock was convertible into 1,000 shares of our Common Stock on the record date for the election of the General Nominees, which means that each share of our Preferred Stock that is represented at our Annual Meeting is the equivalent of 1,000 shares of our Common Stock being represented at our Annual Meeting for purposes of determining whether a quorum is present. Any shares owned by us or by any of our subsidiaries are not counted for purposes of determining whether a quorum is present. Shares of our stock held by intermediaries that are voted for at least one matter at our Annual Meeting are counted as being present for the election of the General Nominees, even if the beneficial owner s discretion has been withheld for voting on some or all of the other matters (commonly referred to as a broker non-vote).

Votes Needed

Each share of our Common Stock has the right to cast one vote for each of the General Nominees and each share of our Preferred Stock has the right to cast 1,000 votes for each of the General Nominees. Directors are elected by a plurality and the four General Nominees who receive the most votes cast by the shares of our Preferred Stock and our Common Stock will be elected to our Board. Under this format, abstentions and broker non-votes will not affect the outcome of the election.

Information about each of the General Nominees is provided below.

Our Board recommends that the holders of shares of our Preferred Stock and Common Stock vote FOR the election to our Board of each of the following candidates:

Richard K. Crump Age 64 Director Since December 2001	Mr. Crump served as our President and Chief Executive Officer from January of 2003 until his retirement in May of 2008. Prior to becoming our President and Chief Executive Officer, Mr. Crump served as our Co-Chief Executive Officer from December of 2001 through January of 2003, our Executive Vice President Operations from May of 2000 through December of 2001, our Vice President Strategic Planning from December of 1996 through May of 2000, our Vice President Commercial from October of 1991 through December 1, 1996 and our Director Commercial from August of 1986 through October of 1991. Prior to joining us, Mr. Crump was Vice President of Sales for Rammhorn Marketing from 1984 through August of 1986 and Vice President of Materials Management for El Paso Products Company from 1976 until 1984.
John V. Genova Age 56 Director Since May 2008	Mr. Genova became our President and Chief Executive Officer in May of 2008. Mr. Genova most recently served as Vice President of Corporate Planning for Tesoro Corporation. Prior to becoming Vice President at Tesoro in 2005, Mr. Genova served as Executive Vice President Refining at Holly Corporation during 2004 and 2005. Mr. Genova began his career as an engineer at ExxonMobil Corporation in 1976, working in a variety of positions in the refining, supply and natural gas functions before becoming the Executive Assistant to the Chairman and General Manager, Corporate Planning, responsible for development of ExxonMobil s corporate plans during 2002 and 2003. Mr. Genova has also served as an advisory board member for 1859 Partners, LLC, an investment company, since 2009 and was a member of the Board of Directors of Encore Acquisition Company from 2004 through April of 2010. In addition, Mr. Genova has provided consulting services to investment banks, private equity companies and hedge funds.
John W. Gildea Age 67 Director Since December 2002	Mr. Gildea has been a managing director and principal of Gildea Management Company since 1990. Gildea Management Company and its affiliates previously served as the investment advisor to The Network Funds, which specialized in distressed company and special situation investments. Mr. Gildea has also served as a director of Shearer s Foods, Inc., a private company, since 2009, a director and a member of the Audit Committee and the Compensation Committee of America Service Group, Inc. since 2007, a director and member of the Audit Committee and Compensation Committee of Misonix, Inc. for over five years and director of Sothic Capital, an United Kingdom based private distressed investments fund. Previously Mr. Gildea served as

a director of Universal Aerospace Company, Inc. from 2005 through 2008 and a director of several United Kingdom based investment trusts for over five years. Mr. Gildea has also served on the Board of Directors of a number of restructured or restructuring companies, including Amdura

	Corporation, American Healthcare Management, Inc., America Service Group Inc., GenTek, Inc., Konover Property Trust, Inc. and UNC Incorporated.
John L. Teeger Age 67 Director Since March 2010	Mr. Teeger is the President and Chief Operating Officer of Founders Equity Inc. (*Founders*), positions he has held since 1981. Founders manages private equity funds through its affiliates Founders Equity SBIC I LP and Founders Equity NY LP, which invest in small to mid-cap enterprises operating in the U.S. Prior to joining Founders, Mr. Teeger was a Vice President of Bear Stearns & Co. from 1976 to 1981. Mr. Teeger has been a director and an officer of numerous entities formed by Founders and its affiliates and is currently a director of Stone Source Holdings Inc., Richardson Foods Inc. and Glass America Inc. Mr. Teeger is also a member and former Chapter Chairman of the World Presidents Organization and the Young Presidents Organization.

Ratification of Appointment of Independent Registered Public Accounting Firm
(Item 2 on the Proxy Card)

Our Audit Committee has appointed Grant Thornton as our independent registered public accounting firm for the fiscal year ending December 31, 2011. We are asking that our stockholders ratify the Grant Thornton Appointment. While our Audit Committee intends to carefully consider the results of this vote, the final vote will not be binding on us or our Audit Committee and is advisory in nature. Grant Thornton has been our independent accounting firm since April 10, 2008, and we believe that they are well qualified. Representatives of Grant Thornton are expected to be present at our Annual Meeting to answer appropriate questions and to make a statement, if they desire to do so.

Who May Vote

If you owned any shares of our Preferred Stock or Common Stock on March 4, 2011, as reflected in our stock register, you may vote at our Annual Meeting on the ratification and approval of the Grant Thornton Appointment.

Outstanding Shares

On March 4, 2011, there were 7,673.160 shares of our Preferred Stock outstanding (currently convertible into 7,673,160 shares of our Common Stock at the option of the holders), and 2,828,460 shares of our Common Stock outstanding, none of which were owned by us or any of our subsidiaries.

Quorum

In order to conduct the vote on the Grant Thornton Appointment, we must have a quorum of our stockholders. This means that we must have at least a majority of the voting power of our outstanding shares of Preferred Stock and Common Stock represented at our Annual Meeting, either in person or by proxy.

Our shares of Preferred Stock and Common Stock vote together as a single class on the Grant Thornton Appointment. For purposes of class voting, each share of our Preferred Stock has the right to one vote for each share of our Common Stock into which such share is convertible on the record date for such vote. Each share of our Preferred Stock was convertible into 1,000 shares of our Common Stock on the record date for the vote on the Grant Thornton Appointment, which means that each share of our Preferred Stock that is represented at our Annual Meeting is the equivalent of 1,000 shares of our Common Stock being represented at our Annual Meeting for purposes of determining whether a quorum is present.

Any shares owned by us or by any of our subsidiaries are not counted for purposes of determining whether a quorum is present. Shares of our stock held by intermediaries that are voted for at least one matter at our Annual Meeting are counted as being present for purposes of determining a quorum for the vote on the Grant Thornton Appointment, even if the beneficial owner s discretion has been withheld for voting on some or all of the other matters (commonly referred to as a broker non-vote).

Votes Needed

Each share of our Common Stock has the right to cast one vote on the Grant Thornton Appointment and each share of our Preferred Stock has the right to cast 1,000 votes on the Grant Thornton Appointment. Ratification and approval of the Grant Thornton Appointment requires the favorable vote of a majority of the voting power of the shares of our Preferred Stock and Common Stock that are entitled to vote and are present at our Annual Meeting, in person or by proxy. As a result, an abstention from voting on the Grant Thornton Appointment will have the same effect as a vote against the Grant Thornton Appointment. However, broker non-votes are considered not to be present for voting on the Grant Thornton Appointment and, consequently, do not count as votes for or against the Grant Thornton Appointment and are not considered in calculating the number of votes necessary for approval.

Our Audit Committee has furnished the following report for inclusion in this Proxy Statement.

Roles in Financial Reporting

The management of Sterling Chemicals, Inc. (*Sterling*) is responsible for Sterling s internal controls and the financial reporting process. The independent registered public accounting firm hired by Sterling is responsible for performing an independent audit of Sterling s consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States) (*PCAOB*) and issuing an opinion on the conformity of those financial statements with accounting standards generally accepted in the United States of America. The Audit Committee monitors and oversees these processes and reports to Sterling s Board of Directors with respect to its findings.

Fiscal 2010 Financial Statements

In order to fulfill our monitoring and oversight duties, we reviewed the audited financial statements included in Sterling s Annual Report on Form 10-K for the fiscal year ended December 31, 2010, and we met and held discussions with Sterling s management and Grant Thornton LLP (*Grant Thornton*), Sterling s independent registered public accounting firm for the fiscal year ended December 31, 2010, with respect to those financial statements. Management represented to us that all of these financial statements were prepared in accordance with accounting principles generally accepted in the United States of America. We also discussed with Grant Thornton the matters required to be discussed by the Statement on Auditing Standards No. 114, as amended. Finally, we received and have reviewed the written disclosures and the letter provided to us by Grant Thornton, as required by the applicable requirements of the PCAOB regarding the independent accountant s communications with the Audit Committee concerning independence, and we discussed with Grant Thornton its independence. Based upon our review and our discussions with management and Grant Thornton, and our review of Grant Thornton s report and the representations of management, we recommended to Sterling s Board of Directors that the audited financial statements for the year ended December 31, 2010 be included in Sterling s Annual Report on Form 10-K for the year ended December 31, 2010, filed with the Securities and Exchange Commission.

Incorporation by Reference

No portion of this report shall be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or under the Securities Exchange Act of 1934, as amended (collectively, the *Acts*), through any general statement incorporating by reference the Proxy Statement in which this report appears in its entirety, except to the extent that Sterling specifically incorporates this report or a portion of this report by reference. In addition, this report shall not otherwise be deemed to be soliciting material or to be filed under either of the Acts.

Respectfully submitted,

The Audit Committee of the Board of Directors

Daniel M. Fishbane (Chairman)

John W. Gildea

Audit Fees, Audit Related Fees, Tax Fees and Other Fees

Grant Thornton has served as our independent public accountants since April of 2008. We paid Grant Thornton the following fees for the years ended December 31, 2010 and December 31, 2009, respectively:

	2010	2009
Audit Fees	$ 327,426	$ 420,221
Audit Related Fees	0	7,950
Tax Fees	0	0
All Other Fees	0	0
Total	$ 327,246	$ 428,171

Audit Fees paid to Grant Thornton were for professional services consisting of the audit of the financial statements included in our Annual Report on Form 10-K and reviews of the financial statements included in our Quarterly Reports on Form 10-Q. Audit Related Fees for services provided by Grant Thornton were primarily for audit services performed in connection with the preparation of a Form S-8 registration statement during 2009.

Our Audit Committee considered whether the provision of non-audit services by Grant Thornton was compatible with maintaining its independence, and concluded that the independence of Grant Thornton was not compromised by the provision of such services. In addition, our Audit Committee requires pre-approval of all audit and non-audit services provided by Grant Thornton or any other accounting firm and pre-approved all of the services included in the table above. Our Audit Committee has not adopted any additional pre-approval policies and procedures but, consistent with its Charter, our Audit Committee may delegate to one or more of its members the authority to pre-approve audit and non-audit services as permitted by law, provided that such pre-approval is submitted for ratification by the full Audit Committee at its next scheduled meeting.

Our Board recommends that you vote FOR this proposal.

* * *

Additional Proposals

Our Board does not intend to bring any matters before our Annual Meeting other than those described above, and has not been informed that any other matters are to be presented by others. The accompanying proxy confers discretionary authority upon the persons named therein to vote your shares of Preferred Stock and/or Common Stock in accordance with their best judgment on any other matter that may be properly brought before our Annual Meeting.

Executive Officers Of The Company

Personal information with respect to each of our executive officers is set forth below.

John V. Genova Age 56	Mr. Genova became our President and Chief Executive Officer in May of 2008. Mr. Genova most recently served as Vice President of Corporate Planning for Tesoro Corporation. Prior to becoming Vice President at Tesoro in 2005, Mr. Genova served as Executive Vice President Refining at Holly Corporation during 2004 and 2005. Mr. Genova began his career as an engineer at ExxonMobil Corporation in 1976, working in a variety of positions in the refining, supply and natural gas functions before becoming the Executive Assistant to the C;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;">			
	Income tax expense (benefit)	1,031		(678)
Net loss	$	(76,534)	$	(1,931)
Loss per share—basic:	$	(1.54)	$	(0.04)
Weighted-average common shares outstanding—basic	49,552			49,341
Loss per share—diluted:	$	(1.54)	$	(0.04)
Weighted-average common shares outstanding—diluted	49,552			49,341
Dividends declared and paid per common share	$	0.04	$	0.04

SEE ACCOMPANYING NOTES.

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Triumph Group, Inc.
Condensed Consolidated Statements of Comprehensive Income
(dollars in thousands)
(unaudited)

	Three Months Ended June 30,	
	2018	2017
Net loss	$(76,534)	$(1,931)
Other comprehensive (loss) income:		
Foreign currency translation adjustment	(14,524)	11,421
Defined benefit pension plans and other postretirement benefits:		
Reclassifications from accumulated other comprehensive income - losses (gains):		
Amortization of net loss	1,676	1,695
Recognized prior service credits	(2,075)	(3,042)
Total defined benefit pension plans and other postretirement benefits, net of taxes	(399)	(1,347)
Cash flow hedges:		
Unrealized (loss) gain arising during period, net of tax of $125 and $0	(965)	552
Reclassification of loss included in net earnings, net of tax of $35 and $0	(70)	(369)
Net unrealized (loss) gain on cash flow hedges, net of tax	(1,035)	183
Total other comprehensive (loss) income	(15,958)	10,257
Total comprehensive (loss) income	$(92,492)	$8,326

SEE ACCOMPANYING NOTES.

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Triumph Group, Inc.
Condensed Consolidated Statements of Cash Flows
(dollars in thousands) (unaudited)

	Three Months Ended June 30, 2018	2017
Operating Activities		
Net loss	$(76,534)	$(1,931)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	38,812	39,131
Amortization of acquired contract liabilities	(17,234)	(29,473)
Loss on assets held for sale	4,719	—
Other amortization included in interest expense	1,887	3,263
Recovery of doubtful accounts receivable	(14)	(363)
(Benefit) provision for deferred income taxes	—	(1,060)
Employee stock-based compensation	2,462	(41)
Changes in assets and liabilities, excluding the effects of acquisitions and dispositions of businesses:		
Trade and other receivables	27,598	(54,380)
Contract assets	(23,221)	24,070
Inventories	(30,833)	118,243
Prepaid expenses and other current assets	3,898	751
Accounts payable, accrued expenses and contract liabilities	23,341	(172,918)
Accrued pension and other postretirement benefits	(18,691)	(21,207)
Other	(1,904)	(3,133)
Net cash used in operating activities	(65,714)	(99,048)
Investing Activities		
Capital expenditures	(12,200)	(12,085)
Proceeds from sale of assets	664	1,351
Net cash used in investing activities	(11,536)	(10,734)
Financing Activities		
Net increase in revolving credit facility	113,186	118,961
Proceeds from issuance of long-term debt and capital leases	19,046	—
Repayment of debt and capital lease obligations	(53,762)	(33,268)
Payment of deferred financing costs	(64)	(7,160)
Dividends paid	(1,988)	(1,984)
Repurchase of restricted shares for minimum tax obligation	(532)	(296)
Net cash provided by financing activities	75,886	76,253
Effect of exchange rate changes on cash	(1,400)	864
Net change in cash	(2,764)	(32,665)
Cash and cash equivalents at beginning of period	35,819	69,633
Cash and cash equivalents at end of period	$33,055	$36,968

SEE ACCOMPANYING NOTES.

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

1. BASIS OF PRESENTATION AND ORGANIZATION

The accompanying unaudited condensed consolidated financial statements of Triumph Group, Inc. (the "Company") have been prepared in conformity with accounting principles generally accepted in the United States ("U.S. GAAP") 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 U.S. GAAP for complete financial statements. In the opinion of management, the interim financial information includes all adjustments of a normal recurring nature necessary for a fair presentation of the results of operations, financial position and cash flows. The results of operations for the three months ended June 30, 2018, are not necessarily indicative of results that may be expected for the year ending March 31, 2019. The accompanying condensed consolidated financial statements are unaudited and should be read in conjunction with the fiscal 2018 audited condensed consolidated financial statements and notes thereto included in the Company's Form 10-K for the year ended March 31, 2018, filed with the Securities and Exchange Commission (the "SEC") on May 22, 2018

The Company designs, engineers, manufactures, repairs and overhauls a broad portfolio of aerostructures, aircraft components, accessories, subassemblies and systems. The Company serves a broad, worldwide spectrum of the aviation industry, including original equipment manufacturers of commercial, regional, business, and military aircraft and aircraft components, as well as commercial and regional airlines and air cargo carriers.
For the fiscal year ended March 31, 2018, the Company has reclassified certain assets and liabilities within the condensed consolidated balance sheets for comparability purposes with the presentation for the period ended June 30, 2018.
Standards Recently Implemented
Adoption of ASU 2014-09
In May 2014, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”) that supersedes ASC 605 (“legacy GAAP”). Subsequently, the FASB issued several updates to ASU 2014-09, which are pending content or otherwise codified in Accounting Standards Codification (“ASC”) Topic 606 (“ASC 606”). ASU 2014-09 includes new guidance on costs related to a contract, which is codified in ASC Subtopic 340-40 (“ASC 340-40”). The Company adopted ASC 606 using the modified retrospective method (“method”) effective as of April 1, 2018 (“date of initial application”). Under this method, the cumulative effect of the adoption of ASC 606 is recognized as an adjustment to retained earnings on the date of initial application (“Transition Adjustment”), and the comparative financial statements for prior periods are not adjusted and continue to be reported under legacy GAAP. The Transition Adjustment was a decrease to retained earnings of $584,900. Financial information for fiscal years 2019 and 2018 is presented under ASC 606 and under legacy GAAP, respectively. The tables below reflect adjusted fiscal year 2019 financial statement amounts as if the Company had been reporting under legacy GAAP for items that are materially different.
The adoption of ASC 606 does not impact the Company's cash flows or the underlying economics of the Company's contracts with customers. However, the pattern and timing of revenue and profit recognition, as well as financial statement presentation and disclosures, has changed.
The significant changes and the qualitative and quantitative impact of the adoption of ASC 606 are noted below:
a.Revenue from Contracts with Customers
Generally, the Company no longer uses the units-of-delivery method, and the historical use of contract blocks to define contracts for accounting purposes has been replaced by accounting contracts as identified under ASC 606. The Company's accounting contracts under ASC 606 are for the specific number of units for which orders have been received, which is typically for fewer units than what was used to define contract blocks under legacy GAAP. In most of the Company's contracts, the customer has options or requirements to purchase additional products and services that

do not represent material rights since the options are at their stand alone pricing.
The primary effect of the Company's adoption of ASC 606 (outside of the Aerospace Structures segment) was to recognize revenue over time for certain of its contracts, which is a change from recognition based on shipping terms under the legacy GAAP accounting policy.

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

b.Capitalized Pre-Production Costs
Under legacy GAAP, certain capitalized pre-production costs were deferred over the life of the contract block, in certain situations this is not permitted under ASC 606. Accordingly, capitalized pre-production costs of $865,843 (pre-tax), net of previously recognized forward loss reserves of $343,983 (pre-tax), were eliminated, resulting in a decrease to retained earnings in the Transition Adjustment.
c.Contract Assets and Contract Liabilities
Contract assets primarily represent revenues recognized for performance obligations that have been satisfied but for which amounts have not been billed. Contract assets in the amount of $565,414 were established in the Transition Adjustment.
Contract liabilities primarily represent cash received that is in excess of revenues recognized and is contingent upon the satisfaction of performance obligations. Contract liabilities in the amount of $288,287 were established in the Transition Adjustment, which reflects consideration received prior to the date of initial application that previously represented customer advances and additional forward losses due to change in block sizes. This liability will be recognized as revenue earlier if the options are not fully exercised, or immediately if the contract is terminated prior to the options being fully exercised.
d.Contract Costs
The Company's accounting for pre-production, tooling and certain other costs has not changed since these costs generally do not fall within the scope of ASC 340-40, however certain related assets have been reclassified from inventory to property and equipment as they are costs to fulfill obligations beyond 1 year. Incurred production costs for anticipated contracts (satisfaction of performance obligations, which have commenced because the Company expects the customer to exercise options) continue to be classified as inventory.
e.Practical expedients
The Company has adopted ASC 606 only for contracts that were not substantially completed under legacy GAAP on the date of initial application. For these contracts, the Company has reflected the aggregate effect of all modifications executed prior to the date of initial application when identifying satisfied and unsatisfied performance obligations, for determining the transaction price and for allocating the transaction price.
The following tables summarize the impacts of adopting ASC 606 on the Company's consolidated financial statements for the three months and period ended June 30, 2018.

	For the Three Months Ended		
	As Reported June 30, 2018	Impact of Adoption of ASC Topic 606	As Adjusted June 30, 2018
Net Sales	$832,900	$(56,238)	$776,662
Cost of sales (exclusive of depreciation and amortization)	770,214	26,853	797,067
Selling, general and administrative	81,656	1,352	83,008
Interest expense and other	25,493	(2,288)	23,205
Net loss *	(76,534)	(82,155)	(158,689)
(Loss) earnings per share			
Basic	$(1.54)	$(1.66)	$(3.20)
Diluted	$(1.54)	$(1.66)	$(3.20)

* The Company did not have a net tax effect on the Transition Adjustment due to its valuation allowance position.

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	As Reported June 30, 2018	Impact of Adoption of ASC Topic 606	As Adjusted June 30, 2018
Assets			
Trade and other receivables	$337,245	$(23,667)	$313,578
Contract assets, short term	537,332	(512,258)	25,074
Inventories, net	533,982	797,105	1,331,087
Property and equipment, net	732,300	(37,850)	694,450
Total assets	3,419,967	223,330	3,643,297
Liabilities			
Contract liabilities	474,644	(288,747)	185,897
Other noncurrent liabilities	400,172	9,327	409,499
Stockholders' (Deficit) Equity			
Accumulated other comprehensive loss	(383,828)	6	(383,822)
Accumulated (deficit) retained earnings	(517,318)	502,744	(14,574)
Total liabilities and stockholders' (deficit) equity	3,419,967	223,330	3,643,297

Adoption of ASU 2017-07

In March 2017, the FASB issued ASU 2017-07, Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost ("ASU 2017-07"). ASU 2017-07 requires an employer to report the service cost component of net periodic pension benefit cost in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period, with other cost components presented separately from the service cost component and outside of income from operations. ASU 2017-07 also allows only the service cost component of net periodic pension benefit cost to be eligible for capitalization when applicable. ASU 2017-07 was effective for years beginning after December 15, 2017. The Company adopted this standard on April 1, 2018, applying the presentation requirements retrospectively. We elected to apply the practical expedient, which allows us to reclassify amounts disclosed previously in the employee benefit plans note as the basis for applying retrospective presentation for comparative periods as it is impracticable to determine the disaggregation of the cost components for amounts capitalized and amortized in those periods. Provisions related to presentation of the service cost component eligibility for capitalization were applied prospectively.

The effect of the retrospective presentation change related to the net periodic benefit cost of our defined benefit pension and postretirement plans on our condensed consolidated statements of operations was as follows:

	For the Three Months Ended		
	As Previously Reported June 30, 2017	Impact of Adoption of ASU 2017-07	As Adjusted June 30, 2017
Cost of sales	$627,346	$18,432	$645,778
Selling, general and administrative	79,303	945	80,248
Non-service defined benefit income	—	(19,377)	(19,377)

For the three months ended June 30, 2018, the Company recorded a non-cash charge related to the adoption of ASU 2017-07 of $87,241 due to an inseparable change in estimate from a change in accounting principles, which is presented on the accompanying condensed consolidated statements of operations within "Cost of sales."

Adoption of ASU 2017-12

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities (“ASU 2017-12”), which expands component and fair value hedging, specifies the presentation of the effects of hedging instruments, and eliminates the separate measurement and presentation of hedge

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ineffectiveness. ASU 2017-12 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company adopted ASU 2017-12 as of April 1, 2018. The adoption of ASU 2017-12 did not have a material impact on the Company’s condensed consolidated financial statements.

Standards Issued Not Yet Implemented

In February 2018, the FASB issued ASU 2018-02, Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (“ASU 2018-02”). The guidance in ASU 2018-02 allows an entity to elect to reclassify the stranded tax effects related to the Tax Cuts and Jobs Act of 2017 (the “Act”) from accumulated other comprehensive income into retained earnings. ASU 2018-02 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company does not expect the adoption of this standard to have a material effect on the Company’s condensed consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) ("ASU 2016-02"). This update requires recognition of lease right of use assets and lease liabilities on the balance sheet of lessees. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, and interim reporting periods within those years. Early adoption is permitted. ASU 2016-02 requires a modified retrospective transition approach and provides certain optional transition relief. The Company is currently evaluating the guidance to determine the impact it will have on the Company's condensed consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed financial statements and accompanying notes. Actual results could differ from those estimates.

Management may make significant judgments when assessing the standalone selling prices of the Company’s products and services, the estimated amounts of variable consideration and related constraints, and the number of options likely to be exercised. The Company also estimates the cost of satisfying the performance obligations in its contracts and options that may extend over many years. Cost estimates reflect currently available information and the impact of any changes to cost estimates, based upon the facts and circumstances, are recorded in the period in which they become known.

The transaction price for a contract reflects the consideration the Company expects to receive for fully satisfying the performance obligations in the contract. The Company’s contracts with customers are typically for products and services to be provided at fixed stated prices but may also include variable consideration. Variable consideration may include, but is not limited to, unpriced contract modifications; cost sharing provisions; incentives and awards; non-warranty claims and assertions; provisions for non-conformance and rights to return; or other payments to, or receipts from, customers. The Company estimates the variable consideration using the expected value or the most likely amount based upon the facts and circumstances, available data and trends, and the history of resolving variability with specific customers.

The Company regularly commences work and incorporates customer-directed changes prior to negotiating pricing terms for engineering work, product modifications, and other statements of work. The Company's contractual terms typically provide for price negotiations after certain customer-directed changes have been accepted by the Company. Prices are estimated and related costs are deferred until they are contractually agreed upon with the customer. When a contract is modified, the Company evaluates whether additional distinct products and services have been promised and whether allocation of consideration is necessary. If not, the modification is treated as a change to the performance obligations within the existing contract, or otherwise accounted for as a new contract prospectively.

The Company allocates the consideration for a contract to the performance obligations on the basis of their relative standalone selling price. The Company estimates the likelihood of the amount of options that the customer is going to exercise when assessing the existence of performance obligations with respect to this allocation or for assessing the impact of loss contracts. The Company typically provides warranties on all the Company's products and services. Warranties are typically not priced separately, since customers cannot purchase them independently of the products or services under contract so they do not create performance obligations. Triumph's warranties generally provide assurance to the Company's customers that the products or services meet the specifications in the contract. In the event that there is a warranty claim because of a covered

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material or workmanship issue, the Company may be required to pay the customer for repairs or perform the repair. Provisions for estimated expenses related to service and product warranties and certain extraordinary rework are made at the time products are sold. These costs are accrued at the time of the sale and are recorded as cost of sales. These estimates are established using historical information on the nature, frequency, and the cost experience of warranty claims. In the case of new development products or new customers, the Company also considers factors, including management judgment and the type and nature of the new product or new customer, among others. Actual results could differ from those estimates and assumptions.

For the three months ended June 30, 2018, cumulative catch-up adjustments from changes in estimates, including changes in forward loss estimates, decreased net sales, operating income, net income and earnings per share by approximately $(6,423), $(3,626), $(3,626) and $(0.07), net of tax, respectively. In addition, the Company recorded a non-cash charge related to the adoption of ASU 2017-07 of $87,241 due to a change in estimate from a change in accounting principles, which is presented on the accompanying condensed consolidated statements of operations within "Cost of sales." For the three months ended June 30, 2017, cumulative catch-up adjustments from changes in estimates decreased operating income, net income and earnings per share by approximately $(5,289), $(3,915) and $(0.08), net of tax, respectively.

Revenue Recognition

A significant majority of the Company's revenues are from long-term supply agreements with various aerospace manufacturers. The Company participates in its customers' programs by providing design, development, manufacturing, and support services across its various segments. During the early stages of a program, this frequently involves non-recurring design and development services, including tooling. As the program matures, the Company provides recurring manufacturing of products in accordance with customer design and schedule requirements. Many contracts include clauses that provide sole supplier status to the Company for the duration of the program's life. The Company's long-term supply agreements typically include fixed price volume-based terms and require the satisfaction of performance obligations for the duration of the program's life.

The identification of an accounting contract with a customer and the related promises requires an assessment of each party's rights and obligations regarding the products or services to be transferred, including an evaluation of termination clauses and presently enforceable rights and obligations. In general, these long-term supply agreements are legally governed by Master Supply Agreements (or General Terms & Agreement) under which special business provisions (or work package agreements) define specific program requirements. Purchase orders (or authorizations to proceed) are issued under these agreements to reflect presently enforceable rights and obligations for the units of products and services being purchased. The units for accounting purposes ("accounting contract") are typically determined by the purchase orders. Revenue is recognized when the Company has a contract with presently enforceable rights and obligations, including an enforceable right to payment for work performed. Customers generally contract with the Company for requirements in a segment relating to a specific program, and the Company's performance obligations consist of a wide range of engineering design services and manufactured components, as well as spare parts and repairs for OEMs. A single program may result in multiple contracts for accounting purposes, and within the respective contracts, non-recurring work elements and recurring work elements may result in multiple performance obligations. The Company generally contracts directly with its customers and is the principal in all current contracts.

Management considers a number of factors when determining the existence of a contract and the related performance obligations that include, but are not limited to, the nature and substance of the business exchange; the contractual terms and conditions; the promised products and services; the termination provisions in the contract; including the presently enforceable rights and obligations of the parties to the contract; the nature and execution of the customer's ordering process and how the Company is authorized to perform work; whether the promised products and services are capable of being distinct and are distinct within the context of the contract; as well as how and when products and

services are transferred to the customer.
Revenue is recognized when, or as, control of promised products or services transfers to a customer and is recognized in an amount that reflects the consideration that the Company expects to receive in exchange for those products or services. Revenue is recognized over time as work progresses, when the Company is entitled to the reimbursement of costs plus a reasonable profit for work performed for which the Company has no alternate use or when performing work on a customer-owned asset. For these performance obligations that are satisfied over time, the Company generally recognizes revenue using an input method with revenue amounts being recognized proportionately as costs are incurred relative to the total expected costs to satisfy the performance obligation. The Company believes that costs incurred as a portion of total estimated costs is an appropriate measure of progress toward satisfaction of the performance obligation since this measure reasonably depicts the progress of the work effort.

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Revenues for performance obligations that are not recognized over time are recognized at the point in time when control transfers to the customer (which is generally based on shipping terms). For performance obligations that are satisfied at a point in time, the Company evaluates the point in time when the customer can direct the use of and obtain the benefits from the products and services. Shipping and handling costs are not considered performance obligations and are included in cost of sales as incurred.

The transaction price for a contract reflects the consideration the Company expects to receive for fully satisfying the performance obligations in the contract. A subset of the Company’s current contracts include significant financing components because the timing of the transfer of the underlying products and services under contract are at the customers’ discretion. The Company's contracts with customers generally require payment under normal commercial terms after delivery. Payment terms are typically within 30 to 120 days of delivery. The total transaction price is allocated to each of the identified performance obligations using the relative standalone selling price to reflect the amount the Company expects to be entitled for transferring the promised products and services to the customer. A majority of the Company’s agreements with customers include options for future purchases. As allowed by ASC 606, for all of its contracts the Company has elected to exclude sales and other similar taxes from the transaction price, since the Company generally is not subject to collecting sales tax. As a result, the Company collections from customers for these taxes are on a net basis.

Standalone selling price is the price at which the Company would sell a promised good or service separately to a customer. Standalone selling prices are established at contract inception, and subsequent changes in transaction price are allocated on the same basis as at contract inception. When standalone selling prices for the Company’s products and services are generally not observable, the Company uses either the “Expected Cost plus a Margin” or "Adjusted Market Assessment" approaches to determine standalone selling price. Expected costs are typically derived from the available periodic forecast information. If a contract modification changes the overall transaction price of an existing contract, the Company allocates the new transaction price on the basis of the relative standalone selling prices of the performance obligations and cumulative adjustments, if any, are recorded in the current period.

The Company also identifies and estimates variable consideration for contractual provisions such as unpriced contract modifications, cost sharing provisions, and other receipts or payments to customers. The timing of satisfaction of performance obligations and actual receipt of payment from a customer may differ and affects the balances of the contract assets and liabilities.

For contracts that are deemed to be loss contracts, the Company establishes forward loss reserves for total estimated costs that are in excess of total estimated consideration in the period in which they become known. The Company records forward loss reserves for all performance obligations in the aggregate for the accounting contract.

Included in net sales of Integrated Systems and Aerospace Structures, is the non-cash amortization of acquired contract liabilities that were recognized as fair value adjustments through purchase accounting from various acquisitions. For the three months ended June 30, 2018 and 2017, the Company recognized $17,234 and $29,473 of non-cash amortization, respectively, into net sales on the accompanying condensed consolidated statements of operations.

Disaggregation of Revenue

The Company disaggregates revenue based on the method of measuring satisfaction of the performance obligation either over time or at a point in time. Additionally, the Company disaggregates revenue based upon the end market where products and services are transferred to the customer. The Company’s principal operating segments and related revenue are noted in Note 13, Segments.

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The following table shows disaggregated revenues satisfied overtime and point in time (excluding intercompany sales) for the three months ended June 30, 2018:

	Integrated Systems	Aerospace Structures	Product Support	Total
Revenue from contracts with performance obligations:				
Satisfied over time	$64,359	$461,664	$59,425	$585,448
Satisfied at a point in time	174,027	68,684	4,741	247,452
	$238,386	$530,348	$64,166	$832,900

The following tables shows disaggregated revenues by end market (excluding intercompany sales) for the three months ended June 30, 2018:

	Integrated Systems	Aerospace Structures	Product Support	Total
Sales by end market:				
Commercial aerospace	$127,876	$282,164	$49,468	$459,508
Military	83,054	57,922	9,385	150,361
Business jets	13,243	175,832	1,395	190,470
Regional	7,398	6,402	3,918	17,718
Non-aviation	6,815	8,028	—	14,843
Total	$238,386	$530,348	$64,166	$832,900

Concentration of Credit Risk

The Company's trade accounts receivable are exposed to credit risk. However, the risk is limited due to the diversity of the customer base and the customer base's wide geographical area. Trade accounts receivable from Boeing (representing commercial, military and space) represented approximately 21% and 10% of total trade accounts receivable as of June 30, 2018 and March 31, 2018, respectively. Trade accounts receivable from Gulfstream (representing commercial, military and space) represented approximately 8% and 16% of total trade accounts receivable as of June 30, 2018 and March 31, 2018, respectively. The Company had no other concentrations of credit risk of more than 10%.

Sales to Boeing for the three months ended June 30, 2018, were $274,296, or 33% of net sales, of which $51,593, $219,461, and $3,242 were from the Integrated Systems, Aerospace Structures and Product Support, respectively. Sales to Boeing for the three months ended June 30, 2017, were $257,311, or 33% of net sales, of which $53,530, $201,688 and $2,093 were from the Integrated Systems, Aerospace Structures and Product Support, respectively. Sales to Gulfstream for the three months ended June 30, 2018, were $90,771, or 11% of net sales, of which $595, $90,128, and $48 were from the Integrated Systems, Aerospace Structures and Product Support, respectively. Sales to Gulfstream for the three months ended June 30, 2017, were $116,026, or 15% of net sales, of which $306, $115,710, and $10 were from the Integrated Systems, Aerospace Structures and Product Support, respectively.

No other single customer accounted for more than 10% of the Company's net sales. However, the loss of any significant customer, including Boeing and Gulfstream, could have a material adverse effect on the Company and its operating subsidiaries.

Stock-Based Compensation

The Company recognizes compensation expense for share-based awards based on the fair value of those awards at the date of grant. Stock-based compensation expense for the three months ended June 30, 2018 and 2017, was $2,462 and $(41), respectively. The Company has 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. Upon the exercise of stock options or vesting of restricted stock, the Company first transfers treasury stock, then issues new shares.

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Intangible Assets
The components of intangible assets, net, are as follows:

	June 30, 2018			
	Weighted-Average Life	Gross Carrying Amount	Accumulated Amortization	Net
Customer relationships	17.2	$604,266	$(249,157)	$355,109
Product rights, technology and licenses	11.4	55,025	(42,369)	12,656
Non-compete agreements and other	16.3	2,756	(1,010)	1,746
Tradenames	10.0	150,000	(26,406)	123,594
Total intangibles, net		$812,047	$(318,942)	$493,105

	March 31, 2018			
	Weighted-Average Life	Gross Carrying Amount	Accumulated Amortization	Net
Customer relationships	17.3	$606,148	$(240,779)	$365,369
Product rights, technology and licenses	11.4	55,253	(41,858)	13,395
Non-compete agreements and other	16.3	2,756	(965)	1,791
Tradenames	10.3	150,000	(22,874)	127,126
Total intangibles, net		$814,157	$(306,476)	$507,681

Amortization expense for the three months ended June 30, 2018 and 2017, was $13,233 and $14,847, respectively.

Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. When determining fair value measurements for assets and liabilities required to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and also considers assumptions that market participants would use when pricing an asset or liability. The fair value hierarchy has three levels of inputs that may be used to measure fair value: Level 1—Unadjusted quoted prices in active markets for identical assets or liabilities; Level 2—Unadjusted quoted prices in active markets for similar assets or liabilities, or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability; and Level 3—Unobservable inputs for the asset or liability. The Company has applied fair value measurements to its divestitures (see Note 3).

Warranty Reserves

A reserve has been established to provide for the estimated future cost of warranties on our delivered products. The Company periodically reviews the reserves and adjustments are made accordingly. A provision for warranty on products delivered is made on the basis of historical experience and identified warranty issues. Warranties cover such factors as non-conformance to specifications and defects in material and workmanship. The majority of the Company's agreements include a three-year warranty, although certain programs have warranties up to 20 years. The warranty reserves as of June 30, 2018 and March 31, 2018, were $66,433 and $69,588, respectively.

Supplemental Cash Flow Information

The Company received income tax refunds, net of payments of $7,715 and paid $2,749 for income taxes, net of refunds, for the three months ended June 30, 2018 and 2017, respectively.

The Company made interest payments of $12,734 and $24,007 for the three months ended June 30, 2018 and 2017, respectively.
During the three months ended June 30, 2018, the Company financed $1,846 of property and equipment additions through capital leases.

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As of June 30, 2018, the Company remains able to purchase an additional 2,277,789 shares under the existing stock repurchase program. However, there are certain restrictions placed on the repurchase program by the Company's lenders that prevent any repurchases at this time.

3. DIVESTED OPERATIONS AND ASSETS HELD FOR SALE

In May 2018, the Company entered into a definitive agreement to divest Triumph Structures - Los Angeles, Inc. ("TS-LA") and Triumph Processing, Inc. ("TPI"). As a result of the sale of TS-LA and TPI, the Company recognized a loss of $4,719 which is presented on the accompanying condensed consolidated statements of operations as "Loss on assets held for sale." The transaction is subject to customary closing conditions and is expected to close in the first half of fiscal 2019. The operating results for TSLA and TPI are included in Aerospace Structures for the period ended June 30, 2018. The related assets and liabilities are shown as held for sale on the accompanying condensed consolidated balance sheets.

In March 2018, the Company sold all of the shares of Triumph Structures Long Island, LLC ("TS-LI") for cash proceeds of $9,500, and a note receivable of $1,400. As a result of the sale of TS-LI, the Company recognized a loss of $10,370. The operating results of TS-LI were included in Aerospace Structures through the date of divestiture.

In September 2017, the Company sold all of the shares of Triumph Processing - Embee Division, Inc. ("Embee") for total cash proceeds of $64,986. As a result of the sale of Embee, the Company recognized a loss of $17,857. The operating results of Embee were included in Integrated Systems through the date of divestiture.

In December 2016, the Company entered into a definitive agreement to divest Triumph Air Repair, the Auxiliary Power Unit Overhaul Operations of Triumph Aviation Services - Asia, Ltd. and Triumph Engines - Tempe ("Engines and APU") for total cash proceeds of $60,364. As a result, the Company recognized a loss of $14,263 on the sale. The operating results of Engines and APU were included in Product Support through the date of divestiture. The transaction closed during the quarter ended June 30, 2017. An option to purchase the repair part line of Triumph Aviation Services - Asia, Ltd. was executed by the buyer of Engines and APU in May 2018 for total cash proceeds of $17,794. This transaction is expected to close during the first half of fiscal 2019 and is expected to result in a gain. The related assets and liabilities are shown as held for sale on the accompanying condensed consolidated balance sheets.

The divestitures of these entities does not represent a strategic shift and is not expected to have a major effect on the Company's operations or financial results, as defined by ASC 205-20, Discontinued Operations; as a result, the divestitures do not meet the criteria to be classified as discontinued operations.

To measure the amount of impairment related to the divestitures, the Company compared the fair values of assets and liabilities at the evaluation dates with the carrying amounts at the end of the month prior to the respective evaluation dates. The assets and liabilities of the above divestitures and assets held for sale are categorized as Level 2 within the fair value hierarchy. The key assumption included the negotiated sales price of the assets and the assumptions of the liabilities (see Note 2 above for the definition of levels).

4. CONTRACT ASSETS AND CONTRACT LIABILITIES

Contract assets primarily represent revenues recognized for performance obligations that have been satisfied but for which amounts have not been billed. No impairments to contract assets were recorded for the period ended June 30, 2018.

Contract liabilities are established for cash received that is in excess of revenues recognized and are contingent upon the satisfaction of performance obligations. Contract liabilities primarily consist of cash received on contracts for which revenue has been deferred since the Company has not fulfilled its obligation to the customer, along with provisions for forward losses due to changes in block size and performance obligations.

	June 30, 2018	March 31, 2018	Change
Contract assets	$537,332	$37,573	$499,759

Contract liabilities	(474,644)	(321,191)	(153,453)
Net contract asset	$62,688	$(283,618)	$346,306

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The increase in contract assets reflects the effect of the adoption of ASC 606 of approximately $565,000, partially offset by revenue recognized during the period from performance obligations satisfied in previous periods of $6,423 and the net impact of additional unbilled revenues recorded in excess of revenue recognized during the period. The increase in contract liabilities reflects the effect of the adoption of ASC 606 of approximately $288,000 and the net impact of additional deferred revenues recorded in excess of revenue recognized during the period. For the period ended June 30, 2018, the Company recognized $46,504 of revenue that was included in the contract liability balance at the beginning of the period.

5. PERFORMANCE OBLIGATIONS

As of June 30, 2018, the Company has the following unsatisfied, or partially unsatisfied, performance obligations that are expected to be recognized in the future as noted in the table below. The Company expects options to be exercised in addition to the amounts presented below.

	Total	Less than 1 year	1-3 years	4-5 years	More than 5 years
Unsatisfied performance obligations	$4,438,940	$2,406,559	$1,865,190	$166,289	$902

6. INVENTORIES

Inventories are stated at the lower of cost (average-cost or specific-identification methods) or market. The components of inventories are as follows:

	June 30, 2018	March 31, 2018
Raw materials	$61,358	$69,069
Work-in-process, including manufactured and purchased components	359,292	1,591,952
Finished goods	55,042	95,234
Rotable assets	58,290	58,060
Less: unliquidated progress payments	—	(387,146)
Total inventories	$533,982	$1,427,169

At March 31, 2018, work-in-process inventory previously included capitalized pre-production costs on newer development programs. Capitalized pre-production costs include non-recurring engineering, planning and design, including applicable overhead, incurred before production is manufactured on a regular basis. Significant customer-directed work changes can also cause pre-production costs to be incurred. These costs are typically recovered over a contractually determined number of ship set deliveries.

Following the adoption of ASU 2014-09, the capitalized pre-production costs and forward loss provisions associated with these programs were recognized in the transition adjustment. At March 31, 2018, the balance of development program inventory, composed principally of capitalized pre-production costs, excluding progress payments related to the Company's contracts with Bombardier for the Global 7500 program ("Bombardier") and Embraer for the second generation E-Jet program ("Embraer") was as follows:

	March 31, 2018			
	Inventory	Capitalized Pre-Production	Forward Loss Provision	Total Inventory, net
Bombardier	$321,780	$ 685,503	$(343,000)	$664,283
Embraer	38,125	180,340	(983)	217,482

Total	$359,905	$ 865,843	$(343,983)	$881,765

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Under our contract for the Bombardier Global 7500 wing program ("Global 7500"), the Company has the right to design, develop and manufacture wing components for the Global 7500 program. The Global 7500 contract provides for fixed pricing and requires the Company to fund certain up-front development expenses, with certain milestone payments made by Bombardier.

The Global 7500 program charge resulted in the impairment of previously capitalized pre-production costs due to the combination of cost recovery uncertainty, higher than anticipated non-recurring costs and increased forecasted costs on recurring production. The increases in costs were driven by several factors, including: changing technical requirements, increased spending on the design and engineering phase of the program, and uncertainty regarding cost reduction and cost recovery initiatives with our customer and suppliers.

The Global 7500 program has continued to incur costs since March 2016 in support of the development and transition to production.

In May 2017, Triumph Aerostructures and Bombardier entered into a comprehensive settlement agreement that resolved all outstanding commercial disputes between them, including all pending litigation, related to the design, manufacture and supply of wing components for the Global 7500 business aircraft. The settlement resets the commercial relationship between the companies and allows each company to better achieve its business objectives going forward.

Further cost increases or an inability to meet revised recurring cost forecasts on the Global 7500 program may result in additional forward loss reserves in future periods, while improvements in future costs compared with current estimates may result in favorable adjustments if forward loss reserves are no longer required.

The Company is still in the early production stages for the Bombardier and Embraer programs, as these aircrafts are scheduled to enter service in fiscal 2019. Transition of these programs from development to recurring production levels is dependent upon the success of the programs achieving flight testing and certification, as well as the ability of the Bombardier and Embraer programs to generate acceptable levels of aircraft sales. The failure to achieve these milestones and level of sales or significant cost overruns may result in additional forward losses.

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7. LONG-TERM DEBT
Long-term debt consists of the following:

	June 30, 2018	March 31, 2018
Revolving line of credit	$226,073	$112,887
Receivable securitization facility	78,200	107,800
Capital leases	57,108	59,546
Senior notes due 2021	375,000	375,000
Senior notes due 2022	300,000	300,000
Senior notes due 2025	500,000	500,000
Less: Debt issuance costs	(16,007)	(16,949)
	1,520,374	1,438,284
Less: Current portion	16,710	16,527
	$1,503,664	$1,421,757

Revolving Credit Facility
In July 2017, the Company entered into a Ninth Amendment to the Credit Agreement (the "Ninth Amendment" and the existing Credit Agreement, as amended by the Ninth Amendment, the "Credit Agreement") with the Administrative Agent and the Lenders party thereto to, among other things: (i) permit the Company to incur High Yield Indebtedness (as defined in the Credit Agreement) in an aggregate principal amount of up to $500,000, subject to the Company's obligations to apply the net proceeds from an offering to repay the outstanding principal amount of the term loans in full; (ii) limit the mandatory prepayment provisions to eliminate the requirement that net proceeds received from the incurrence of Permitted Indebtedness (as defined in the Credit Agreement), including the High Yield Indebtedness, be applied to reduce the revolving credit commitments once the revolving credit commitments have been reduced to $800,000; (iii) amend certain covenants and other terms; and (iv) modify the current interest rate and letter of credit pricing tiers.
In connection with the Ninth Amendment to the Credit Agreement, the Company incurred $633 of financing costs. These costs, along with the $13,226 of unamortized financing costs subsequent to the Ninth Amendment, are being amortized over the remaining term of the Credit Agreement. In accordance with the reduction in the capacity of the Credit Agreement, the Company wrote-off a proportional amount of unamortized financing fees prior to the Ninth Amendment.
In May 2017, the Company entered into an Eighth Amendment to the Credit Agreement, among the Company and its lenders to, among other things: (i) eliminate the total leverage ratio financial covenant; (ii) increase the maximum permitted senior secured leverage ratio financial covenant applicable to each fiscal quarter, commencing with the fiscal quarter ended March 31, 2017, and to revise the step-downs applicable to such financial covenant; (iii) reduce the aggregate principal amount of commitments under the revolving line of credit to $850,000 from $1,000,000; (iv) modify the maturity date of the term loans so that all of the term loans will mature on March 31, 2019; and (v) establish a new higher pricing tier for the interest rate, commitment fee and letter of credit fee pricing provisions.
The obligations under the Credit Agreement and related documents are secured by liens on substantially all assets of the Company and its domestic subsidiaries pursuant to a Second Amended and Restated Guarantee and Collateral Agreement, dated as of November 19, 2013, among the administrative agent, the Company and the subsidiaries of the Company party thereto.
Pursuant to the Credit Agreement, the Company can borrow, repay and re-borrow revolving credit loans, and cause to be issued letters of credit, in an aggregate principal amount not to exceed $800,000 outstanding at any time. The

Credit Agreement bears interest at either: (i) LIBOR plus between 1.50% and 3.50%; (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 0.50% on the

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unused portion of the Credit Agreement. The Company’s obligations under the Credit Agreement are guaranteed by the Company’s domestic subsidiaries.

At June 30, 2018, there were $226,073 in borrowings and $30,768 in letters of credit outstanding under the Revolving Line of Credit provisions of the Credit Agreement, primarily to support insurance policies. At March 31, 2018, there were $112,887 in borrowings and $30,641 in letters of credit outstanding under the Revolving Line of Credit provisions of the Credit Agreement, primarily to support insurance policies. The level of unused borrowing capacity under the Revolving Line of Credit provisions of the Credit Agreement varies from time to time depending in part upon its compliance with financial and other covenants set forth in the related agreement. The Credit Agreement contains certain affirmative and negative covenants, including limitations on specified levels of indebtedness to earnings before interest, taxes, depreciation and amortization, and interest coverage requirements, and includes limitations on, among other things, liens, mergers, consolidations, sales of assets, and incurrence of debt. If an event of default were to occur under the Credit Agreement, the lenders would be entitled to declare all amounts borrowed under it immediately due and payable. The occurrence of an event of default under the Credit Agreement could also cause the acceleration of obligations under certain other agreements. The Company is currently in compliance with all such covenants. Although the Company does not anticipate any violations of the financial covenants, its ability to comply with these covenants is dependent upon achieving earnings and cash flow projections. As of June 30, 2018, the Company had borrowing capacity under this agreement of $543,159 after reductions for borrowings, letters of credit outstanding under the facility and consideration of covenant limitations.

The Credit Agreement also provided for a variable rate term loan (the "2013 Term Loan"). The Company repaid the outstanding principal amount of the 2013 Term Loan in quarterly installments, on the first business day of each January, April, July and October. During August 2017, the 2013 Term Loan was paid in full with the proceeds from the Senior Notes due 2025 (see below).

The Company previously maintained an interest rate swap agreement to reduce its exposure to interest on the variable rate portion of its long-term debt. In conjunction with the repayment of the 2013 Term Loan, the Company terminated the interest rate swap receiving $280 upon settlement.

In July 2018, the Company, its subsidiary co-borrowers and guarantors entered into a Tenth Amendment to the Credit Agreement (the “Tenth Amendment”) and with the Administrative Agent and the Lenders party thereto. Among other things, the Tenth Amendment modifies certain financial covenants and other terms and lowers the capacity upon completion of certain asset sales and will automatically reduce to $700,000 at March 31, 2019.

Receivables Securitization Facility

In November 2017, the Company amended the Securitization Facility decreasing the purchase limit from $225,000 to $125,000 and extending the term through November 2020. In connection with the Securitization Facility, the Company sells on a revolving basis certain trade accounts receivable to Triumph Receivables, LLC, a wholly-owned special-purpose entity, which in turn sells a percentage ownership interest in the receivables to commercial paper conduits sponsored by financial institutions. The Company is the servicer of the trade accounts receivable under the Securitization Facility. As of June 30, 2018, the maximum amount available under the Securitization Facility was $125,000. Interest rates are based on LIBOR plus a program fee and a commitment fee. The program fee is 0.13% on the amount outstanding under the Securitization Facility. Additionally, the commitment fee is 0.50% on 100.00% of the maximum amount available under the Securitization Facility. The Company secures its trade accounts receivable, which are generally non-interest bearing, in transactions that are accounted for as borrowings pursuant to the Transfers and Servicing topic of the ASC 860.

The agreement governing the Securitization Facility contains restrictions and covenants, including limitations on the making of certain restricted payments; creation of certain liens; and certain corporate acts such as mergers, consolidations and the sale of all or substantially all of the Company's assets.

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Senior Notes Due 2021
On February 26, 2013, the Company issued $375,000 principal amount of 4.875% Senior Notes due 2021 (the "2021 Notes"). The 2021 Notes were sold at 100% of principal amount and have an effective interest yield of 4.875%. Interest on the 2021 Notes accrues at the rate of 4.875% per annum and is payable semiannually in cash in arrears on April 1 and October 1 of each year, commencing on October 1, 2013.
Senior Notes Due 2022
On June 3, 2014, the Company issued $300,000 principal amount of 5.250% Senior Notes due 2022 (the "2022 Notes"). The 2022 Notes were sold at 100% of principal amount and have an effective interest yield of 5.250%. Interest on the 2022 Notes accrues at the rate of 5.250% per annum and is payable semiannually in cash in arrears on June 1 and December 1 of each year, commencing on December 1, 2014.
Senior Notes Due 2025
On August 17, 2017, the Company issued $500,000 principal amount of 7.750% Senior Notes due 2025 (the "2025 Notes"). The 2025 Notes were sold at 100% of principal amount and have an effective interest yield of 7.750%. Interest on the 2025 Notes accrues at the rate of 7.750% per annum and is payable semiannually in cash in arrears on February 15 and August 15 of each year, commencing on February 15, 2018.
Financial Instruments Not Recorded at Fair Value
The carrying amounts of certain of our financial instruments, including cash and cash equivalents, accounts receivable and accounts payable, approximate fair value because of their short maturities (Level 1 inputs). Carrying amounts and the related estimated fair values of the Company’s financial instruments not recorded at fair value in the condensed consolidated financial statements are as follows:

	June 30, 2018		March 31, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt	$1,520,374	$1,508,053	$1,438,284	$1,446,151

The fair value of the long-term debt was calculated based on interest rates available for debt with terms and maturities similar to the Company’s existing debt arrangements (Level 2 inputs), unless quoted market prices were available.

8. LOSS PER SHARE
The following is a reconciliation between the weighted-average outstanding shares used in the calculation of basic and diluted loss per share:

	Three Months Ended June 30, (in thousands)	
	2018	2017
Weighted-average common shares outstanding – basic	49,552	49,341
Net effect of dilutive stock options and nonvested stock	—	—
Weighted-average common shares outstanding – diluted	49,552	49,341

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9. INCOME TAXES
The Company follows the Income Taxes topic of ASC 740, which prescribes a recognition threshold and measurement attribute criteria for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, as well as guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.
On December 22, 2017, the U.S. government enacted comprehensive tax legislation referred to as the Tax Cuts and Jobs Act (the “Act”). The Act introduced tax reform that reduced the current corporate federal income tax rate from 35% to 21%, among other changes. The Act makes broad and complex changes to the U.S. tax code and it will take time to fully evaluate the impact of these changes on the Company. The Company has prepared a reasonable estimate around the impact of the Act and has recorded a provisional impact (as described in the SEC's Staff Accounting Bulletin 118) to the tax provision in the period ended March 31, 2018. While the Company has computed and recorded these provisional amounts, these will be finalized within the established measurement period (not to exceed one year) as additional data and information is gathered. The Company determined that the amounts recorded are provisional as adjustments may occur due to additional guidance from the Internal Revenue Service and as certain tax positions are finalized when the Company files its fiscal 2018 tax returns. As of June 30, 2018, the Company has not made revisions to the provisional tax impact of the Act. Any revisions will be included as an adjustment to the tax expense in the period in which the amounts are determined.
The Company is still evaluating the effects of the Act’s Global Intangible Low-Taxed Income (“GILTI”) provisions and has not adopted an accounting policy on whether the Company will account for GILTI as a period expense or record deferred taxes on temporary basis differences expected to reverse as GILTI in future years. The Company's accounting for the effects of the GILTI provision is incomplete; however, the Company has included estimated GILTI tax related to current year operations in the Company's annualized effective tax rate and has not provided additional GILTI on deferred items.
The Act also introduces base erosion and anti-abuse tax provisions (“BEAT”) for companies that meet certain thresholds by effectively excluding deductions on certain payments to foreign related entities. Although the Company's analysis of the tax effects of the BEAT provision is incomplete, the Company does not expect to be subject to the tax.
The Company has classified uncertain tax positions as noncurrent income tax liabilities unless expected to be paid in one year. Penalties and tax-related interest expense are reported as a component of income tax expense. As of June 30, 2018 and March 31, 2018, the total amount of accrued income tax-related interest and penalties was $341 and $327, respectively.

As of June 30, 2018 and March 31, 2018, the total amount of unrecognized tax benefits was $17,212 and $11,532, respectively, all of which would impact the effective rate, if recognized. The Company does not anticipate that total unrecognized tax benefits will be reduced in the next 12 months.
As of June 30, 2018, the Company has a valuation allowance against principally all of its net deferred tax assets given insufficient positive evidence to support the realization of the Company’s deferred tax assets. The Company intends to continue maintaining a valuation allowance on its deferred tax assets until there is sufficient positive evidence to support the reversal of all or some portion of these allowances. A reduction in the valuation allowance could result in a significant decrease in income tax expense in the period that the release is recorded. However, the exact timing and amount of the reduction in its valuation allowance is unknown at this time and will be subject to the earnings level the Company achieves during fiscal 2019 as well as the Company's income in future periods.
The effective income tax rate for the three months ended June 30, 2018, was (1.4)% as compared to 26.0% for the three months ended June 30, 2017. For the three months ended June 30, 2018, the effective tax rate reflected a

limitation on the recognition of tax benefits due to the full valuation allowance.

With few exceptions, the Company is no longer subject to U.S. federal income tax examinations for fiscal years ended before March 31, 2011, U.S. federal income tax examinations for fiscal years ended March 31, 2012 and 2013, state or local examinations for fiscal years ended before March 31, 2013, or foreign income tax examinations by tax authorities for fiscal years ended before March 31, 2011.

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As of June 30, 2018, the Company is subject to examination in one state jurisdiction and one foreign jurisdiction. The Company has filed appeals in a prior state examination related to fiscal years ended March 31, 1999 through March 31, 2005. Because of net operating losses acquired as part of the acquisition of Vought, the Company is subject to U.S. federal income tax examinations and various state jurisdictions for the years ended December 31, 2001 and after, related to previously filed Vought tax returns. The Company believes appropriate provisions for all outstanding issues have been made for all jurisdictions and all open years.

10. GOODWILL

The following is a summary of the changes in the carrying value of goodwill by reportable segment, from March 31, 2018 through June 30, 2018:

	Integrated Systems	Product Support	Total
Balance, March 31, 2018	$523,893	$68,935	$592,828
Effect of exchange rate changes	(5,240)	(17)	(5,257)
Balance, June 30, 2018	$518,653	$68,918	$587,571

As of March 31, 2018 and June 30, 2018, Aerospace Structures had goodwill of $1,399,128, which was fully impaired.

11. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

The Company sponsors several defined benefit pension plans covering some of its employees. Certain employee groups are ineligible to participate in the plans or have ceased to accrue additional benefits under the plans based upon their service to the Company or years of service accrued under the defined benefit pension plans. Benefits under the defined benefit plans are based on years of service and, for most non-represented employees, on average compensation for certain years. It is the Company’s policy to fund at least the minimum amount required for all qualified plans, using actuarial cost methods and assumptions acceptable under U.S. government regulations, by making payments into a separate trust.

In addition to the defined benefit pension plans, the Company provides certain healthcare and life insurance benefits for eligible retired employees. Such benefits are unfunded. Employees achieve eligibility to participate in these contributory plans upon retirement from active service if they meet specified age and years of service requirements. Election to participate for some employees must be made at the date of retirement. Qualifying dependents at the date of retirement are also eligible for medical coverage. Current plan documents reserve the right to amend or terminate the plans at any time, subject to applicable collective bargaining requirements for represented employees. From time to time, changes have been made to the benefits provided to various groups of plan participants. Premiums charged to most retirees for medical coverage prior to age 65 are based on years of service and are adjusted annually for changes in the cost of the plans as determined by an independent actuary. In addition to this medical inflation cost-sharing feature, the plans also have provisions for deductibles, co-payments, coinsurance percentages, out-of-pocket limits, schedules of reasonable fees, preferred provider networks, coordination of benefits with other plans and a Medicare carve-out.

In accordance with the Compensation – Retirement Benefits topic of ASC 715, the Company has recognized the funded status of the benefit obligation as of the date of the last remeasurement, on the accompanying condensed consolidated balance sheets. The funded status is measured as the difference between the fair value of the plan’s assets and the pension benefit obligation or accumulated postretirement benefit obligation, of the plan. In order to recognize the funded status, the Company determined the fair value of the plan assets. The majority of the plan assets are publicly traded investments which were valued based on the market price as of the date of remeasurement. Investments that are not publicly traded were valued based on the estimated fair value of those investments based on our evaluation of data from fund managers and comparable market data.

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Net Periodic Benefit Plan Costs

The components of net periodic benefit costs (income) for our postretirement benefit plans are shown in the following table:

	Pension benefits	
	Three Months Ended June 30,	
	2018	2017
Components of net periodic benefit costs:		
Service cost	$830	$1,120
Interest cost	19,921	18,788
Expected return on plan assets	(37,107)	(38,048)
Amortization of prior service credits	(907)	(710)
Amortization of net loss	4,180	3,477
Net periodic benefit income	$(13,083)	$(15,373)

	Other postretirement benefits	
	Three Months Ended June 30,	
	2018	2017
Components of net periodic benefit costs:		
Service cost	$57	$102
Interest cost	1,010	1,219
Amortization of prior service credits	(1,164)	(2,328)
Amortization of gain	(2,463)	(1,775)
Net periodic benefit income	$(2,560)	$(2,782)

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12. STOCKHOLDERS' EQUITY

Accumulated Other Comprehensive Loss

Changes in accumulated other comprehensive income (loss) ("AOCI") by component for the three months ended June 30, 2018 and 2017, respectively, were as follows:

	Currency Translation Adjustment	Unrealized Gains and Losses on Derivative Instruments	Defined Benefit Pension Plans and Other Postretirement Benefits	Total [1]
Balance March 31, 2018	$ (58,683)	$ 122	$ (309,309)	$ (367,870)
AOCI before reclassifications	(14,524)	(965)	—	(15,489)
Amounts reclassified from AOCI	—	(70)	(399)	(469)
Net current period AOCI	(14,524)	(1,035)	(399)	(15,958)
Balance June 30, 2018	$ (73,207)	$ (913)	$ (309,708)	$ (383,828)
Balance March 31, 2017	$ (87,212)	$ 2,153	$ (311,119)	$ (396,178)
AOCI before reclassifications	11,421	552	—	11,973
Amounts reclassified from AOCI	—	(369)	(1,347)	(1,716)
Net current period AOCI	11,421	183	(1,347)	10,257
Balance June 30, 2017	$ (75,791)	$ 2,336	$ (312,466)	$ (385,921)

(1) Net of tax.

13. SEGMENTS

The Company has three reportable segments: Integrated Systems, Aerospace Structures and Product Support. The Company's reportable segments are aligned with how the business is managed and views the markets that the Company serves. The Chief Operating Decision Maker (the "CODM") evaluates performance and allocates resources based upon review of segment information. The CODM utilizes earnings before interest, income taxes, depreciation and amortization and pension ("Adjusted EBITDAP") as a primary measure of segment profitability to evaluate performance of its segments and allocate resources.

Integrated Systems consists of the Company's operations that provides integrated solutions, including design, development and support of proprietary components, subsystems and systems, as well as production of complex assemblies using external designs. Capabilities include hydraulic, mechanical and electro-mechanical actuation, power and control; a complete suite of aerospace gearbox solutions, including engine accessory gearboxes and helicopter transmissions; active and passive heat exchange technology; fuel pumps, fuel metering units and Full Authority Digital Electronic Control fuel systems; hydro-mechanical and electromechanical primary and secondary flight controls; and a broad spectrum of surface treatment options.

Aerospace Structures consists of the Company's operations that supply commercial, business, regional and military manufacturers with large metallic and composite structures. Products include wings, wing boxes, fuselage panels, horizontal and vertical tails and sub-assemblies such as floor grids. Aerospace Structures also has the capability to engineer detailed structural designs in metal and composites. It also includes the Company's operations that produce close-tolerance parts primarily to customer designs and model-based definition, including a wide range of aluminum, hard metal and composite structure capabilities. Capabilities include complex machining; gear manufacturing; sheet metal fabrication; forming; advanced composite and interior structures; joining processes such as welding, autoclave bonding and conventional mechanical fasteners; and a variety of special processes, including: super plastic titanium forming, aluminum and titanium chemical milling, and surface treatments.

Product Support consists of the Company's operations that provide full life cycle solutions for commercial, regional and military aircraft. The Company's extensive product and service offerings include full post-delivery value chain services that simplify the MRO supply chain. Through its line maintenance, component MRO and postproduction supply chain activities, Product Support is positioned to provide integrated planeside repair solutions globally. Capabilities include fuel tank repair, metallic and composite aircraft structures, nacelles, thrust reversers, interiors, auxiliary power units and a wide variety of pneumatic, hydraulic, fuel and mechanical accessories.

Segment Adjusted EBITDAP is total segment revenue reduced by operating expenses (less depreciation and amortization) identifiable with that segment. Corporate includes general corporate administrative costs and any other costs not identifiable with one of the Company's segments, including loss on assets held for sale of $4,719 for the three months ended June 30, 2018.

The Company does not accumulate net sales information by product or service or groups of similar products and services and, therefore, the Company does not disclose net sales by product or service because to do so would be impracticable. Selected financial information for each reportable segment and the reconciliation of Adjusted EBITDAP, a non-GAAP financial measure, to operating income (loss) is as follows:

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	Three Months Ended June 30, 2018	2017
Net sales:		
Integrated Systems	$241,039	$238,136
Aerospace Structures	532,387	483,314
Product Support	66,215	66,433
Elimination of inter-segment sales	(6,741)	(6,194)
	$832,900	$781,689
(Loss) income before income taxes:		
Operating income (loss):		
Integrated Systems	$35,409	$46,982
Aerospace Structures (1)	(79,587)	(22,488)
Product Support	7,669	8,437
Corporate	(30,039)	(33,899)
	(66,548)	(968)
Non-service defined benefit income	(16,538)	(19,377)
Interest expense and other	25,493	21,018
	$(75,503)	$(2,609)
Depreciation and amortization:		
Integrated Systems	$7,555	$9,951
Aerospace Structures	28,920	27,140
Product Support	1,670	1,738
Corporate	667	302
	$38,812	$39,131
Amortization of acquired contract liabilities, net:		
Integrated Systems	$8,849	$7,303
Aerospace Structures	8,385	22,170
	$17,234	$29,473
Adjusted EBITDAP:		
Integrated Systems (1)	$34,115	$49,630
Aerospace Structures (1)	28,189	(17,518)
Product Support	9,339	10,175
Corporate	(24,653)	(33,597)
	$46,990	$8,690
Capital expenditures:		
Integrated Systems	$1,609	$2,565
Aerospace Structures	10,138	8,479
Product Support	348	261
Corporate	105	780

$12,200	$12,085

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(1) Prior period information has been reclassified as a result of the Company's adoption of ASU 2017-07 on a retrospective basis in the fiscal year ended March 31, 2019. In accordance with the adoption of this guidance, prior year amounts related to the components of net periodic pension and postretirement benefit cost other than service costs have been reclassified from cost of sales and selling, general and administrative expense to non-service pension (benefit) on the condensed consolidated statements of operations for all periods presented. Accordingly, income of $435 and $18,942 for Integrated Systems and Aerospace Structures, respectively, was reclassified into other income for the three months ended June 30, 2017. The Company also recorded a non-cash charge related to the adoption of ASU 2017-07 of $87,241 due to an inseparable change in estimate from a change in accounting principles, which is presented on the accompanying condensed consolidated statements of operations within "Cost of sales."

	June 30, 2018	March 31, 2018
Total Assets:		
Integrated Systems	$1,228,456	$1,225,770
Aerospace Structures	1,874,924	2,260,416
Product Support	281,311	281,101
Corporate	35,276	39,777
	$3,419,967	$3,807,064

During the three months ended June 30, 2018 and 2017, the Company had international sales of $226,571 and $178,407, respectively.

14. SELECTED CONDENSED CONSOLIDATING FINANCIAL STATEMENTS OF PARENT, GUARANTORS AND NON-GUARANTORS

The 2021 Notes, the 2022 Notes and the 2025 Notes are fully and unconditionally guaranteed on a joint and several basis by the Guarantor Subsidiaries. The total assets, stockholders' equity, revenue, earnings and cash flows from operating activities of the Guarantor Subsidiaries exceeded a majority of the consolidated total of such items as of and for the periods reported. The only consolidated subsidiaries of the Company that are not guarantors of the 2021 Notes, the 2022 Notes and the 2025 Notes (the “Non-Guarantor Subsidiaries”) are: (a) the receivables securitization special-purpose entity and (b) the foreign operating subsidiaries. The following tables present condensed consolidating financial statements including the Company (the “Parent”), the Guarantor Subsidiaries, and the Non-Guarantor Subsidiaries. Such financial statements include summary condensed consolidating balance sheets as of June 30, 2018 and March 31, 2018, condensed consolidating statements of comprehensive income for the three months ended June 30, 2018 and 2017, and condensed consolidating statements of cash flows for the three months ended June 30, 2018 and 2017.

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SUMMARY CONDENSED CONSOLIDATING BALANCE SHEETS:

	June 30, 2018				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
Current assets:					
Cash and cash equivalents	$84	$420	$ 32,551	$—	$33,055
Trade and other receivables, net	1,885	85,591	249,769	—	337,245
Contract assets	—	524,524	12,808	—	537,332
Inventories	—	430,872	103,110	—	533,982
Prepaid expenses and other	10,041	8,231	12,481	—	30,753
Assets held for sale	—	79,366	1,353	—	80,719
Total current assets	12,010	1,129,004	412,072	—	1,553,086
Property and equipment, net	12,637	607,251	112,412	—	732,300
Goodwill and other intangible assets, net	—	961,684	118,992	—	1,080,676
Other, net	21,704	26,137	6,064	—	53,905
Intercompany investments and advances	1,453,808	81,541	72,889	(1,608,238)	—
Total assets	$1,500,159	$2,805,617	$ 722,429	$(1,608,238)	$3,419,967
Current liabilities:					
Current portion of long-term debt	$1,139	$15,571	$ —	$—	$16,710
Accounts payable	9,581	456,825	48,501	—	514,907
Accrued expenses	58,058	601,775	39,904	—	699,737
Liabilities related to assets held for sale	—	29,316	272	—	29,588
Total current liabilities	68,778	1,103,487	88,677	—	1,260,942
Long-term debt, less current portion	1,466,009	37,655	—	—	1,503,664
Intercompany advances	176,806	2,057,675	482,354	(2,716,835)	—
Accrued pension and other postretirement benefits, noncurrent	6,531	459,064	—	—	465,595
Deferred income taxes and other	8,616	389,455	18,276	—	416,347
Total stockholders’ (deficit) equity	(226,581)	(1,241,719)	133,122	1,108,597	(226,581)
Total liabilities and stockholders’ (deficit) equity	$1,500,159	$2,805,617	$ 722,429	$(1,608,238)	$3,419,967

Triumph Group, Inc.
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(unaudited)

SUMMARY CONDENSED CONSOLIDATING BALANCE SHEETS:

	March 31, 2018				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
Current assets:					
Cash and cash equivalents	$44	$—	$ 35,775	$—	$ 35,819
Trade and other receivables, net	1,686	77,924	297,002	—	376,612
Contract assets	—	37,573	—	—	37,573
Inventories	—	1,312,747	114,422	—	1,427,169
Prepaid expenses and other	17,513	15,712	11,203	—	44,428
Assets held for sale	—	—	1,324	—	1,324
Total current assets	19,243	1,443,956	459,726	—	1,922,925
Property and equipment, net	11,984	594,437	119,582	—	726,003
Goodwill and other intangible assets, net	—	973,954	126,555	—	1,100,509
Other, net	21,930	29,904	5,793	—	57,627
Intercompany investments and advances	1,987,599	81,542	73,184	(2,142,325)	—
Total assets	$2,040,756	$3,123,793	$ 784,840	$(2,142,325)	$ 3,807,064
Current liabilities:					
Current portion of long-term debt	$903	$ 15,624	$ —	$—	$ 16,527
Accounts payable	12,088	356,236	50,043	—	418,367
Accrued expenses	46,679	467,674	42,752	—	557,105
Liabilities related to assets held for sale	—	—	440	—	440
Total current liabilities	59,670	839,534	93,235	—	992,439
Long-term debt, less current portion	1,380,867	40,890	—	—	1,421,757
Intercompany advances	134,590	1,952,042	524,788	(2,611,420)	—
Accrued pension and other postretirement benefits, noncurrent	6,484	477,403	—	—	483,887
Deferred income taxes and other	8,611	427,724	22,112	—	458,447
Total stockholders' equity	450,534	(613,800)	144,705	469,095	450,534
Total liabilities and stockholders' equity	$2,040,756	$3,123,793	$ 784,840	$(2,142,325)	$ 3,807,064

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CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME:

	For the Three Months Ended June 30, 2018				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
Net sales	$—	$ 764,895	$ 88,140	$ (20,135)	$ 832,900
Operating costs and expenses:					
Cost of sales	—	716,921	73,428	(20,135)	770,214
Selling, general and administrative	24,560	49,182	7,914	—	81,656
Depreciation and amortization	667	33,917	4,228	—	38,812
Restructuring costs	—	4,047	—	—	4,047
Loss on divestitures	4,719	—	—	—	4,719
	29,946	804,067	85,570	(20,135)	899,448
Operating (loss) income	(29,946)	(39,172)	2,570	—	(66,548)
Intercompany interest and charges	(40,219)	38,075	2,144	—	—
Non-service defined benefit income	—	(16,188)	(350)	—	(16,538)
Interest expense and other	23,555	4,018	(2,080)	—	25,493
Income (loss) before income taxes	(13,282)	(65,077)	2,856	—	(75,503)
Income (benefit) tax expense	24,482	(24,351)	900	—	1,031
Net income (loss)	(37,764)	(40,726)	1,956	—	(76,534)
Other comprehensive loss	(1,035)	(399)	(14,524)	—	(15,958)
Total comprehensive loss	$(38,799)	$ (41,125)	$ (12,568)	$ —	$ (92,492)

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CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME:

	For the Three Months Ended June 30, 2017				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
Net sales	$—	$ 715,090	$ 87,911	$ (21,312)	$ 781,689
Operating costs and expenses:					
Cost of sales	—	575,404	91,686	(21,312)	645,778
Selling, general and administrative	22,989	44,853	12,406	—	80,248
Depreciation and amortization	302	34,773	4,056	—	39,131
Restructuring costs	10,547	6,446	507	—	17,500
	33,838	661,476	108,655	(21,312)	782,657
Operating (loss) income	(33,838)	53,614	(20,744)	—	(968)
Intercompany interest and charges	(43,242)	41,022	2,220	—	—
Non-service defined benefit income	—	(18,771)	(606)	—	(19,377)
Interest expense and other	17,042	2,781	1,195	—	21,018
(Loss) income before income taxes	(7,638)	28,582	(23,553)	—	(2,609)
(Benefit) income tax expense	(7,074)	5,763	633	—	(678)
Net (loss) income	(564)	22,819	(24,186)	—	(1,931)
Other comprehensive income (loss)	183	(1,347)	11,421	—	10,257
Total comprehensive (loss) income	$(381)	$ 21,472	$ (12,765)	$ —	$ 8,326

Triumph Group, Inc.
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CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS:

	For the Three Months Ended June 30, 2018				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
Net (loss) income	$(37,764)	$(40,726)	$1,956	$—	$(76,534)
Adjustments to reconcile net income to net cash provided by (used in) operating activities	46,831	(76,449)	40,941	(503)	10,820
Net cash provided by (used in) operating activities	9,067	(117,175)	42,897	(503)	(65,714)
Capital expenditures	(105)	(10,524)	(1,571)	—	(12,200)
Proceeds from sale of assets	—	118	546	—	664
Net cash (used in) provided by investing activities	(105)	(10,406)	(1,025)	—	(11,536)
Net increase in revolving credit facility	113,186	—	—	—	113,186
Proceeds on issuance of debt	1,214	632	17,200	—	19,046
Retirements and repayments of debt	(365)	(6,597)	(46,800)	—	(53,762)
Payments of deferred financing costs	(64)	—	—	—	(64)
Dividends paid	(1,988)	—	—	—	(1,988)
Repurchase of restricted shares for minimum tax obligation	(532)	—	—	—	(532)
Intercompany financing and advances	(120,373)	133,966	(14,096)	503	—
Net cash (used in) provided by financing activities	(8,922)	128,001	(43,696)	503	75,886
Effect of exchange rate changes on cash	—	—	(1,400)	—	(1,400)
Net change in cash and cash equivalents	40	420	(3,224)	—	(2,764)
Cash and cash equivalents at beginning of period	44	—	35,775	—	35,819
Cash and cash equivalents at end of period	$84	$420	$32,551	$—	$33,055

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CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS:

	For the Three Months Ended June 30, 2017				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
Net (loss) income	$ (564)	$ 22,819	$ (24,186)	$ —	$ (1,931)
Adjustments to reconcile net income to net cash (used in) provided by operating activities	(24,495)	(101,363)	28,086	655	(97,117)
Net cash (used in) provided by operating activities	(25,059)	(78,544)	3,900	655	(99,048)
Capital expenditures	(780)	(10,375)	(930)	—	(12,085)
Proceeds from sale of assets	—	1,183	168	—	1,351
Net cash used in investing activities	(780)	(9,192)	(762)	—	(10,734)
Net increase in revolving credit facility	118,961	—	—	—	118,961
Retirements and repayments of debt	(12,139)	(4,129)	(17,000)	—	(33,268)
Payments of deferred financing costs	(7,160)	—	—	—	(7,160)
Dividends paid	(1,984)	—	—	—	(1,984)
Repurchase of restricted shares for minimum tax obligations	(296)	—	—	—	(296)
Intercompany financing and advances	(90,831)	86,581	4,905	(655)	—
Net cash provided by (used in) financing activities	6,551	82,452	(12,095)	(655)	76,253
Effect of exchange rate changes on cash	—	—	864	—	864
Net change in cash and cash equivalents	(19,288)	(5,284)	(8,093)	—	(32,665)
Cash and cash equivalents at beginning of period	19,942	24,137	25,554	—	69,633
Cash and cash equivalents at end of period	$ 654	$ 18,853	$ 17,461	$ —	$ 36,968

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15. COMMITMENTS AND CONTINGENCIES

In the ordinary course of business, the Company is involved in disputes, claims and lawsuits with employees, suppliers and customers, as well as governmental and regulatory inquiries, that it deems to be immaterial. Some may involve claims or potential claims of substantial damages, fines, penalties or injunctive relief. While the Company cannot predict the outcome of any pending or future litigation or proceeding and no assurances can be given, the Company does not believe that any pending matter will have a material effect, individually or in the aggregate, on its financial position or results of operations.

16. RESTRUCTURING COSTS

During the fiscal years ended March 31, 2017 and 2016, the Company committed to restructuring plans involving certain of its businesses, as well as the consolidation of certain of its facilities. The Company expects to reduce its footprint by approximately 4.3 million square feet, to reduce head count by approximately 2,500 employees and to amend certain contracts. The Company estimated that it would record aggregate pre-tax charges of $195,000 to $210,000 related to these programs, which represent employee termination benefits, contract termination costs, accelerated depreciation, and facility closure and other exit costs, and will result in future cash outlays. As of June 30, 2018, the Company expects to incur an aggregate pre-tax charge of $189,100 upon completion of the restructuring. Through the fiscal year ended March 31, 2018, the Company has incurred $177,005, and expects to incur approximately $12,000 of additional pre-tax charges

The following table provides a summary of the Company's current aggregate cost estimates by major type of expense associated with the restructuring plans noted above:

Type of expense:	Total estimated amount expected to be incurred
Termination benefits	$ 25,000
Facility closure and other exit costs [1]	34,400
Contract termination costs	18,400
Accelerated depreciation charges [2]	36,300
Other [3]	75,000
	$ 189,100

(1) Includes costs to transfer product lines among facilities and outplacement and employee relocation costs.

(2) Accelerated depreciation charges are recorded as part of depreciation and amortization on the consolidated statements of operations.

(3) Consists of other costs directly related to the plan, including project management, legal, regulatory costs and other transformation related costs, such as costs to amend certain contracts.

The restructuring charges recognized for the three months ended June 30, 2018 and 2017, by type and by segment consisted of the following:

	For the Three Months Ended June 30, 2018				
	Integrated Systems	Aerospace Structures	Product Support	Corporate	Total
Termination benefits	$—	$ 3,266	$ —	$ —	$3,266

Facility closure and other exit costs	559	—	—	—	559
Other	222	—	—	—	222
Total restructuring costs	781	3,266	—	—	4,047
Depreciation and amortization	—	—	—	—	—
Total	$781	$ 3,266	$ —	$ —	$4,047

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	For the Three Months Ended June 30, 2017				
	Integrated Systems	Aerospace Structures	Product Support	Corporate	Total
Termination benefits	$—	$ 256	$ —	$ —	$256
Facility closure and other exit costs	—	3,304	—	—	3,304
Other	615	2,017	760	10,548	13,940
Total restructuring costs	615	5,577	760	10,548	17,500
Accelerated depreciation	546	314	—	—	860
Total	$1,161	$ 5,891	$ 760	$ 10,548	$18,360

Termination benefits include employee retention, severance and benefit payments for terminated employees. Facility closure costs include general operating costs incurred subsequent to production shutdown as well as equipment relocation and other associated costs. Contract termination costs include costs associated with terminating existing leases and supplier agreements. Other transformation costs include legal, outplacement and employee relocation costs, and other employee-related costs and costs to amend certain contracts.

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

(The following discussion should be read in conjunction with the condensed consolidated financial statements contained elsewhere herein.)

OVERVIEW

We are a major supplier to the aerospace industry and have three operating segments: (i) Integrated Systems, whose companies' revenues are derived from integrated solutions, including design, development and support of proprietary components, subsystems and systems, as well as production of complex assemblies using external designs; (ii) Aerospace Structures, whose companies supply commercial, business, regional and military manufacturers with large metallic and composite structures and produce close-tolerance parts primarily to customer designs and model based definition, including a wide range of aluminum, hard metal and composite structure capabilities; and (iii) Product Support, whose companies provide full life cycle solutions for commercial, regional and military aircraft.

In May 2018, the Company entered into a definitive agreement to divest Triumph Structures - Los Angeles, Inc. ("TSLA") and Triumph Processing, Inc. ("TPI"). The transaction is subject to customary closing conditions and is expected to close in the first half of fiscal 2019. The operating results for TSLA and TPI are included in Aerospace Structures for period ended June 30, 2018. The related assets and liabilities are shown as held for sale on the accompanying condensed consolidated balance sheets.

Highlights for the first quarter of the fiscal year ending March 31, 2019, included:

- Net sales for the first quarter of the fiscal year ending March 31, 2019 were $832.9 million, compared to $781.7 million for the prior year period.
- Operating loss in the first quarter of fiscal 2019 was $66.5 million, compared to an operating loss of $1.0 million for the first quarter of fiscal 2018.
- Net loss for the first quarter of fiscal 2019 was $76.5 million, compared to a net loss of $1.9 million for the first quarter of fiscal 2018.
- Backlog as of June 30, 2018 was $4.42 billion. Of our existing backlog of $4.42 billion, we estimate that approximately $1.93 billion will not be shipped by June 30, 2019.
- Net loss for the first quarter of fiscal 2019 was $1.54 per diluted common share, as compared to a net loss of $0.04 per diluted share in the prior year period.
- We used $65.7 million of cash flow from operating activities for the three months ended June 30, 2018, as compared to cash used in operations of $99.0 million in the comparable prior year period.

We committed to several plans that incorporate the restructuring of certain of our businesses as well as the consolidation of certain of our facilities. We expect to reduce our footprint by approximately 4.3 million square feet and to reduce head count by 2,500 employees. Over the course of the plans (which were initiated in fiscal 2016), we estimate that we will record aggregate pre-tax charges of $195.0 million to $210.0 million related to these plans, which represent employee termination benefits, contract termination costs, accelerated depreciation and facility closure and other exit costs, and will result in future cash outlays. For the three months ended June 30, 2018 and 2017, we recorded pre-tax charges of $4.0 million and $17.5 million, respectively, related to these plans.

Our restructuring plans and related activities were anticipated to generate annualized savings of approximately $300 million per year on a consolidated basis by fiscal year 2019 from facility consolidations, headcount reductions, operational efficiencies, and supply chain optimization. These anticipated savings were expected to come from our reportable segments approximately as follows: Integrated Systems - 23%; Aerospace Structures - 72% and Product Support - 5%. A significant portion of the anticipated savings are expected to be reinvested in business development, research and development and capital improvements to help drive organic growth or to support previously negotiated contractual price step-downs. The Company remains on target for its consolidated anticipated savings goals, however the nature of those savings has shifted over time to be more weighted toward our supply chain optimization and operational efficiencies than previously anticipated, offset by reduced expectations associated with the facility consolidations and headcount reductions.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation referred to as the Tax Cuts and Jobs Act (the "Act"). The Act introduced tax reform that reduced the current corporate federal income tax rate from 35% to 21%, among other changes. The Act makes broad and complex changes to the U.S. tax code and it will take time to fully evaluate the impact of these changes on the Company. The Company has prepared a reasonable estimate around the impact of the Act and has recorded a provisional impact (as described in Staff Accounting Bulletin 118) to the tax provision in the period ended March 31, 2018. While the Company has computed and recorded these provisional amounts, these will be finalized within the established measurement period (not to exceed one year) as additional data and information is gathered. The Company determined that the amounts recorded are provisional as adjustments may occur due to additional guidance from the Internal Revenue Service and as certain tax positions are finalized when the Company files its fiscal 2018 tax returns. As of June 30, 2018, the Company has not made revisions to the provisional tax impact of the Act. Any revisions will be included as an adjustment to the tax expense in the period in which the amounts are determined.

The Company is still evaluating the effects of the GILTI provisions; an accounting policy on whether the Company will account for GILTI as a period expense or record deferred taxes for anticipated GILTI has not been made. The Company's accounting for the effects of the GILTI provision is incomplete; however, the Company has included estimated GILTI tax related to current year operations in the Company's annualized effective tax rate and has not provided additional GILTI on deferred items.

The Act also introduces base erosion and anti-abuse tax provisions ("BEAT") for companies that meet certain thresholds by effectively excluding deductions on certain payments to foreign related entities. Although the Company's analysis of the tax effects of the BEAT provision is incomplete, the Company does not expect to be subject to the tax.

The Company is still in the early production stages for the Bombardier and Embraer programs, as these aircrafts are scheduled to enter service in fiscal 2019. Transition of these programs from development to recurring production levels is dependent upon the success of the programs achieving flight testing and certification, as well as the ability of the Bombardier and Embraer programs to generate acceptable levels of aircraft sales. The failure to achieve these milestones and level of sales or significant cost overruns may result in additional forward losses.

In May 2017, Triumph Aerostructures and Bombardier entered into a comprehensive settlement agreement that resolved all outstanding commercial disputes between them, including all pending litigation, related to the design, manufacture and supply of wing components for Bombardier's Global 7000/8000 business aircraft. The settlement resets the commercial relationship between the companies and allows each company to better achieve its business objectives going forward. The Company and Bombardier continue to have programmatic and commercial discussions on the wing scope of work and are jointly analyzing the most cost-efficient supply chain arrangement to ensure continuity of supply and the long-term success of the program and both companies.

Under our contract with Embraer, we have the exclusive right to design, develop and manufacture the center fuselage section III, rear fuselage section and various tail section components (rudder and elevator) for the E2-Jets. The contract provides for funding on a fixed amount of non-recurring costs, which will be paid over a specified number of production units. Higher than expected spending on the E2-Jets program has resulted in a near breakeven estimated profit margin percentage, with additional potential future cost pressures as well as opportunities for improved performance. Risks related to additional engineering as well as the recurring cost profile remains as this program completes flight testing.

We seek additional consideration for customer work statement changes throughout our contract life as a standard course of business. We recently reached a preliminary agreement with Gulfstream across many programs we support, including but not limited to, the G650 wing program. We are also currently engaged with other customers in similar negotiations. The ability to recover or negotiate additional consideration is not certain and varies by contract. Varying market conditions for these products may also impact future profitability.

During April 2018, the Company reached an agreement with Gulfstream to optimize the supply chain on the Company's G650 work scope. The G650 wing box and wing completion work, which are now co-produced across

three facilities at both companies, are planned for consolidation into Gulfstream's structures center of excellence in Savannah, Georgia. The Company will maintain its role as the supply chain integrator on the program.
Although none of these new programs individually is expected to have a material impact on our net revenues, they do have the potential, either individually or in the aggregate, to materially and negatively impact our consolidated results of operations

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Management's Discussion and Analysis of
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if future changes in estimates result in the need for a forward loss provision. Absent any such loss provisions, we do not anticipate that any of these new programs will significantly dilute our future consolidated margins.

In September 2017, the Company sold all of the shares of Triumph Processing - Embee Division, Inc. ("Embee") for total cash proceeds of $65.0 million. As a result of the sale of Embee, the Company recognized a loss of $17.9 million, which is included in Corporate. The operating results of Embee were included in Integrated Systems through the date of divestiture.

In March 2018, the Company sold all of the shares of Triumph Structures Long Island, LLC ("TS-LI") for cash proceeds of $9.5 million, and a note receivable of $1.4 million. As a result of the sale of TS-LI, the Company recognized a loss of $10.4 million which is presented on the accompanying condensed consolidated statements of operations as "Loss on assets held for sale." The operating results of TS-LI were included in Aerospace Structures through the date of divestiture.

In December 2016, the Company entered into a definitive agreement to divest Triumph Air Repair, the Auxiliary Power Unit Overhaul Operations of Triumph Aviation Services - Asia, Ltd. and Triumph Engines - Tempe ("Engines and APU"). As a result, the Company recognized a loss of $14.3 million on the sale. The operating results of Engines and APU were included in Product Support through the date of divestiture. The transaction closed during the quarter ended June 30, 2017. An option to purchase the repair part line of Triumph Aviation Services - Asia, Ltd. was executed by the buyer of Engines and APU in May 2018 for total cash proceeds of $17.8 million. This transaction is expected to close during the first half of fiscal 2019 and is expected to result in a gain. The related assets and liabilities are shown as held for sale on the accompanying condensed consolidated balance sheets.

RESULTS OF OPERATIONS

The following includes a discussion of our consolidated and business segment results of operations. The Company's diverse structure and customer base do not allow for precise comparisons of the impact of price and volume changes to our results. However, we have disclosed the significant variances between the respective periods.

Non-GAAP Financial Measures

We prepare and publicly release quarterly unaudited financial statements prepared in accordance with U.S. GAAP. In accordance with Securities and Exchange Commission (the "SEC") guidance on Compliance and Disclosure Interpretations, we also disclose and discuss certain non-GAAP financial measures in our public filings and earning releases. Currently, the non-GAAP financial measures that we disclose are Adjusted EBITDA, which is our income from continuing operations before interest, income taxes, amortization of acquired contract liabilities, legal settlements, depreciation and amortization; and Adjusted EBITDAP, which is Adjusted EBITDA, before pension. We disclose Adjusted EBITDA on a consolidated and Adjusted EBITDAP on a consolidated and a reportable segment basis in our earnings releases, investor conference calls and filings with the SEC. The non-GAAP financial measures that we use may not be comparable to similarly titled measures reported by other companies. Also, in the future, we may disclose different non-GAAP financial measures in order to help our investors more meaningfully evaluate and compare our future results of operations to our previously reported results of operations.

We view Adjusted EBITDA and Adjusted EBITDAP as operating performance measures and, as such, we believe that the U.S. GAAP financial measure most directly comparable to it is net income. In calculating Adjusted EBITDA and Adjusted EBITDAP, we exclude from net income (loss) the financial items that we believe should be separately identified to provide additional analysis of the financial components of the day-to-day operation of our business. We have outlined below the type and scope of these exclusions and the material limitations on the use of these non-GAAP financial measures as a result of these exclusions. Adjusted EBITDA and Adjusted EBITDAP are not measurements of financial performance under U.S. GAAP and should not be considered as a measure of liquidity, as an alternative to net income (loss), income from continuing operations, or as an indicator of any other measure of performance derived in accordance with U.S. GAAP. Investors and potential investors in our securities should not rely on Adjusted EBITDA or Adjusted EBITDAP as a substitute for any U.S. GAAP financial measure, including net income (loss) or income from continuing operations. In addition, we urge investors and potential investors in our securities to carefully review the reconciliation of Adjusted EBITDA and Adjusted EBITDAP to net income (loss) set forth below, in our earnings releases and in other filings with the SEC and to carefully review the U.S. GAAP financial information included as part of our Quarterly Reports on Form 10-Q and our Annual Reports on Form 10-K that are filed with the SEC, as well as our quarterly earnings releases, and compare the U.S. GAAP financial information with our Adjusted EBITDA and Adjusted EBITDAP.

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Adjusted EBITDA and Adjusted EBITDAP are used by management to internally measure our operating and management performance and by investors as a supplemental financial measure to evaluate the performance of our business that, when viewed with our U.S. GAAP results and the accompanying reconciliation, we believe provides additional information that is useful to gain an understanding of the factors and trends affecting our business. We have spent more than 20 years expanding our product and service capabilities, partially through acquisitions of complementary businesses. Due to the expansion of our operations, which included acquisitions, our income from continuing operations has included significant charges for depreciation and amortization. Adjusted EBITDA and Adjusted EBITDAP exclude these charges and provides meaningful information about the operating performance of our business, apart from charges for depreciation and amortization. We believe the disclosure of Adjusted EBITDA and Adjusted EBITDAP helps investors meaningfully evaluate and compare our performance from quarter to quarter and from year to year. We also believe Adjusted EBITDA and Adjusted EBITDAP are measures of our ongoing operating performance because the isolation of non-cash charges, such as depreciation and amortization, and non-operating items, such as interest, income taxes, pension and other postretirement benefits, provides additional information about our cost structure and, over time, helps track our operating progress. In addition, investors, securities analysts and others have regularly relied on Adjusted EBITDA and Adjusted EBITDAP to provide a financial measure by which to compare our operating performance against that of other companies in our industry.
Set forth below are descriptions of the financial items that have been excluded from our net income to calculate Adjusted EBITDA and Adjusted EBITDAP and the material limitations associated with using these non-GAAP financial measures as compared to net income (loss) or income from continuing operations:

- Divestitures may be useful for investors to consider because they reflect gains or losses from sale of operating units. We do not believe these earnings necessarily reflect the current and ongoing cash earnings related to our operations.
- Legal settlements may be useful for investors to consider because it reflects gains or losses from disputes with third parties. We do not believe these earnings necessarily reflect the current and ongoing cash earnings related to our operations.
- Non-service defined benefit income from our pension and other postretirement benefit plans (inclusive of the adoption of ASU 2017-07) may be useful for investors to consider because they represent the cost of post retirement benefits to plan participants, net of the assumption of returns on the plan's assets and are not indicative of the cash paid for such benefits. We do not believe these earnings (expenses) necessarily reflect the current and ongoing cash earnings related to our operations.
- Amortization of acquired contract liabilities may be useful for investors to consider because it represents the non-cash earnings on the fair value of off-market contracts acquired through acquisitions. We do not believe these earnings necessarily reflect the current and ongoing cash earnings related to our operations.
- Amortization expense (including intangible asset impairments) may be useful for investors to consider because it represents the estimated attrition of our acquired customer base and the diminishing value of product rights and licenses. We do not believe these charges necessarily reflect the current and ongoing cash charges related to our operating cost structure.
- Depreciation may be useful for investors to consider because it generally represents the wear and tear on our property and equipment used in our operations. We do not believe these charges necessarily reflect the current and ongoing cash charges related to our operating cost structure.
- The amount of interest expense and other we incur may be useful for investors to consider and may result in current cash inflows or outflows. However, we do not consider the amount of interest expense and other to be a representative component of the day-to-day operating performance of our business.
- Income tax expense may be useful for investors to consider because it generally represents the taxes which may be payable for the period and the change in deferred income taxes during the period and may reduce the amount of funds otherwise available for use in our business. However, we do not consider the amount of income tax expense to be a representative component of the day-to-day operating performance of our business.

Management compensates for the above-described limitations of using non-GAAP measures only to supplement our U.S. GAAP results and to provide additional information that is useful to gain an understanding of the factors and trends affecting our business.

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The following table shows our Adjusted EBITDA and Adjusted EBITDAP reconciled to our net income (loss) for the indicated periods (in thousands):

	Three Months Ended June 30,	
	2018	2017
Net loss	$(76,534)	$(1,931)
Loss on assets held for sale	4,719	—
Adoption of ASU 2017-07	87,241	—
Amortization of acquired contract liabilities, net	(17,234)	(29,473)
Depreciation and amortization	38,812	39,131
Interest expense and other	25,493	21,018
Income tax expense	1,031	(678)
Adjusted EBITDA	$63,528	$28,067
Non-service defined benefit income	(16,538)	(19,377)
Adjusted EBITDAP	$46,990	$8,690

The following tables show our Adjusted EBITDAP by reportable segment reconciled to our operating income (loss) for the indicated periods (in thousands):

	Three Months Ended June 30, 2018				
	Total	Integrated Systems	Aerospace Structures	Product Support	Corporate/ Eliminations
Operating (loss) income	$(66,548)	$35,409	$(79,587)	$7,669	$(30,039)
Loss on divestitures	4,719	—	—	—	4,719
Adoption of ASU 2017-07	87,241	—	87,241	—	—
Amortization of acquired contract liabilities, net	(17,234)	(8,849)	(8,385)	—	—
Depreciation and amortization	38,812	7,555	28,920	1,670	667
Adjusted EBITDAP	$46,990	$34,115	$28,189	$9,339	$(24,653)

	Three Months Ended June 30, 2017				
	Total	Integrated Systems	Aerospace Structures	Product Support	Corporate/ Eliminations
Operating (loss) income	$(968)	$46,982	$(22,488)	$8,437	$(33,899)
Amortization of acquired contract liabilities, net	(29,473)	(7,303)	(22,170)	—	—
Depreciation and amortization	39,131	9,951	27,140	1,738	302
Adjusted EBITDAP	$8,690	$49,630	$(17,518)	$10,175	$(33,597)

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Three months ended June 30, 2018, compared to three months ended June 30, 2017

	Three Months Ended June 30,	
	2018	2017
	(dollars in thousands)	
Net sales	$832,900	$781,689
Segment operating (loss) income	$(36,509)	$32,931
Corporate expense	(30,039)	(33,899)
Total operating loss	(66,548)	(968)
Interest expense and other	25,493	21,018
Income tax expense (benefit)	1,031	(678)
Net loss	$(93,072)	$(21,308)

Net sales increased by $51.2 million, or 6.6%, to $832.9 million for the three months ended June 30, 2018, from $781.7 million for the three months ended June 30, 2017. Organic sales adjusted for inter-segment sales increased by $79.0 million, or 10.4%. Divestitures contributed $27.2 million to the net sales decrease for the three months ended June 30, 2017. Organic sales increased primarily due to increased deliveries on the Bombardier Global 7500 and the settlement of outstanding assertions. Net sales for the three months ended June 30, 2018, included $39.4 million in total non-recurring revenues, as compared to $2.5 million in non-recurring revenues for the three months ended June 30, 2017. Net sales for the three months ended June 30, 2018, included net unfavorable cumulative catch-up adjustments on long-term contracts of $6.4 million. The cumulative catch-up adjustments to net sales included gross favorable adjustments of $7.8 million and gross unfavorable adjustments of $14.2 million.

Cost of sales increased by $124.4 million, or 19.3%, to $770.2 million for the three months ended June 30, 2018, from $645.8 million for the three months ended June 30, 2017. Organic cost of sales increased $145.8 million, or 23.1%. Divestitures contributed $21.8 million to the decrease in cost of sales for the three months ended June 30, 2017. Organic cost of sales increased due to the increase in organic sales mentioned above and due to additional forward loss provisions from the adoption of ASU 2017-07 of $87.2 million. The organic gross margin for the three months ended June 30, 2018 was 7.5%, as compared to 19.6% for the three months ended June 30, 2017.

Gross margin for the three months ended June 30, 2018, included net unfavorable cumulative catch-up adjustments on long-term contracts of $3.6 million. The cumulative catch-up adjustments to gross margin included gross favorable adjustments of $25.2 million and gross unfavorable adjustments of $28.8 million. Additionally, the adoption of ASU 2017-07 resulted in a change in estimates due to a change in accounting principles of $87.2 million. Gross margin for the three months ended June 30, 2017, included net unfavorable cumulative catch-up adjustments of $5.3 million.

Segment operating income decreased by $69.4 million, or 210.9%, to a loss of $36.5 million for the three months ended June 30, 2018, from $32.9 million for the three months ended June 30, 2017. Organic segment operating income decreased $68.8 million. Divestitures contributed $0.7 million to the operating income for the three months ended June 30, 2017. Organic operating income for the three months ended June 30, 2018, decreased due to the decreased gross margins.

Corporate expenses were $30.0 million for the three months ended June 30, 2018, as compared to $33.9 million for the three months ended June 30, 2017. The decrease in corporate expenses of $3.9 million, or 11.4%, was due to decreased restructuring charges of $10.5 million and partially offset by the loss on divestitures of $4.7 million and an increase in compensation accruals as compared to the prior year period of $4.8 million.

Interest expense and other increased by $4.5 million, or 21.3%, to $25.5 million for the three months ended June 30, 2018, compared to $21.0 million for the three months ended June 30, 2017, due to higher interest rates, offset by the favorable net change in foreign exchange rate gains of approximately $4.6 million compared to the prior year period.

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The effective income tax rate for the three months ended June 30, 2018, was (1.4)% compared to 26.0% for the three months ended June 30, 2017. For the three months ended June 30, 2018, the effective tax rate reflected a limitation on the recognition of tax benefits due to the full valuation allowance.
For the fiscal year ending March 31, 2019, the Company expects its effective tax rate to be approximately 17% with opportunity to be reduced further through the release of the valuation allowance that is discussed further in Note 7.

Business Segment Performance - Three months ended June 30, 2018 compared to three months ended June 30, 2017:

	Three Months Ended June 30,			% of Total Sales	
	2018	2017	% Change	2018	2017
	(in thousands)				
NET SALES					
Integrated Systems	$241,039	$238,136	1.2 %	28.9 %	30.5 %
Aerospace Structures	532,387	483,314	10.2 %	63.9 %	61.8 %
Product Support	66,215	66,433	(0.3)%	7.9 %	8.5 %
Elimination of inter-segment sales	(6,741)	(6,194)	8.8 %	(0.7)%	(0.8)%
Total Net Sales	$832,900	$781,689	6.6 %	100.0 %	100.0 %

	Three Months Ended June 30,			% of Segment Sales	
	2018	2017	% Change	2018	2017
	(in thousands)				
SEGMENT OPERATING INCOME					
Integrated Systems	$35,409	$46,982	(24.6)%	14.7 %	19.7 %
Aerospace Structures	(79,587)	(22,488)	253.9 %	(14.9)%	(4.7)%
Product Support	7,669	8,437	(9.1)%	11.6 %	12.7 %
Corporate	(30,039)	(33,899)	11.4 %	n/a	n/a
Total Operating Loss	$(66,548)	$(968)	6,774.8 %	(8.0)%	(0.1)%

	Three Months Ended June 30,			% of Segment Sales	
	2018	2017	% Change	2018	2017
	(in thousands)				
Adjusted EBITDAP					
Integrated Systems	$34,115	$49,630	(31.3)%	14.2%	20.8 %
Aerospace Structures	28,189	(17,518)	(260.9)%	5.3 %	(3.6)%
Product Support	9,339	10,175	(8.2)%	14.1%	15.3 %
Corporate	(24,653)	(33,597)	26.6 %	n/a	n/a
	$46,990	$8,690	440.7 %	5.6 %	1.1 %

Integrated Systems: Integrated Systems net sales increased by $2.9 million, or 1.2%, to $241.0 million for the three months ended June 30, 2018, from $238.1 million for the three months ended June 30, 2017. Organic sales increased $13.3 million, or 5.8%. The Embee divestiture contributed $10.4 million to the net sales for the three months ended June 30, 2017. Organic sales increased primarily due to rate increases on key commercial programs.

Integrated Systems cost of sales increased by $17.0 million, or 11.1%, to $170.0 million for the three months ended June 30, 2018, from $152.9 million for the three months ended June 30, 2017. Organic cost of sales increased $23.8 million, or

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16.3%. The Embee divestiture contributed $7.2 million to the cost of sales for the three months ended June 30, 2017. The organic cost of sales increased due to the net sales increase noted above and due to sales mix. The organic gross margin for the three months ended June 30, 2018, was 29.5% compared with 36.0% for the three months ended June 30, 2017. The decrease in gross margin for the three months ended June 30, 2018, is the result of sales mix, higher cost associated with operational improvements and a settlement of customer assertions in the comparable prior period.

Integrated Systems operating income decreased by $11.6 million, or 24.6%, to $35.4 million for the three months ended June 30, 2018, from $47.0 million for the three months ended June 30, 2017. Organic operating income decreased $10.8 million, or 23.4%. The Embee divestiture contributed $0.8 million to the operating income for the three months ended June 30, 2017. Operating income decreased for the three months ended June 30, 2018, due to the decreased gross margin as noted above. The decrease in Adjusted EBITDAP year over year is due to the same factors that decreased operating income.

Integrated Systems operating income as a percentage of segment sales decreased to 14.7% for the three months ended June 30, 2018, as compared to 19.7% for the three months ended June 30, 2017, due to the decreased gross margin as noted above. These same factors noted above affecting the Adjusted EBITDAP contributed to the decreased Adjusted EBITDAP margin year over year.

Aerospace Structures: Aerospace Structures net sales increased by $49.1 million, or 10.2%, to $532.4 million for the three months ended June 30, 2018, from $483.3 million for the three months ended June 30, 2017. Organic sales increased $58.0 million, or 12.2%. The TS-LI divestiture contributed $8.9 million to the net sales for the three months ended June 30, 2017. The organic sales increased due to early ramp up on the Bombardier Global 7500 program and the favorable settlement on open assertions with other customers. Net sales for the three months ended June 30, 2018, included $39.4 million in total non-recurring revenues, as compared to $2.5 million in total non-recurring revenues for the three months ended June 30, 2017.

Aerospace Structures cost of sales increased by $125.0 million, or 29.0%, to $555.4 million for the three months ended June 30, 2018, from $430.4 million for the three months ended June 30, 2017. The organic cost of sales increased $114.2 million, or 26.8%. The TS-LI divestiture contributed $8.2 million to the cost of sales for the three months ended June 30, 2017. The cost of sales increased due to the increase in organic sales mentioned above and due to additional forward loss provisions from the adoption of ASU 2017-07 of $87.2 million. The comparable gross margin for the three months ended June 30, 2018, was 12.1% compared with 11.0% for the three months ended June 30, 2017.

Aerospace Structures cost of sales for the three months ended June 30, 2018, included net unfavorable cumulative catch-up adjustments of $3.6 million. The cumulative catch-up adjustments to gross margin for the three months ended June 30, 2018, included gross favorable adjustments of $25.2 million and gross unfavorable adjustments of $28.8 million. Additionally, the adoption of ASU 2017-07 resulted in a change in estimates due to a change in accounting principles of $87.2 million. Segment cost of sales for the three months ended June 30, 2017, included net unfavorable cumulative catch-up adjustments of $5.3 million.

Aerospace Structures operating loss increased by $57.1 million, or 253.9%, to $79.6 million for the three months ended June 30, 2018, compared to an operating loss of $22.5 million for the three months ended June 30, 2017. The organic operating loss increased $58.3 million. The TS-LI divestiture contributed $1.2 million to operating income for the three months ended June 30, 2017. Organic operating loss increased for the three months ended June 30, 2018, due to the decreased gross margin noted above. The increase in Adjusted EBITDAP year over year is due to the adoption of ASU 2017-07, as noted above.

Aerospace Structures operating loss as a percentage of segment sales decreased to 14.9% for the three months ended June 30, 2018, as compared to 4.7% for the three months ended June 30, 2017, due to the increase in operating loss as noted above. These same factors as noted above for the Adjusted EBITDAP contributed to the increased Adjusted EBITDAP margin year over year.

Product Support: Product Support net sales decreased by $0.2 million, or 0.3%, to $66.2 million for the three months ended June 30, 2018, from $66.4 million for the three months ended June 30, 2017. Organic sales increased 7.7 million, or 13.1%, due to increased demand in structural component repairs. The divestiture of Engines and APU contributed $7.9 million to net sales for the three months ended June 30, 2017.
Product Support cost of sales increased by $1.3 million, or 2.6%, to $51.5 million for the three months ended June 30, 2018, from $50.2 million for the three months ended June 30, 2017. Organic cost of sales increased $7.8 million, or 17.9%. Organic cost of sales increased due to increased volumes. The divestiture of Engines and APU contributed $6.5 million in cost of sales to the three months ended June 30, 2017. Organic gross margin for the three months ended June 30, 2018, was 22.2% compared to 25.4% for the three months ended June 30, 2017, and was impacted by learning curves on new programs.

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Product Support operating income decreased by $0.8 million, or 9.1%, to $7.7 million for the three months ended June 30, 2018, from $8.4 million for the three months ended June 30, 2017. Organic operating income increased $0.4 million or 4.7%, due to the increased organic sales noted above. The divestiture of Engines and APU contributed $1.1 million operating income for the three months ended June 30, 2017. The decreased gross margins contributed to the decrease in Adjusted EBITDAP year over year.

Product Support operating income as a percentage of segment sales decreased to 11.6% for the three months ended June 30, 2018, as compared to 12.7% for the three months ended June 30, 2017, due to the decreased gross profit noted above. These same factors contributed to the decreased Adjusted EBITDAP margin year over year.

Liquidity and Capital Resources

Our working capital needs are generally funded through cash flows from operations and borrowings under our credit arrangements. During the three months ended June 30, 2018, we used approximately $65.7 million of cash flows from operating activities, used approximately $11.5 million in investing activities and received approximately $75.9 million in financing activities.

Cash flows used in operating activities for the three months ended June 30, 2018, were $65.7 million, compared to cash flows used in operating activities for the three months ended June 30, 2017 of $99.0 million. During the three months ended June 30, 2018, net cash used in operating activities was primarily due to the timing of payments on accounts payable and other accrued expenses of $38.7 million driven by timing of payables to suppliers, offset by decreased receipts from customers of $62.7 million.

We continue to invest in inventory and contract assets for new programs which impacts our cash flows from operating activities. During the three months ended June 30, 2018, cash flows used on new programs including the Bombardier Global 7500 program and the Embraer E-Jet, were approximately $81.0 million and $8.0 million, respectively. Additionally, the cash utilization for production inventory build, including build ahead on several programs subject to relocation, was approximately $192.2 million. Contract liabilities, including customer advances which are included in cash flows from operations, increased $40.1 million, primarily due to timing of receipts and resolution of open assertions.

Cash flows used in investing activities for the three months ended June 30, 2018, increased $0.8 million from the three months ended June 30, 2017. Cash flows used in investing activities for the three months ended June 30, 2018 included capital expenditures of $12.2 million and proceeds from the sale of assets of $0.7 million. Cash used in investing activities for the three months ended June 30, 2017 included capital expenditures of $12.1 million and proceeds from the sale of assets of $1.4 million.

Cash flows provided by financing activities for the three months ended June 30, 2018, were $75.9 million, compared to cash flows used in financing activities for the three months ended June 30, 2017, of $76.3 million.

As of June 30, 2018, $543.2 million was available under our revolving credit facility (the “Credit Facility”) after consideration of covenant limitations. On June 30, 2018, an aggregate amount of approximately $226.1 million was outstanding under the Credit Facility, all of which was accruing interest at LIBOR plus applicable basis points totaling 3.50% per annum. Amounts repaid under the Credit Facility may be re-borrowed.

At June 30, 2018, there was $78.2 million outstanding under our receivable securitization facility ("Securitization Facility"). Interest rates on the Securitization Facility are based on prevailing market rates for short-term commercial paper, plus a program fee and a commitment fee. The Securitization Facility's net availability is not impacted by the borrowing capacity of the Credit Facility.

In July 2018, the Company, its subsidiary co-borrowers and guarantors entered into a Tenth Amendment to the Credit Agreement (the “Tenth Amendment”) and with the Administrative Agent and the Lenders party thereto. Among other things, the Tenth Amendment modifies certain financial covenants and other terms and lowers the capacity upon completion of certain asset sales and will automatically reduce to $700.0 million at March 31, 2019.

In July 2017, the Company entered into a Ninth Amendment to the Credit Agreement (the “Ninth Amendment” and the existing Credit Agreement, as amended by the Ninth Amendment, the “Credit Agreement”) with the Administrative Agent and the Lenders party thereto to, among other things, (i) permit the Company to incur High Yield Indebtedness (as defined in the

Credit Agreement) in an aggregate principal amount of up to $500.0 million, subject to the Company’s obligations to apply the net proceeds from an offering to repay the outstanding principal amount of the term loans in full; (ii) limit the mandatory prepayment provisions to eliminate the requirement that net proceeds received from the incurrence of Permitted Indebtedness (as defined in the Credit Agreement), including the High Yield Indebtedness, be applied to reduce the revolving credit commitments once the revolving credit commitments have been reduced to $800.0 million; (iii) amend certain covenants and other terms and; (iv) modify the current interest rate and letter of credit pricing tiers. The Credit Agreement also provided for a variable rate term loan (the "2013 Term Loan"). The Company repaid the outstanding principal amount of the 2013 Term Loan in quarterly installments, on the first business day of each January, April, July and October. The 2013 Term Loan was paid in full with the proceeds from the Senior Notes due 2025 (see below).

In May 2017, the Company entered into an Eighth Amendment to the Third Amended and Restated Credit Agreement (the “Eighth Amendment Effective Date”), among the Company and its lenders to, among other things, (i) eliminate the total leverage ratio financial covenant; (ii) increase the maximum permitted senior secured leverage ratio financial covenant applicable to each fiscal quarter, commencing with the fiscal quarter ended March 31, 2017, and to revise the step-downs applicable to such financial covenant; (iii) reduce the aggregate principal amount of commitments under the revolving line of credit to $850.0 million from $1.0 billion; (iv) modify the maturity date of the term loans so that all of the term loans will mature on March 31, 2019; and (v) establish a new higher pricing tier for the interest rate, commitment fee and letter of credit fee pricing provisions.

The Company is currently in compliance with all financial covenants under the Credit Agreement. Although the Company does not anticipate any violations of the financial covenants, its ability to comply with these covenants is dependent upon achieving earnings and cash flow projections.

On August 17, 2017, the Company issued $500.0 million principal amount of 7.750% Senior Notes due 2025 (the "2025 Notes"). The 2025 Notes were sold at 100% of principal amount and have an effective interest yield of 7.750%. Interest on the 2025 Notes accrues at the rate of 7.750% per annum and is payable semiannually in cash in arrears on February 15 and August 15 of each year, commencing on February 15, 2018.

The 2025 Notes are the Company's senior unsecured obligations and rank equally in right of payment with all of its other existing and future senior unsecured indebtedness and senior in right of payment to all of its existing and future subordinated indebtedness. The 2025 Notes are guaranteed on a full, joint and several basis by each of the Guarantor Subsidiaries.

The Company may redeem some or all of the 2025 Notes prior to August 15, 2020, by paying a "make-whole" premium. The Company may redeem some or all of the 2025 Notes on or after August 15, 2020, at specified redemption prices. In addition, prior to August 15, 2020, the Company may redeem up to 35% of the 2025 Notes with the net proceeds of certain equity offerings at a redemption price equal to 107.750% of the aggregate principal amount plus accrued and unpaid interest, if any, subject to certain limitations set forth in the indenture governing the 2025 Notes (the "2025 Indenture").

The Company is obligated to offer to repurchase the 2025 Notes at a price of (i) 101% of their principal amount plus accrued and unpaid interest, if any, as a result of certain change-of-control events and (ii) 100% of their principal amount plus accrued and unpaid interest, if any, in the event of certain asset sales. These restrictions and prohibitions are subject to certain qualifications and exceptions.

The 2025 Indenture contains covenants that, among other things, limit the Company's ability and the ability of any of the Guarantor Subsidiaries to (i) grant liens on its assets; (ii) make dividend payments, other distributions or other restricted payments; (iii) incur restrictions on the ability of the Guarantor Subsidiaries to pay dividends or make other payments; (iv) enter into sale and leaseback transactions; (v) merge, consolidate, transfer or dispose of substantially all of their assets; (vi) incur additional indebtedness; (vii) use the proceeds from sales of assets, including capital stock of restricted subsidiaries; and (viii) enter into transactions with affiliates.

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

	Payments Due by Period (in thousands)				
Contractual Obligations	Total	Less than 1 year	1-3 years	4-5 years	More than 5 years
Debt principal (1)	$1,536,380	$16,710	$704,960	$307,311	$507,399
Debt interest (2)	325,174	74,668	138,536	86,054	25,916
Operating leases	135,548	28,289	42,310	24,602	40,347
Purchase obligations	1,726,020	1,365,266	265,097	81,078	14,579
Total	$3,723,122	$1,484,933	$1,150,903	$499,045	$588,241

(1) Included in the Company's condensed consolidated balance sheet at June 30, 2018.
(2) Includes fixed-rate interest only.

The above table excludes unrecognized tax benefits of $17.2 million as of June 30, 2018, since we cannot predict with reasonable certainty the timing of cash settlements with the respective taxing authorities.

For the fiscal year ending March 31, 2019, the Company is not required to make minimum contributions to its U.S. defined benefit pension plans under the minimum funding requirements of the Employee Retirement Income Security Act of 1974 and the Pension Protection Act of 2006.

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

Critical Accounting Policies

The Company's critical accounting policies are discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations and notes accompanying the condensed consolidated financial statements that appear in the Annual Report on Form 10-K for the fiscal year ended March 31, 2018. Except as otherwise disclosed in the condensed consolidated 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, 2018, 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," "plan," "estimate," and similar expressions are intended to identify forward-looking statements. Actual results could differ materially from our current expectations. For example, there can be no assurance that additional capital will not be required or that additional capital, if required, will be available on reasonable terms, if at all, at such times and in such amounts as may be needed by us. In addition to these factors, among other factors that could cause actual results to differ materially are uncertainties relating to our ability to execute on our restructuring plans, the integration of acquired businesses, divestitures of our business, 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, 2018, filed with the SEC on May 24, 2018.

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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, 2018. There has been no material change in this information during the period covered by this report.

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 reports pursuant to the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC’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 June 30, 2018, 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 June 30, 2018.
(b) Changes in internal control over financial reporting.
We have implemented changes to our processes, systems and controls with respect to the adoption of ASC 606. These changes included the development of policies and procedures, training, ongoing contract review requirements, internal management reports, controls related to information systems, and disclosures. There have not been any other significant changes in our internal control over financial reporting 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.

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Part II. Other Information

Item 1. Legal Proceedings.
Not applicable.

Item 1A. Risk Factors.
There have been no material changes in our risk factors from those disclosed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended March 31, 2018.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.
Not applicable.

Item 3. Defaults Upon Senior Securities
Not applicable.

Item 4. Mine Safety Disclosures.
Not applicable.

Item 5. Other Information
Not applicable.

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Item 6. Exhibits.

Exhibit 3.1	Amended and Restated By-laws of Triumph Group, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Form 8-K filed on April 21, 2018).
Exhibit 10.1*	Triumph Group, Inc. 2018 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on June 4, 2018).
Exhibit 10.2*	Triumph Group, Inc. Executive Cash Incentive Compensation Plan, including from of STI Award Letter (incorporated by reference to Exhibit 10.2 to the Company's Form 8-K filed on June 4, 2018).
Exhibit 10.3*	Triumph Group, Inc. Executive Change in Control and General Severance Plan for Executive and Management Employees (incorporated by reference to Exhibit 10.3 to the Company's Form 8-K filed on June 4, 2018).
Exhibit 31.1	Certification by President and Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a).
Exhibit 31.2	Certification by Senior Vice President and Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a).
Exhibit 32.1	Certification of Periodic Report by President and Chief Executive Officer Furnished Pursuant to 18 U.S.C. Section 1350 Adopted Pursuant to Section 906 Sarbanes-Oxley Act of 2002.
Exhibit 32.2	Certification of Periodic Report by Senior Vice President and Chief Financial Officer Furnished Pursuant to 18 U.S.C. Section 1350 Adopted Pursuant to Section 906 Sarbanes-Oxley Act of 2002.
Exhibit 101	The following financial information from Triumph Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2018 formatted in XBRL: (i) Condensed Consolidated Balance Sheets as of June 30, 2018 and March 31, 2018; (ii) Condensed Consolidated Statements of Income for the three months ended June 30, 2018 and 2017; (iii) Condensed Consolidated Statements of Comprehensive Income for the three months ended June 30, 2018 and 2017; (iv) Condensed Consolidated Statements of Cash Flows for the three months ended June 30, 2018 and 2017; and (v) Notes to Condensed Consolidated Financial Statements.

* Indicates management contract or compensatory plan or arrangement

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TRIUMPH GROUP, INC.

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/ Daniel J. Crowley Daniel J. Crowley, President and Chief Executive Officer (Principal Executive Officer)	August 8, 2018
/s/ James F. McCabe, Jr. James F. McCabe, Jr., Senior Vice President and Chief Financial Officer (Principal Financial Officer)	August 8, 2018
/s/ Thomas A. Quigley, III Thomas A. Quigley, III, Vice President and Controller (Principal Accounting Officer)	August 8, 2018