

KAMAN Corp  
Form 10-Q  
August 04, 2014

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 27, 2014

Or  
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-35419

KAMAN CORPORATION

(Exact name of registrant as specified in its charter)

Connecticut  
(State or other jurisdiction of incorporation or organization)

06-0613548  
(I.R.S. Employer Identification No.)

1332 Blue Hills Avenue  
Bloomfield, Connecticut 06002  
(Address of principal executive offices) (Zip Code)  
(860) 243-7100  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter)

during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

At July 25, 2014, there were 27,091,955 shares of Common Stock outstanding.

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## PART I

## Item 1. Financial Statements

## CONDENSED CONSOLIDATED BALANCE SHEETS

## KAMAN CORPORATION AND SUBSIDIARIES

(In thousands, except share and per share amounts) (Unaudited)

|  | June 27,<br>2014 | December 31,<br>2013 |
|--|------------------|----------------------|
| Assets   |                  |                      |
| Current assets:  |                  |                      |
| Cash and cash equivalents  | \$11,676         | \$10,384             |
| Accounts receivable, net   | 256,121          | 205,873              |
| Inventories  | 390,556          | 390,495              |
| Deferred income taxes  | 29,492           | 30,128               |
| Income tax refunds receivable  | 311              | 2,297                |
| Other current assets   | 27,266           | 26,028               |
| Total current assets   | 715,422          | 665,205              |
| Property, plant and equipment, net of accumulated depreciation of \$178,396 and \$167,282, respectively                  | 153,152          | 148,508              |
| Goodwill   | 243,841          | 203,923              |
| Other intangible assets, net   | 101,924          | 89,449               |
| Deferred income taxes  | 7,876            | 10,287               |
| Other assets   | 23,358           | 23,259               |
| Total assets   | \$1,245,573      | \$1,140,631          |
| Liabilities and Shareholders' Equity   |                  |                      |
| Current liabilities:   |                  |                      |
| Notes payable  | \$—              | \$559                |
| Current portion of long-term debt  | 12,500           | 10,000               |
| Accounts payable – trade   | 125,422          | 119,482              |
| Accrued salaries and wages   | 36,290           | 33,677               |
| Advances on contracts  | 3,487            | 9,470                |
| Other accruals and payables  | 54,418           | 54,095               |
| Income taxes payable   | 839              | 673                  |
| Total current liabilities  | 232,956          | 227,956              |
| Long-term debt, excluding current portion  | 350,374          | 264,655              |
| Deferred income taxes  | 3,945            | 3,855                |
| Underfunded pension  | 75,608           | 85,835               |
| Other long-term liabilities  | 42,065           | 47,038               |
| Commitments and contingencies (Note 11)  |                  |                      |
| Shareholders' equity:  |                  |                      |
| Preferred stock, \$1 par value, 200,000 shares authorized; none outstanding  | —                | —                    |
| Common stock, \$1 par value, 50,000,000 shares authorized; voting; 27,456,596 and 27,189,922 shares issued, respectively | 27,457           | 27,190               |
| Additional paid-in capital   | 141,865          | 133,517              |
| Retained earnings  | 458,819          | 439,441              |
| Accumulated other comprehensive income (loss)  | (78,255)         | (81,121)             |
| Less 371,451 and 330,487 shares of common stock, respectively, held in treasury, at cost                                 | (9,261)          | (7,735)              |
| Total shareholders' equity   | 540,625          | 511,292              |
| Total liabilities and shareholders' equity   | \$1,245,573      | \$1,140,631          |

See accompanying notes to condensed consolidated financial statements.



## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

## KAMAN CORPORATION AND SUBSIDIARIES

(In thousands, except per share amounts) (Unaudited)

|   | For the Three Months Ended |                  | For the Six Months Ended |               |
|---|----------------------------|------------------|--------------------------|---------------|
|   | June 27,<br>2014           | June 28,<br>2013 | June 27, 2014            | June 28, 2013 |
| Net sales   | \$459,089                  | \$431,725        | \$873,021                | \$819,800     |
| Cost of sales   | 329,755                    | 310,468          | 628,826                  | 588,277       |
| Gross profit  | 129,334                    | 121,257          | 244,195                  | 231,523       |
| Selling, general and administrative expenses            | 101,590                    | 90,219           | 195,351                  | 186,639       |
| Net loss on sale of assets                              | 57                         | 21               | 168                      | 100           |
| Operating income  | 27,687                     | 31,017           | 48,676                   | 44,784        |
| Interest expense, net                                   | 3,297                      | 3,163            | 6,406                    | 6,231         |
| Other expense, net                                      | 297                        | 58               | 499                      | 389           |
| Earnings from continuing operations before income taxes | 24,093                     | 27,796           | 41,771                   | 38,164        |
| Income tax expense                                      | 7,899                      | 9,904            | 14,120                   | 13,118        |
| Earnings from continuing operations                     | 16,194                     | 17,892           | 27,651                   | 25,046        |
| Earnings from discontinued operations, net of taxes     | 379                        | —                | 379                      | —             |
| Net earnings  | \$16,573                   | \$17,892         | \$28,030                 | \$25,046      |
| Earnings per share:                                     |                            |                  |                          |               |
| Basic earnings per share from continuing operations     | \$0.60                     | \$0.67           | \$1.03                   | \$0.94        |
| Basic earnings per share from discontinued operations   | 0.01                       | —                | 0.01                     | —             |
| Basic earnings per share                                | \$0.61                     | \$0.67           | \$1.04                   | \$0.94        |
| Diluted earnings per share from continuing operations   | \$0.59                     | \$0.67           | \$1.00                   | \$0.93        |
| Diluted earnings per share from discontinued operations | 0.01                       | —                | 0.01                     | —             |
| Diluted earnings per share                              | \$0.60                     | \$0.67           | \$1.01                   | \$0.93        |
| Average shares outstanding:                             |                            |                  |                          |               |
| Basic   | 27,039                     | 26,734           | 26,981                   | 26,696        |
| Diluted   | 27,844                     | 26,899           | 27,717                   | 26,977        |
| Dividends declared per share                            | \$0.16                     | \$0.16           | \$0.32                   | \$0.32        |

See accompanying notes to condensed consolidated financial statements.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

## KAMAN CORPORATION AND SUBSIDIARIES

(In thousands) (Unaudited)

|  | For the Three Months Ended |                  | For the Six Months Ended |                  |   |
|--|----------------------------|------------------|--------------------------|------------------|---|
|  | June 27,<br>2014           | June 28,<br>2013 | June 27,<br>2014         | June 28,<br>2013 |   |
| Net earnings   | \$ 16,573                  | \$ 17,892        | \$ 28,030                | \$ 25,046        |   |
| Other comprehensive income (loss), net of tax:   |                            |                  |                          |                  |   |
| Foreign currency translation adjustments   | 1,755                      | (244             | ) 1,460                  | (4,758           | ) |
| Unrealized gain on derivative instruments, net of tax expense (benefit) of (\$38) and \$105, and \$41 and \$38, respectively               | —                          | 172              | 69                       | 61               |   |
| Change in pension and post-retirement benefit plan liabilities, net of tax expense of \$408 and \$904, and \$810 and \$1,810, respectively | 673                        | 1,476            | 1,337                    | 2,951            |   |
| Other comprehensive income (loss)  | 2,428                      | 1,404            | 2,866                    | (1,746           | ) |
| Comprehensive income   | \$ 19,001                  | \$ 19,296        | \$ 30,896                | \$ 23,300        |   |

See accompanying notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
KAMAN CORPORATION AND SUBSIDIARIES

(In thousands) (Unaudited)

|   | For the Six Months Ended |                  |
|---|--------------------------|------------------|
|   | June 27,<br>2014         | June 28,<br>2013 |
| Cash flows from operating activities:   |                          |                  |
| Earnings from continuing operations   | \$27,651                 | \$25,046         |
| Adjustments to reconcile earnings from continuing operations to net cash provided by (used in) operating activities of continuing operations: |                          |                  |
| Depreciation and amortization   | 17,069                   | 15,528           |
| Accretion of convertible notes discount   | 953                      | 905              |
| Provision for doubtful accounts   | 604                      | 734              |
| Net loss on sale of assets  | 168                      | 100              |
| Net loss on derivative instruments  | 289                      | 203              |
| Stock compensation expense  | 3,293                    | 3,065            |
| Excess tax benefit from share-based compensation arrangements   | (732)                    | ) (293)          |
| Deferred income taxes   | 2,204                    | 68               |
| Changes in assets and liabilities, excluding effects of acquisitions/divestitures:  |                          |                  |
| Accounts receivable   | (37,069)                 | ) (45,274)       |
| Inventories   | 10,071                   | (16,165)         |
| Income tax refunds receivable   | 1,990                    | —                |
| Other current assets  | (27)                     | ) 25             |
| Accounts payable - trade  | (719)                    | ) 3,800          |
| Accrued contract losses   | (1,253)                  | ) 228            |
| Advances on contracts   | (5,984)                  | ) 10,887         |
| Other accruals and payables   | 4,834                    | (5,595)          |
| Income taxes payable  | 174                      | (2,768)          |
| Pension liabilities   | (8,332)                  | ) (2,252)        |
| Other long-term liabilities   | (3,421)                  | ) (1,649)        |
| Net cash provided by (used in) operating activities of continuing operations  | 11,763                   | (13,407)         |
| Net cash provided by operating activities of discontinued operations  | 379                      | —                |
| Net cash provided by (used in) operating activities   | 12,142                   | (13,407)         |
| Cash flows from investing activities:   |                          |                  |
| Proceeds from sale of assets  | 68                       | 83               |
| Expenditures for property, plant & equipment  | (18,058)                 | ) (21,267)       |
| Acquisition of businesses   | (75,518)                 | ) (5,178)        |
| Other, net  | (1,049)                  | ) (598)          |
| Cash used in investing activities of continuing operations  | (94,557)                 | ) (26,960)       |
| Cash used in investing activities of discontinued operations  | —                        | —                |
| Cash used in investing activities   | (94,557)                 | ) (26,960)       |
| Cash flows from financing activities:   |                          |                  |
| Net borrowings under revolving credit agreements  | 88,541                   | 39,753           |
| Debt repayment  | (2,500)                  | ) (5,000)        |
| Net change in book overdraft  | 1,676                    | 4,093            |
| Proceeds from exercise of employee stock awards   | 4,639                    | 2,654            |
| Purchase of treasury shares   | (843)                    | ) (644)          |
| Dividends paid  | (8,616)                  | ) (8,526)        |
| Other   | —                        | (51)             |
| Windfall tax benefit  | 732                      | 293              |

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|  |          |         |   |
|--|----------|---------|---|
| Cash provided by financing activities of continuing operations   | 83,629   | 32,572  |   |
| Cash provided by financing activities of discontinued operations | —        | —       |   |
| Cash provided by financing activities                            | 83,629   | 32,572  |   |
| Net increase (decrease) in cash and cash equivalents             | 1,214    | (7,795  | ) |
| Effect of exchange rate changes on cash and cash equivalents     | 78       | (91     | ) |
| Cash and cash equivalents at beginning of period                 | 10,384   | 16,593  |   |
| Cash and cash equivalents at end of period                       | \$11,676 | \$8,707 |   |

See accompanying notes to condensed consolidated financial statements.



NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months and six months ended June 27, 2014 and June 28, 2013

(Unaudited)

1. BASIS OF PRESENTATION

The December 31, 2013, Condensed Consolidated Balance Sheet amounts have been derived from the previously audited Consolidated Balance Sheet of Kaman Corporation and subsidiaries (collectively, the "Company"), but do not include all disclosures required by accounting principles generally accepted in the United States of America ("US GAAP"). In the opinion of management, the condensed financial information reflects all adjustments necessary for a fair presentation of the Company's financial position, results of operations and cash flows for the interim periods presented. All such adjustments are of a normal recurring nature, unless otherwise disclosed in this report. Certain amounts in the prior period condensed consolidated financial statements have been reclassified to conform to current presentation. The statements should be read in conjunction with the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013. The results of operations for the interim periods presented are not necessarily indicative of trends or of results to be expected for the entire year.

The Company has a calendar year-end; however, its first three fiscal quarters follow a 13-week convention, with each quarter ending on a Friday. The second quarter for 2014 and 2013 ended on June 27, 2014 and June 28, 2013, respectively.

2. RECENT ACCOUNTING STANDARDS

In June 2014, the FASB issued ASU No. 2014-12, "Compensation - Stock Compensation (ASC Topic 718) - Accounting for Share-Based Payments When the Terms of an Award Provide that a Performance Target Could Be Achieved after the Requisite Service Period." The objective of this standard update is to eliminate inconsistent practices with regards to the accounting treatment of share-based payment awards. The provisions of this ASU are effective for interim and annual periods beginning after December 15, 2015. The Company does not expect these changes to have a material impact on its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (ASC Topic 606)." The objective of this standard update is to remove inconsistent practices with regards to revenue recognition between US GAAP and International Financial Reporting Standards ("IFRS"). The standard intends to improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. The provisions of this ASU are effective for interim and annual periods beginning after December 15, 2016; early adoption is not permitted. The Company is currently assessing the potential impact of this ASU on its consolidated financial statements.

In April 2014, the FASB issued ASU No. 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." This standard update requires that a disposal representing a strategic shift that has (or will have) a major effect on an entity's financial results or a business activity classified as held for sale should be reported as discontinued operations. The standard also expands the disclosures for discontinued operations and requires new disclosures related to individually material disposals that do not meet the definition of a discontinued operation. The provisions of this ASU are effective for interim and annual periods beginning after December 15, 2014. The Company does not expect these changes to have a material impact on its consolidated financial statements.

In July 2013, the FASB issued ASU No. 2013-11, Income Taxes ("ASC Topic 740") - Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The objective is to end some inconsistent practices with regard to the presentation on the balance sheet of unrecognized tax benefits. The update was effective for financial statement periods beginning after December

15, 2013. The Company adopted this standard beginning January 1, 2014. There was no material impact on the Company's condensed consolidated financial statements for the period ended June 27, 2014.

In March 2013, the FASB issued ASU No. 2013-05, Foreign Currency Matters ("ASC Topic 830") - Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity. The objective is to resolve the diversity in practice with regard to whether ASC Subtopic 810-10, Consolidation - Overall or ASC Subtopic 830-30 Foreign Currency Matters - Translation of Financial Statements, applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity. The update was effective for financial statement periods beginning after December 15, 2013. The Company has adopted this standard beginning January 1, 2014. There was no impact on the Company's condensed consolidated financial statements for the period ended June 27, 2014.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

For the three months and six months ended June 27, 2014 and June 28, 2013

(Unaudited)

## 3. DISCONTINUED OPERATIONS

On December 31, 2012, the Company sold substantially all of the assets and liabilities of the Distribution segment's Canadian operations. As a result, the Company has reported the results of operations and financial position of this component as discontinued operations within the condensed consolidated financial statements for all periods presented. During the second quarter of 2014, the Company recorded earnings from discontinued operations of \$0.5 million, \$0.4 million net of tax, related to a pension settlement that resulted from the 2012 disposal of the Distribution segment's Canadian operations.

## 4. ACQUISITIONS

On April 25, 2014, the Company acquired specific assets of B.W. Rogers Company and certain affiliated entities ("B.W. Rogers"). Headquartered in Akron, Ohio, B.W. Rogers operated from twenty-one locations in seven states from the Northeast to the Midwest. The acquisition of B.W. Rogers expands the Company's capabilities in both the fluid power and automation and motion control product areas.

This acquisition was accounted for as a business combination. Assets acquired and liabilities assumed were recorded based on their fair values at the date of acquisition. The fair values of assets acquired and liabilities assumed were as follows:

|                               |          |
|-------------------------------|----------|
| In thousands                  |          |
| Cash                          | \$11     |
| Accounts receivable           | 13,332   |
| Inventories                   | 9,614    |
| Property, plant and equipment | 850      |
| Other tangible assets         | 784      |
| Goodwill                      | 37,804   |
| Other intangible assets       | 16,870   |
| Liabilities                   | (7,367 ) |
| Total of net assets acquired  | 71,898   |
| Less cash received            | (11 )    |
| Total consideration           | \$71,887 |

The Company has paid \$70.5 million of the total consideration of \$71.9 million for this acquisition through June 27, 2014. The goodwill associated with B.W. Rogers is tax deductible and is the result of expected synergies from combining the operations of the acquired business with the Company's operations and intangible assets that do not qualify for separate recognition, such as an assembled workforce. Included in the Condensed Consolidated Statements of Operations is \$18.8 million of revenue from this acquisition for the three months and six months ended June 27, 2014.

The fair values of the identifiable intangible assets, which totaled \$16.9 million and consisted of customer relationships, non-compete agreements and trade names, were determined using the income approach. Specifically, the discounted cash flows method was utilized for customer relationships and non-compete agreements and the relief-from-royalty method was utilized for the trade names. The fair value of the customer relationships (\$14.9 million) is broken out into two asset categories, which are amortized on a straight-line basis over periods of 11 and 18 years; the fair value of the non-compete agreements (\$1.1 million) is being amortized over periods ranging from 1.5 to

3 years; and the fair value of the trade names (\$0.9 million) is being amortized over a period of 8 years, the estimated lives of the assets.

7

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued  
 For the three months and six months ended June 27, 2014 and June 28, 2013  
 (Unaudited)

### 5. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net consists of the following:

|  | June 27,<br>2014 | December 31,<br>2013 |
|--|------------------|----------------------|
| In thousands                               |                  |                      |
| Trade receivables                          | \$ 152,986       | \$ 125,092           |
| U.S. Government contracts:                 |                  |                      |
| Billed                                     | 21,345           | 14,364               |
| Costs and accrued profit – not billed      | 6,214            | 6,340                |
| Commercial and other government contracts: |                  |                      |
| Billed                                     | 62,640           | 63,051               |
| Costs and accrued profit – not billed      | 16,793           | 853                  |
| Less allowance for doubtful accounts       | (3,857)          | (3,827)              |
| Accounts receivable, net                   | \$ 256,121       | \$ 205,873           |

Accounts receivable, net includes amounts for matters such as contract changes, negotiated settlements and claims for unanticipated contract costs. These amounts are as follows:

|  | June 27,<br>2014 | December 31,<br>2013 |
|--|------------------|----------------------|
| In thousands   |                  |                      |
| Contract changes, negotiated settlements and claims for unanticipated contract costs | \$—              | \$ 1,021             |
| Total  | \$—              | \$ 1,021             |

### 6. FAIR VALUE MEASUREMENTS

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date.

The Company uses a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1 — Quoted prices in active markets for identical assets or liabilities.

Level 2 — Observable inputs other than quoted prices included in Level 1, such as quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data.

Level 3 — Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

For the three months and six months ended June 27, 2014 and June 28, 2013

(Unaudited)

## 6. FAIR VALUE MEASUREMENTS (CONTINUED)

The following table presents the carrying value and fair value of financial instruments that are not carried at fair value:

|                 | June 27, 2014  |            | December 31, 2013 |            |
|-----------------|----------------|------------|-------------------|------------|
|                 | Carrying Value | Fair Value | Carrying Value    | Fair Value |
| In thousands    |                |            |                   |            |
| Long-term debt: |                |            |                   |            |
| Level 1         | \$108,046      | \$152,642  | \$107,093         | \$147,822  |
| Level 2         | 254,828        | 242,836    | 167,562           | 155,473    |
| Total           | \$362,874      | \$395,478  | \$274,655         | \$303,295  |

The above fair values were computed based on quoted market prices (Level 1) and discounted future cash flows (Level 2 observable inputs), as applicable. Differences from carrying values are attributable to interest rate changes subsequent to when the transaction occurred. The increase in fair value of the long-term debt is driven by increased borrowings under the Company's Revolving Credit Facility.

The fair values of Cash and cash equivalents, Accounts receivable, net, Notes payable, and Accounts payable - trade approximate their carrying amounts due to the short-term maturities of these instruments.

## Recurring Fair Value Measurements

The table below segregates all financial assets and liabilities that are measured at fair value on a recurring basis (at least annually) into the most appropriate level within the fair value hierarchy based on the inputs used to determine their fair value at the measurement date:

|                        | Total Carrying Value at June 27, 2014     | Quoted prices in active markets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|------------------------|---|---|---|---|
| In thousands           |   |   |   |   |
| Derivative instruments | \$152                                     | \$—                                       | \$152   | \$—                                       |
| Total assets           | \$152                                     | \$—                                       | \$152   | \$—                                       |
| Derivative instruments | \$339                                     | \$—                                       | \$339   | \$—                                       |
| Total liabilities      | \$339                                     | \$—                                       | \$339   | \$—                                       |
|                        | Total Carrying Value at December 31, 2013 | Quoted prices in active markets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| In thousands           |   |   |   |   |
| Derivative instruments | \$127                                     | \$—                                       | \$127   | \$—                                       |
| Total assets           | \$127                                     | \$—                                       | \$127   | \$—                                       |
| Derivative instruments | \$276                                     | \$—                                       | \$276   | \$—                                       |
| Total liabilities      | \$276                                     | \$—                                       | \$276   | \$—                                       |



NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued  
For the three months and six months ended June 27, 2014 and June 28, 2013  
(Unaudited)

6. FAIR VALUE MEASUREMENTS (CONTINUED)

Recurring Fair Value Measurements - continued

The Company's derivative instruments are foreign exchange contracts and interest rate swaps that are measured at fair value using observable market inputs such as forward rates and our counterparties' credit risks. Based on these inputs, the derivative instruments are classified within Level 2 of the valuation hierarchy and have been included in other current assets, other assets, other accruals and payables and other long-term liabilities on the Condensed Consolidated Balance Sheets at June 27, 2014, and December 31, 2013. Based on the continued ability to trade and enter into forward contracts, we consider the markets for our fair value instruments to be active.

The Company evaluated the credit risk associated with the counterparties to these derivative instruments and determined that as of June 27, 2014, such credit risks have not had an adverse impact on the fair value of these instruments.

7. DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives Overview

The Company is exposed to certain risks relating to its ongoing business operations, including market risks relating to fluctuations in foreign currency exchange rates and interest rates. Derivative financial instruments are recognized on the Condensed Consolidated Balance Sheets as either assets or liabilities and are measured at fair value. Changes in the fair values of derivatives are recorded each period in earnings or accumulated other comprehensive income, depending on whether a derivative is effective as part of a hedged transaction. Gains and losses on derivative instruments reported in accumulated other comprehensive income are subsequently included in earnings in the periods in which earnings are affected by the hedged item. The Company does not use derivative instruments for speculative purposes.

The Company holds forward exchange contracts designed to hedge forecasted transactions denominated in foreign currencies and to minimize the impact of foreign currency fluctuations on the Company's earnings and cash flows. Some of these contracts are designated as cash flow hedges. The Company will include in earnings amounts currently included in accumulated other comprehensive income upon recognition of cost of sales related to the underlying transaction. There was \$0.2 million and \$0.3 million of expense reclassified from other comprehensive income during the three months and six months ended June 27, 2014, respectively. No material amounts were reclassified to expense from other comprehensive income during the three months and six months ended June 28, 2013. Over the next twelve months, the expense related to cash flow hedges expected to be reclassified from other comprehensive income is \$0.5 million.

Derivatives Designated as Cash Flow Hedges

The Term Loan Facility of the Company's Credit Agreement ("Term Loan") contains floating rate obligations and is subject to interest rate fluctuations. During 2013, the Company entered into interest rate swap agreements for the purposes of hedging the eight quarterly variable-rate interest payments under its Term Loan due in 2014 and 2015. These interest rate swap agreements were designated as cash flow hedges and are intended to manage interest rate risk associated with the Company's variable rate borrowings and minimize the impact on the Company's earnings and cash flows of interest rate fluctuations attributable to changes in LIBOR rates. The amounts of the gain or (loss) recognized on the Condensed Consolidated Statements of Operations for derivatives designated as hedge instruments were not



material for the three months and six months ended June 27, 2014, and June 28, 2013.

During the second quarter of 2014, the Company entered into forward exchange contracts designed to hedge forecasted transactions denominated in foreign currencies and to minimize the impact of foreign currency fluctuations on the Company's earnings and cash flows. These contracts were entered into as a result of forecasted foreign currency transactions associated with the New Zealand contract to deliver ten SH-2G(I) aircraft and have been designated as cash flow hedges. The Company will include in earnings amounts currently included in accumulated other comprehensive income upon recognition of cost of sales related to the underlying transaction. The amounts of the gain or (loss) recognized on the Condensed Consolidated Statements of Operations for derivatives designated as hedge instruments were not material for the three months and six months ended June 27, 2014. During the first half of 2014, the amount recorded in other income for the ineffective portion of derivative instruments designated as cash flow hedges was not material. No such amounts were recorded during 2013.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued  
 For the three months and six months ended June 27, 2014 and June 28, 2013  
 (Unaudited)

## 7. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

## Derivatives Designated as Cash Flow Hedges - continued

The following table shows the fair value of derivative instruments designated as cash flow hedging instruments:

|                              | Balance Sheet<br>Location                          | Fair Value       |                      | Notional<br>Amount  |
|------------------------------|--|------------------|----------------------|---------------------|
|                              |  | June 27,<br>2014 | December 31,<br>2013 |                     |
| In thousands                 |  |                  |                      |                     |
| Derivative Assets            |  |                  |                      |                     |
| Foreign exchange contracts   | Other current assets                               | \$ 11            | \$—                  | 4,022 / 0 AUD       |
| Total                        |  | \$ 11            | \$—                  |                     |
| Derivative Liabilities       |  |                  |                      |                     |
| Interest rate swap contracts | Other liabilities / Other<br>long-term liabilities | \$ 335           | \$ 276               | \$87,500 / \$90,000 |
| Foreign exchange contracts   | Other liabilities                                  | 4                | —                    | £1,367 / £0         |
| Total                        |  | \$ 339           | \$ 276               |                     |

## Derivatives Not Designated as Hedging Instruments

The following table shows the fair value of derivative instruments not designated as hedging instruments:

|                            | Balance Sheet<br>Location | Fair Value       |                      | Notional<br>Amount |
|----------------------------|---------------------------|------------------|----------------------|--------------------|
|                            |                           | June 27,<br>2014 | December 31,<br>2013 |                    |
| In thousands               |                           |                  |                      |                    |
| Derivative Assets          |                           |                  |                      |                    |
| Foreign exchange contracts | Other current assets      | \$ 141           | \$ 127               | \$1,818 / \$2,349  |
| Total                      |                           | \$ 141           | \$ 127               |                    |

The amounts of the gain or (loss) recognized on the Condensed Consolidated Statements of Operations for derivatives not designated as hedge instruments were not material for the three months and six months ended June 27, 2014, and June 28, 2013, and are included in other (income) expense, net.

## 8. INVENTORIES

Inventories consist of the following:

|  | June 27,<br>2014 | December 31,<br>2013 |
|--|------------------|----------------------|
| In thousands   |                  |                      |
| Merchandise for resale                                     | \$ 161,595       | \$ 152,194           |
| Raw materials  | 21,694           | 20,609               |
| Contracts and other work in process                        | 196,456          | 205,220              |
| Finished goods (including certain general stock materials) | 10,811           | 12,472               |
| Total  | \$ 390,556       | \$ 390,495           |



## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

For the three months and six months ended June 27, 2014 and June 28, 2013

(Unaudited)

## 8. INVENTORIES (CONTINUED)

Inventories include amounts associated with matters such as contract changes, negotiated settlements and claims for unanticipated contract costs. These amounts are as follows:

|  | June 27,<br>2014 | December 31,<br>2013 |
|--|------------------|----------------------|
| In thousands   |                  |                      |
| Contract changes, negotiated settlements and claims for unanticipated contract costs | \$7,337          | \$11,581             |
| Total  | \$7,337          | \$11,581             |

The reduction in this balance is due to the settlement of a claim related to a commercial composite structures program.

K-MAX® inventory of \$17.2 million and \$17.0 million as of June 27, 2014, and December 31, 2013, respectively, is included in contracts and other work in process inventory and finished goods. Management believes that a significant portion of this K-MAX® inventory will be sold after June 27, 2015, based upon the anticipation of supporting the fleet for the foreseeable future.

At June 27, 2014, and December 31, 2013, \$34.2 million and \$43.8 million, respectively, of SH-2G(I), formerly SH-2G(A), inventory was included on the Company's balance sheet in contracts and other work in process inventory. On May 8, 2013, the Company announced that it had entered into a \$120.6 million contract with the New Zealand Ministry of Defence for the sale of ten SH-2G(I) Super Seasprite aircraft, spare parts, a full mission flight simulator, and related logistics support. Although a substantial portion of the SH-2G(I) inventory will be used in the performance of this contract, management believes that \$10.9 million of the SH-2G(I) inventory will be sold after June 27, 2015, based upon the time needed to prepare the aircraft for sale and the requirements of our customer. For more information on the SH-2G(I) inventory, see Note 11, Commitments and Contingencies.

## Long-term Contracts

For long-term aerospace contracts, the Company generally recognizes revenue and cost based on the percentage-of-completion method of accounting, which allows for recognition of revenue as work on a contract progresses. The Company recognizes revenues and cost based on either (1) the cost-to-cost method, in which sales and profit are recorded based upon the ratio of costs incurred to estimated total costs to complete the contract, or (2) the units-of-delivery method, in which sales are recognized as deliveries are made and cost of sales is computed on the basis of the estimated ratio of total cost to total sales.

Revenue and cost estimates for all significant long-term contracts for which revenue is recognized using the percentage-of-completion method of accounting are reviewed and reassessed quarterly. Based upon these reviews, the Company records the effects of adjustments in profit estimates each period. If at any time the Company determines that in the case of a particular contract total costs will exceed total contract revenue, the Company will record a provision for the entire anticipated contract loss at that time. There was a net decrease to the Company's operating income from changes in contract estimates of \$0.6 million for the three-month period ended June 27, 2014. The decrease was primarily a result of cost growth on the Sikorsky BLACK HAWK helicopter program. For the six-month period ended June 27, 2014, changes in contract estimates contributed \$0.2 million to the Company's operating income. The increase for the six-month period was primarily a result of improved performance on the Joint Programmable Fuze ("JPF") program, offset by the cost growth on the Sikorsky BLACK HAWK helicopter program. There was a net decrease to the Company's operating income from changes in contract estimates of \$2.7 million for the three-month and six-month periods ended June 28, 2013. These decreases were a result of cost growth due to

revised estimates in various programs, including the Sikorsky BLACK HAWK helicopter program, Bell helicopter offload program and a fuze program.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued  
 For the three months and six months ended June 27, 2014 and June 28, 2013  
 (Unaudited)

9. GOODWILL AND OTHER INTANGIBLE ASSETS, NET

Goodwill

The following table sets forth the change in the carrying amount of goodwill for each reportable segment and for the Company:

|                                    | Distribution | Aerospace | Total     |
|------------------------------------|--------------|-----------|-----------|
| In thousands                       |              |           |           |
| Gross balance at December 31, 2013 | \$105,637    | \$114,538 | \$220,175 |
| Accumulated impairment             | —            | (16,252)  | (16,252)  |
| Net balance at December 31, 2013   | 105,637      | 98,286    | 203,923   |
| Additions                          | 37,804       | 1,284     | 39,088    |
| Impairments                        | —            | —         | —         |
| Foreign currency translation       | 5            | 825       | 830       |
| Ending balance at June 27, 2014    | \$143,446    | \$100,395 | \$243,841 |

Additions to goodwill for the Company's Distribution segment relate to the acquisition of the operating assets of B.W. Rogers completed during the second quarter of 2014, as set forth in Note 4, Acquisitions. Additions to goodwill for the Company's Aerospace segment relate to an earnout payment associated with a previous acquisition.

Other intangible assets consisted of:

|                                     | Amortization<br>Period | At June 27,<br>2014 |                             | At December 31,<br>2013 |                             |
|-------------------------------------|------------------------|---------------------|-----------------------------|-------------------------|-----------------------------|
|                                     |                        | Gross<br>Amount     | Accumulated<br>Amortization | Gross<br>Amount         | Accumulated<br>Amortization |
| In thousands                        |                        |                     |                             |                         |                             |
| Customer lists / relationships      | 6-21 years             | \$125,638           | \$(28,258)                  | \$109,790               | \$(23,647)                  |
| Trademarks / trade names            | 3-8 years              | 3,565               | (1,833)                     | 2,695                   | (1,594)                     |
| Non-compete agreements and<br>other | 1-9 years              | 7,254               | (4,564)                     | 6,133                   | (4,055)                     |
| Patents                             | 17 years               | 523                 | (401)                       | 523                     | (396)                       |
| Total                               |                        | \$136,980           | \$(35,056)                  | \$119,141               | \$(29,692)                  |

The changes in other intangible assets are attributable to changes in foreign currency exchange rates and the acquisition completed during the second quarter of 2014.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued  
 For the three months and six months ended June 27, 2014 and June 28, 2013  
 (Unaudited)

## 10. PENSION PLANS

Components of net pension cost for the Qualified Pension Plan and Supplemental Employees' Retirement Plan ("SERP") are as follows:

|  | For the Three Months Ended |                  |                  |                  |
|--|----------------------------|------------------|------------------|------------------|
|  | Qualified Pension Plan     |                  | SERP             |                  |
|  | June 27,<br>2014           | June 28,<br>2013 | June 27,<br>2014 | June 28,<br>2013 |
| In thousands   |                            |                  |                  |                  |
| Service cost for benefits earned during the year           | \$2,940                    | \$3,587          | \$64             | \$85             |
| Interest cost on projected benefit obligation              | 7,208                      | 6,399            | 86               | 83               |
| Expected return on plan assets                             | (10,261                    | ) (10,337        | ) —              | —                |
| Amortization of prior service cost                         | 20                         | 25               | —                | —                |
| Amortization of net loss                                   | 1,038                      | 2,304            | 23               | 53               |
| Additional amount recognized due to curtailment/settlement | —                          | —                | —                | 277              |
| Net pension cost   | \$945                      | \$1,978          | \$173            | \$498            |

|  | For the Six Months Ended |                  |                  |                  |
|--|--------------------------|------------------|------------------|------------------|
|  | Qualified Pension Plan   |                  | SERP             |                  |
|  | June 27,<br>2014         | June 28,<br>2013 | June 27,<br>2014 | June 28,<br>2013 |
| In thousands   |                          |                  |                  |                  |
| Service cost for benefits earned during the year           | \$5,880                  | \$7,174          | \$128            | \$170            |
| Interest cost on projected benefit obligation              | 14,417                   | 12,798           | 171              | 155              |
| Expected return on plan assets                             | (20,523                  | ) (20,674        | ) —              | —                |
| Amortization of prior service cost                         | 45                       | 50               | —                | —                |
| Amortization of net loss                                   | 2,057                    | 4,581            | 45               | 130              |
| Additional amount recognized due to curtailment/settlement | —                        | —                | —                | 277              |
| Net pension cost   | \$1,876                  | \$3,929          | \$344            | \$732            |

The following tables show the amounts of contributions made to the Qualified Pension Plan and SERP during each period and the additional contributions the Company expects to make during the remainder of 2014:

## Year-to-date contributions:

|                            | Qualified Pension Plan |                               | SERP                   |                               |
|----------------------------|------------------------|-------------------------------|------------------------|-------------------------------|
|                            | As of June 27,<br>2014 | As of<br>December 31,<br>2013 | As of June 27,<br>2014 | As of<br>December 31,<br>2013 |
| In thousands               |                        |                               |                        |                               |
| Year-to-date contributions | \$10,000               | \$10,000                      | \$552                  | \$2,291                       |

## Expected additional contributions in 2014:

|                                   | Qualified Pension Plan | SERP  |
|-----------------------------------|------------------------|-------|
| In thousands                      |                        |       |
| Expected additional contributions | \$—                    | \$267 |





NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued  
For the three months and six months ended June 27, 2014 and June 28, 2013  
(Unaudited)

11. COMMITMENTS AND CONTINGENCIES

Legal Matters

Wichita Matter

As previously disclosed, the U.S. District Court for the District of Kansas issued a grand jury subpoena in 2011 to Plastic Fabricating Company, Inc. ("PlasticFab"), an indirect wholly owned subsidiary of the Company now known as Kaman Composites - Wichita, Inc., regarding a government investigation of record keeping associated with the manufacture of certain composite parts at PlasticFab's facility located in Wichita, Kansas. The subpoena required information related to the period January 1, 2006, through June 30, 2008. In March 2013, the U.S. Attorney's Office for the District of Kansas notified PlasticFab that it may seek to commence a criminal proceeding against PlasticFab but it expressed a willingness to explore a pre-charge disposition of the matter. PlasticFab believes it has cooperated fully with the investigation and intends to continue to do so as it engages in further discussions with the U.S. Attorney's Office about this matter. Under present U.S. Government procurement laws and regulations, if indicted or adjudged to be in violation of procurement or other Federal laws, a contractor, such as PlasticFab, could be subject to fines, penalties, repayments, or compensatory or treble damages, or suspension or debarment on U.S. Government contract awards if warranted. Thus, as with any government contractor, an adverse outcome in a proceeding such as this could have a material adverse effect on our business, financial condition, results of operations or cash flows. Management continues to cooperate with the government's investigation; however, we are unable to predict the outcome of any proceeding that may be brought or to estimate the amounts of resulting claims or other actions that could be instituted against PlasticFab, its officers, employees, or affiliates. Sales for PlasticFab represented 1.0% of the Company's consolidated sales for the year ended December 31, 2013. At June 27, 2014, the amount accrued for this matter was not material.

Other Matters

Revenue Sharing Agreement with the Commonwealth of Australia

During the second quarter of 2013, the Company signed a \$120.6 million contract to resell ten of the Australia SH-2G(A) (now designated SH-2G(I)) aircraft, spare parts, a full mission flight simulator, and related logistics support to the New Zealand Ministry of Defence. Pursuant to the terms of its revenue sharing agreement with the Commonwealth of Australia, the Company will share proceeds from the resale with the Commonwealth on a predetermined basis. Through June 27, 2014, the Company has paid \$39.5 million (AUD) to the Commonwealth of Australia, the required minimum amount of payments pursuant to the revenue sharing agreement. The Company has \$2.2 million accrued for additional revenue sharing payments, calculated pursuant to the terms of the revenue sharing agreement. Additional amounts due to the Commonwealth of Australia will be recorded as additional sales are recorded.

Moosup

This facility is currently being held for disposal, and the Company from time to time entertains discussions and may explore terms with interested parties about the ultimate disposition of the property. To date, however, such discussions and preliminary agreements have not resulted in the consummation of a transaction. Site characterization of the environmental condition of the property, which began in 2008, is continuing. The total anticipated cost of the environmental remediation activities associated with the Moosup property is \$4.5 million, all of which has been accrued. The total amount paid to date in connection with environmental remediation activities at this location is \$2.6

million. A portion (\$0.1 million) of the accrual related to this property is included in other accruals and payables and the balance is included in other long-term liabilities. The remaining balance of the accrual reflects the total anticipated cost of completing these environmental remediation activities. Although it is reasonably possible that additional costs will be paid in connection with the resolution of this matter, the Company is unable to estimate the amount of such additional costs, if any, at this time.

#### New Hartford

In connection with the sale of the Company's Music segment in 2007, the Company assumed responsibility for meeting certain requirements of the Connecticut Transfer Act (the "Transfer Act") that applied to the transfer of the New Hartford, Connecticut, facility leased by that segment for guitar manufacturing purposes ("Ovation"). Under the Transfer Act, those responsibilities essentially consist of assessing the site's environmental conditions and remediating environmental impairments, if any, caused by Ovation's operations prior to the sale. The site is a multi-tenant industrial park, in which Ovation and other unrelated entities lease space. The environmental assessment process, which began in 2008, has been completed.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

For the three months and six months ended June 27, 2014 and June 28, 2013

(Unaudited)

11. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Other Matters - continued

New Hartford - continued

The Company's estimate of its portion of the cost to assess the environmental conditions and remediate this site is \$2.2 million, unchanged from the previously reported estimate, all of which has been accrued. The total amount paid to date in connection with these environmental remediation activities is \$0.5 million. An immaterial portion of the accrual related to this property is included in other accruals and payables and the balance is included in other long-term liabilities. The remaining balance of the accrual reflects the total anticipated cost of completing these environmental remediation activities. Although it is reasonably possible that additional costs will be paid in connection with the resolution of this matter, the Company is unable to estimate the amount of such additional costs, if any, at this time.

Bloomfield

In connection with the Company's 2008 purchase of the portion of the Bloomfield campus that a Company subsidiary had leased from the Naval Air Systems Command (NAVAIR), the Company assumed responsibility for environmental remediation at the facility as may be required under the Transfer Act and continues the effort to define the scope of the remediation that will be required by the Connecticut Department of Energy & Environmental Protection. The assumed environmental liability of \$10.3 million, all of which has been accrued, was determined by taking the undiscounted estimated remediation liability of \$20.8 million and discounting it at a rate of 8%. This remediation process will take many years to complete. The total amount paid to date in connection with these environmental remediation activities is \$8.2 million. At June 27, 2014, the Company has \$6.0 million accrued for this environmental matter. A portion (\$1.7 million) of the accrual related to this property is included in other accruals and payables, and the balance (\$4.3 million) is included in other long-term liabilities. Although it is reasonably possible that additional costs will be paid in connection with the resolution of this matter, the Company is unable to estimate the amount of such additional costs, if any, at this time.

United Kingdom

In connection with the purchase of the Company's U.K. composites business operations, the Company accrued £1.6 million for environmental compliance at the acquired facilities. The remaining balance of the accrual at June 27, 2014, was £0.3 million, with £1.1 million having been paid to date in connection with these environmental remediation activities and £0.2 million released to income in 2011. The U.S. dollar equivalent of the remaining environmental compliance liability as of June 27, 2014, is \$0.5 million, which is included in other accruals and payables. The Company continues to assess the work that may be required, which may result in a change to this accrual. Although it is reasonably possible that additional costs will be paid in connection with the resolution of this matter, the Company is unable to estimate the amount of such additional costs, if any, at this time.

Other Environmental Matters

The Company has been notified by the Environmental Protection Agency that it is a potentially responsible party ("PRP") at a Superfund Site. At June 27, 2014, the Company had no amount accrued for this matter, as it is unable to estimate the amount of costs, if any, that might be incurred in connection with the remediation of this site. In making this determination, the Company considered the availability of the information related to the site; specifically, the

continued identification of PRPs and the inability to determine the proportion of total responsibility attributable to each PRP. As more information is received, the Company will reassess its ability to estimate its portion of the cost for remediation, taking into consideration the financial resources of other PRPs involved in the site, their proportionate share of the total responsibility for waste at the site, the existence of insurance and the financial viability of the insurer.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

For the three months and six months ended June 27, 2014 and June 28, 2013

(Unaudited)

## 12. COMPUTATION OF EARNINGS PER SHARE

The computation of basic earnings per share is based on net earnings divided by the weighted average number of shares of common stock outstanding for each period. The computation of diluted earnings per share reflects the common stock equivalency of dilutive options granted to employees under the Company's stock incentive plan and shares issuable on redemption of its Convertible Notes.

|  | For the Three Months Ended |                  | For the Six Months Ended |                  |
|--|----------------------------|------------------|--------------------------|------------------|
|  | June 27,<br>2014           | June 28,<br>2013 | June 27,<br>2014         | June 28,<br>2013 |
| In thousands, except per share amounts                                 |                            |                  |                          |                  |
| Earnings from continuing operations                                    | \$ 16,194                  | \$ 17,892        | \$ 27,651                | \$ 25,046        |
| Earnings from discontinued operations, net of tax                      | 379                        | —                | 379                      | —                |
| Net earnings   | \$ 16,573                  | \$ 17,892        | \$ 28,030                | \$ 25,046        |
| Basic:   |                            |                  |                          |                  |
| Weighted average number of shares outstanding                          | 27,039                     | 26,734           | 26,981                   | 26,696           |
| Earnings per share from continuing operations                          | \$0.60                     | \$0.67           | \$1.03                   | \$0.94           |
| Earnings per share from discontinued operations                        | 0.01                       | —                | 0.01                     | —                |
| Basic earnings per share   | \$0.61                     | \$0.67           | \$1.04                   | \$0.94           |
| Diluted:   |                            |                  |                          |                  |
| Weighted average number of shares outstanding                          | 27,039                     | 26,734           | 26,981                   | 26,696           |
| Weighted average shares issuable on exercise of dilutive stock options | 155                        | 140              | 157                      | 152              |
| Weighted average shares issuable on redemption of convertible notes    | 650                        | 25               | 579                      | 129              |
| Total  | 27,844                     | 26,899           | 27,717                   | 26,977           |
| Earnings per share from continuing operations                          | \$0.59                     | \$0.67           | \$1.00                   | \$0.93           |
| Earnings per share from discontinued operations                        | 0.01                       | —                | 0.01                     | —                |
| Diluted earnings per share   | \$0.60                     | \$0.67           | \$1.01                   | \$0.93           |

## Equity awards

For the three and six months ended June 27, 2014, respectively, 318,111 and 380,165 shares issuable under equity awards granted to employees were excluded from the calculation of diluted earnings per share as they were anti-dilutive based on the average stock price during the period. For the three and six months ended June 28, 2013, respectively, 437,646 and 441,559 shares issuable under equity awards granted to employees were excluded from the calculation of diluted earnings per share as they were anti-dilutive based on the average stock price during the period.

## Convertible Notes

In November 2010, the Company issued Convertible Notes due on November 15, 2017, in the aggregate principal amount of \$115.0 million. The Convertible Notes will mature on November 15, 2017, unless earlier redeemed, repurchased by the Company or converted. Upon conversion, the Convertible Notes require net share settlement, where the aggregate principal amount of the notes will be paid in cash and remaining amounts due, if any, will be settled in cash, shares of the Company's common stock or a combination of cash and shares of common stock, at the

Company's election.

For the three-month and six-month periods ended June 27, 2014, and June 28, 2013, shares issuable under the Convertible Notes that were dilutive during the period were included in the calculation of earnings per share as the conversion price for the Convertible Notes was less than the average share price of the Company's stock.

17

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued  
 For the three months and six months ended June 27, 2014 and June 28, 2013  
 (Unaudited)

## 12. COMPUTATION OF EARNINGS PER SHARE (CONTINUED)

### Warrants

Excluded from the diluted earnings per share calculation for the three months and six months ended June 27, 2014, are 3,410,658 and 3,409,866, respectively, shares issuable under the warrants sold in connection with the Company's convertible note offering as they would be anti-dilutive. For the three and six months ended June 28, 2013, respectively, 3,403,787 and 3,402,772, shares issuable under the warrants sold in connection with the Company's convertible note offering were excluded from the diluted earnings per share calculation as they would be anti-dilutive.

## 13. SHARE-BASED ARRANGEMENTS

### General

The Company accounts for stock options, restricted stock awards, restricted stock units and performance shares as equity awards and measures the cost of all share-based payments, including stock options, at fair value on the grant date and recognizes this cost in the statement of operations. The Company also has an employee stock purchase plan which is accounted for as a liability award.

Compensation expense for stock options, restricted stock awards and restricted stock units is recognized on a straight-line basis over the vesting period of the awards. Share-based compensation expense recorded for the three-month and six-month periods ended June 27, 2014, was \$2.0 million and \$3.3 million, respectively. Share-based compensation expense recorded for the three-month and six-month periods ended June 28, 2013, was \$1.9 million and \$3.1 million, respectively.

During the first quarter of 2014, the Company issued stock awards totaling 10,934 shares with market and performance based conditions. The Company measured the cost of these awards based on their fair value at the date of grant to the extent of the probable number of shares to be earned upon vesting. Amortization of this cost will be recorded on a straight-line basis over the requisite service period. Throughout the course of the requisite service period, the Company will monitor the level of achievement compared to the target and adjust the number of shares expected to be earned, and the related compensation expense recorded thereafter, to reflect the updated most probable outcome. Compensation expense for these awards for the three months and six months ended June 27, 2014, was not material.

Stock option activity was as follows:

|  | For the Three Months Ended<br>June 27, 2014 |   | For the Six Months Ended<br>June 27, 2014 |   |
|--|---|---|---|---|
|  | Options                                     | Weighted -<br>average<br>exercise price | Options                                   | Weighted -<br>average<br>exercise price |
| Options outstanding at beginning of period | 1,000,655                                   | \$30.64                                 | 891,932                                   | \$28.18                                 |
| Granted                                    | —   | \$—                                     | 186,885                                   | \$39.22                                 |
| Exercised                                  | (61,898)                                    | ) \$24.19                               | (140,060)                                 | ) \$23.55                               |
| Forfeited or expired                       | (5,945)                                     | ) \$34.67                               | (5,945)                                   | ) \$34.67                               |
| Options outstanding at June 27, 2014       | 932,812                                     | \$31.05                                 | 932,812                                   | \$31.05                                 |





## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

For the three months and six months ended June 27, 2014 and June 28, 2013

(Unaudited)

## 13. SHARE-BASED ARRANGEMENTS (CONTINUED)

The fair value of each option award is estimated on the date of grant using the Black-Scholes option valuation model. The following table indicates the weighted-average assumptions used in estimating fair value:

|   | For the Six Months Ended |                  |   |
|---|--------------------------|------------------|---|
|   | June 27,<br>2014         | June 28,<br>2013 |   |
| Expected option term (years)            | 5.1                      | 5.2              |   |
| Expected volatility                     | 37.5                     | % 45.5           | % |
| Risk-free interest rate                 | 1.5                      | % 0.9            | % |
| Expected dividend yield                 | 1.7                      | % 2.0            | % |
| Per share fair value of options granted | \$11.60                  | \$12.38          |   |

There were no options granted for the three-month periods ended June 27, 2014 and June 28, 2013.

Restricted Stock Award and Restricted Stock Unit activity was as follows:

|   | For the Three Months Ended<br>June 27, 2014 |   | For the Six Months Ended<br>June 27, 2014 |   |
|---|---|---|---|---|
|   | Restricted<br>Stock                         | Weighted-<br>average grant<br>date fair value | Restricted<br>Stock                       | Weighted-<br>average grant<br>date fair value |
| Restricted Stock outstanding at beginning of period | 200,514                                     | \$35.49                                       | 188,647                                   | \$31.83                                       |
| Granted   | 35,901                                      | \$41.56                                       | 111,071                                   | \$39.89                                       |
| Vested  | (21,665)                                    | ) \$39.70                                     | (84,254)                                  | ) \$31.64                                     |
| Forfeited or expired                                | (6,312)                                     | ) \$30.66                                     | (7,026)                                   | ) \$30.47                                     |
| Restricted Stock outstanding at June 27, 2014       | 208,438                                     | \$36.24                                       | 208,438                                   | \$36.24                                       |

## 14. SEGMENT AND GEOGRAPHIC INFORMATION

The Company is organized based upon the nature of its products and services, and is composed of two operating segments each overseen by a segment manager. These segments are reflective of how the Company's Chief Executive Officer, who is its Chief Operating Decision Maker ("CODM"), reviews operating results for the purposes of allocating resources and assessing performance. The Company has not aggregated operating segments for purposes of identifying reportable segments.

The Distribution segment is a leading power transmission, motion control, and fluid power industrial distributor with operations throughout North America. Distribution conducts business in the mechanical power transmission and bearings, electrical, automation and control, and fluid power product platforms and provides total solutions from system design and integration to machine parts and value-added services to North America's manufacturing industry.

The Aerospace segment produces and/or markets widely used proprietary aircraft bearings and components; complex metallic and composite aerostructures for commercial, military and general aviation fixed and rotary wing aircraft; safe and arm solutions for missile and bomb systems for the U.S. and allied militaries; subcontract helicopter work; support for the Company's SH-2G Super Seasprite maritime helicopters and K-MAX® medium-to-heavy lift helicopters; and engineering services.



NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued  
 For the three months and six months ended June 27, 2014 and June 28, 2013  
 (Unaudited)

## 14. SEGMENT AND GEOGRAPHIC INFORMATION (CONTINUED)

Summarized financial information by business segment is as follows:

| In thousands  | For the Three Months Ended |                  | For the Six Months Ended |                  |
|---|----------------------------|------------------|--------------------------|------------------|
|   | June 27,<br>2014           | June 28,<br>2013 | June 27,<br>2014         | June 28,<br>2013 |
| Net sales:  |                            |                  |                          |                  |
| Distribution  | \$304,186                  | \$270,233        | \$569,056                | \$527,401        |
| Aerospace   | 154,903                    | 161,492          | 303,965                  | 292,399          |
| Net sales   | \$459,089                  | \$431,725        | \$873,021                | \$819,800        |
| Operating income:                                       |                            |                  |                          |                  |
| Distribution  | \$15,419                   | \$13,669         | \$26,554                 | \$18,299         |
| Aerospace   | 26,681                     | 28,678           | 48,702                   | 49,589           |
| Net loss on sale of assets                              | (57                        | ) (21            | ) (168                   | ) (100           |
| Corporate expense                                       | (14,356                    | ) (11,309        | ) (26,412                | ) (23,004        |
| Operating income from continuing operations             | 27,687                     | 31,017           | 48,676                   | 44,784           |
| Interest expense, net                                   | 3,297                      | 3,163            | 6,406                    | 6,231            |
| Other expense (income), net                             | 297                        | 58               | 499                      | 389              |
| Earnings before income taxes from continuing operations | 24,093                     | 27,796           | 41,771                   | 38,164           |
| Income tax expense                                      | 7,899                      | 9,904            | 14,120                   | 13,118           |
| Earnings from continuing operations                     | \$16,194                   | \$17,892         | \$27,651                 | \$25,046         |

The Company's Distribution segment acquired the operating assets of B.W. Rogers during the second quarter of 2014. This acquisition resulted in an increase to the segment's total assets, as compared to December 31, 2013.

| In thousands         | June 27, 2014 | December 31, 2013 |
|----------------------|---------------|-------------------|
| Identifiable assets: |               |                   |
| Distribution         | \$573,803     | \$480,117         |
| Aerospace            | 573,093       | 557,831           |
| Corporate            | 98,677        | 102,683           |
| Total assets         | \$1,245,573   | \$1,140,631       |

## 15. SHAREHOLDERS' EQUITY AND ACCUMULATED OTHER COMPREHENSIVE INCOME

Changes in shareholders' equity for the six months ended June 27, 2014, and June 28, 2013, respectively, were as follows:

| In thousands                                 | For the Six Months Ended |               |
|--|--------------------------|---------------|
|  | June 27, 2014            | June 28, 2013 |
| Beginning balance                            | \$511,292                | \$420,193     |
| Comprehensive income                         | 30,896                   | 23,300        |
| Dividends declared                           | (8,652                   | ) (8,549      |
| Employee stock plans and related tax benefit | 4,639                    | 2,654         |
| Purchase of treasury shares                  | (843                     | ) (644        |

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|                                  |           |           |
|----------------------------------|-----------|-----------|
| Share-based compensation expense | 3,293     | 3,065     |
| Ending balance                   | \$540,625 | \$440,019 |

20

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued  
 For the three months and six months ended June 27, 2014 and June 28, 2013  
 (Unaudited)

## 15. SHAREHOLDERS' EQUITY AND ACCUMULATED OTHER COMPREHENSIVE INCOME (CONTINUED)

The components of accumulated other comprehensive income (loss) are shown below:

|   | For the Three Months Ended |               |
|---|----------------------------|---------------|
|   | June 27, 2014              | June 28, 2013 |
| In thousands  |                            |               |
| Foreign currency translation:   |                            |               |
| Beginning balance   | \$(14,514 )                | \$(21,029 )   |
| Net gain/(loss) on foreign currency translation   | 1,755                      | (244 )        |
| Reclassification to net income  | —                          | —             |
| Other comprehensive income/(loss), net of tax   | 1,755                      | (244 )        |
| Ending balance  | \$(12,759 )                | \$(21,273 )   |
| Pension and other post-retirement benefits <sup>(a)</sup> :   |                            |               |
| Beginning balance   | (65,653 )                  | (103,076 )    |
| Reclassification to net income  |                            |               |
| Amortization of prior service cost, net of tax expense of \$7 and \$10, respectively                | 13                         | 15            |
| Amortization of net loss, net of tax expense of \$401 and \$894, respectively                       | 660                        | 1,461         |
| Other comprehensive income/(loss), net of tax   | 673                        | 1,476         |
| Ending balance  | \$(64,980 )                | \$(101,600 )  |
| Derivative instruments <sup>(b)</sup> :   |                            |               |
| Beginning balance   | (516 )                     | (635 )        |
| Net loss on derivative instruments, net of tax expense (benefit) of (\$122) and \$105, respectively | (88 )                      | 172           |
| Reclassification to net income, net of tax expense of \$84  | 88                         | —             |
| Other comprehensive income/(loss), net of tax   | —                          | 172           |
| Ending balance  | \$(516 )                   | \$(463 )      |
| Total accumulated other comprehensive income (loss)   | \$(78,255 )                | \$(123,336 )  |

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued  
 For the three months and six months ended June 27, 2014 and June 28, 2013  
 (Unaudited)

## 15. SHAREHOLDERS' EQUITY AND ACCUMULATED OTHER COMPREHENSIVE INCOME (CONTINUED)

|   | For the Six Months Ended |                |
|---|--------------------------|----------------|
|   | June 27, 2014            | June 28, 2013  |
| In thousands  |                          |                |
| Foreign currency translation:   |                          |                |
| Beginning balance   | \$(14,219                | ) \$(16,515 )  |
| Net gain/(loss) on foreign currency translation   | 1,460                    | (4,758 )       |
| Reclassification to net income  | —                        | —              |
| Other comprehensive income/(loss), net of tax   | 1,460                    | (4,758 )       |
| Ending balance  | \$(12,759                | ) \$(21,273 )  |
| Pension and other post-retirement benefits <sup>(a)</sup> :                                       |                          |                |
| Beginning balance   | (66,317                  | ) (104,551 )   |
| Reclassification to net income  |                          |                |
| Amortization of prior service cost, net of tax expense of \$17 and \$20, respectively             | 28                       | 30             |
| Amortization of net loss, net of tax expense of \$793 and \$1,790, respectively                   | 1,309                    | 2,921          |
| Other comprehensive income/(loss), net of tax   | 1,337                    | 2,951          |
| Ending balance  | \$(64,980                | ) \$(101,600 ) |
| Derivative instruments <sup>(b)</sup> :   |                          |                |
| Beginning balance   | (585                     | ) (524 )       |
| Net loss on derivative instruments, net of tax expense (benefit) of (\$78) and \$38, respectively | (129                     | ) 61           |
| Reclassification to net income, net of tax expense of \$119                                       | 198                      | —              |
| Other comprehensive income/(loss), net of tax   | 69                       | 61             |
| Ending balance  | \$(516                   | ) \$(463 )     |
| Total accumulated other comprehensive income (loss)   | \$(78,255                | ) \$(123,336 ) |

<sup>(a)</sup> These accumulated other comprehensive income components are included in the computation of net periodic pension cost.

(See Note 10, Pension Plans for additional information.)

<sup>(b)</sup> See Note 7, Derivative Financial Instruments, for additional information regarding our derivative instruments.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued  
 For the three months and six months ended June 27, 2014 and June 28, 2013  
 (Unaudited)

16. INCOME TAXES

|                           | For the Three Months Ended |                  | For the Six Months Ended |                  |   |
|---------------------------|----------------------------|------------------|--------------------------|------------------|---|
|                           | June 27,<br>2014           | June 28,<br>2013 | June 27,<br>2014         | June 28,<br>2013 |   |
| Effective Income Tax Rate | 32.8                       | % 35.6           | % 33.8                   | % 34.4           | % |

The effective income tax rate represents the combined federal, state and foreign tax effects attributable to pretax earnings for the year. The decrease in the effective tax rate for the three-month and six-month periods ended June 27, 2014, as compared to the rates for the same periods in the prior year is primarily due to a reduction in the effective state tax rate and discrete tax benefits in the second quarter of 2014, which include the recognition of a foreign exchange loss and additional inventory-related tax benefits.

17. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through the issuance date of these financial statements. No material subsequent events were identified that require disclosure.

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

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to provide readers of our condensed consolidated financial statements with the perspectives of management. It presents, in narrative form, information regarding our financial condition, results of operations, liquidity and certain other factors that may affect our future results, and is designed to enable the readers of this report to obtain a comprehensive understanding of our businesses, strategies, current trends and future prospects. It should be read in conjunction with our 2013 Annual Report on Form 10-K.

OVERVIEW OF BUSINESS

Kaman Corporation (the "Company") is comprised of two business segments:

The Distribution segment is a leading power transmission, motion control, electrical and automation, and fluid power industrial distributor with operations throughout North America. We provide products including bearings, mechanical and electrical power transmission, fluid power, motion control, automation, material handling components, electrical control and power distribution, and MRO supplies to a broad spectrum of industrial markets throughout North America.

The Aerospace segment produces and/or markets proprietary aircraft bearings and components; complex metallic and composite aerostructures for commercial, military and general aviation fixed and rotary wing aircraft; safe and arming solutions for missile and bomb systems for the U.S. and allied militaries; subcontract helicopter work; support for our SH-2G Super Seasprite maritime helicopters and K-MAX® manned and unmanned medium-to-heavy lift helicopters; and engineering design, analysis and certification services.

Financial performance

Net sales from continuing operations increased 6.3% and 6.5% for the three months and six months ended June 27, 2014, respectively, compared to the comparable periods in the prior year.

Earnings from continuing operations decreased 9.5% for the three months ended June 27, 2014, compared to the comparable period in the prior year. For the six months ended June 27, 2014, earnings from continuing operations increased 10.4% compared to the comparable period in the prior year.

Diluted earnings per share from continuing operations decreased to \$0.59, a decrease of \$0.08, or 11.9% for the three months ended June 27, 2014, compared to the comparable period in the prior year. For the six months ended June 27, 2014, diluted earnings per share from continuing operations increased to \$1.00, an increase of \$0.07, or 7.5% compared to the comparable period in the prior year.

- Cash flows provided by operating activities of continuing operations for the six months ended June 27, 2014 were \$11.8 million, \$25.2 million more than the comparable period in the prior year.

Significant events

In July 2014, the Company announced that its Aerospace segment has been awarded follow-on orders totaling \$13.9 million under Option 11 of the Joint Programmable Fuze ("JPF") program, raising the total under Option 11 to \$55.8 million.

On July 3, 2014, the Company's Distribution segment reached a significant milestone by successfully implementing the new enterprise-wide business system at the Minarik Automation & Controls facilities.

On April 25, 2014, the Company completed the acquisition of specific assets of B.W. Rogers Company.

In April 2014, the first upgraded SH-2G(I) aircraft successfully completed its first test flight, a significant milestone in the program.

In April 2014, production of the Aerospace segment's specialty bearings in Germany was moved to a new state-of-the-art manufacturing facility in Höchstadt.



In March 2014, the Company completed the move of its U.K. Tooling facility to a purpose-built facility in Burnley Lancashire, United Kingdom.

#### Outlook

We are raising the low end of the sales and operating income range for Distribution from \$1,180 million to \$1,190 million and 4.7% to 4.8%, respectively. This reflects the improved performance we have seen in our base business and the acquired assets of B.W. Rogers. At Aerospace, we are maintaining our sales expectations for the year; however, we have lowered the top end of our range for operating income from 17.0% to 16.7%. The reduction in the range is due to a shift in the anticipated product mix

for the year. Finally, we have increased our Free Cash Flow expectations for the year, largely reflecting lower than expected capital expenditures. Our updated outlook for 2014 is as follows:

**Distribution:**

Sales of \$1,190 million to \$1,220 million

Operating margins of 4.8% to 5.2%

**Aerospace:**

Sales of \$640 million to \$660 million

Operating margins of 16.5% to 16.7%

Interest expense of approximately \$13.5 million

Corporate expense of approximately \$52 million

Estimated annualized tax rate of approximately 35%

Depreciation and amortization expense of approximately \$38 million

Capital expenditures of \$30 million to \$35 million

Free cash flow in the range of \$50 million to \$55 million

The following table illustrates the calculation of "Free Cash Flow", a Non-GAAP financial measure:  
2014 Outlook

In millions

Free Cash Flow<sup>(a)</sup>:

|  |        |    |        |
|--|--------|----|--------|
| Net cash provided by operating activities      | \$80.0 | to | \$90.0 |
| Expenditures for property, plant and equipment | 30.0   | to | 35.0   |
| Free Cash Flow                                 | \$50.0 | to | \$55.0 |

(a) Free Cash Flow, a non-GAAP financial measure, is defined as net cash provided by operating activities less expenditures for property, plant and equipment, both of which are presented on our consolidated statements of cash flows. See Management's Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP Financial Measures.

## RESULTS OF OPERATIONS

### Consolidated Results

#### Net Sales

|           | For the Three Months Ended |                  | For the Six Months Ended |                  |   |
|-----------|----------------------------|------------------|--------------------------|------------------|---|
|           | June 27,<br>2014           | June 28,<br>2013 | June 27,<br>2014         | June 28,<br>2013 |   |
|           | (in thousands)             |                  |                          |                  |   |
| Net sales | \$459,089                  | \$431,725        | \$873,021                | \$819,800        |   |
| \$ change | 27,364                     | 31,499           | 53,221                   | 35,855           |   |
| % change  | 6.3                        | % 7.9            | % 6.5                    | % 4.6            | % |

The following table details the components of the increase in net sales as a percentage of consolidated net sales:

|                                | For the Three<br>Months Ended<br>June 27, 2014 | For the Six Months<br>Ended<br>June 27, 2014 |  |   |
|--------------------------------|--|--|--|---|
| Organic Sales <sup>(1)</sup> : |  |  |  |   |
| Distribution                   | 1.9  | % 1.1  |  | % |
| Aerospace                      | (1.5)  | )% 1.4                                       |  | % |
| Total Organic Sales            | 0.4  | % 2.5  |  | % |
| Sales by Recent Acquisitions:  |  |  |  |   |
| Distribution                   | 5.9  | % 4.0  |  | % |
| Aerospace                      | —  | % —  |  | % |
| Total Acquisition Sales        | 5.9  | % 4.0  |  | % |
| % change in net sales          | 6.3  | % 6.5  |  | % |

<sup>(1)</sup> Sales contributed by acquisitions are included in organic sales beginning with the thirteenth month following the date of acquisition. See segment discussions below for additional information regarding the changes in net sales.

#### Gross Profit

|                | For the Three Months Ended |                  | For the Six Months Ended |                  |   |
|----------------|----------------------------|------------------|--------------------------|------------------|---|
|                | June 27,<br>2014           | June 28,<br>2013 | June 27,<br>2014         | June 28,<br>2013 |   |
|                | (in thousands)             |                  |                          |                  |   |
| Gross profit   | \$129,334                  | \$121,257        | 244,195                  | 231,523          |   |
| \$ change      | 8,077                      | 7,425            | 12,672                   | 13,091           |   |
| % change       | 6.7                        | % 6.5            | % 5.5                    | % 6.0            | % |
| % of net sales | 28.2                       | % 28.1           | % 28.0                   | % 28.2           | % |

The increase in gross profit for the three months and six months ended June 27, 2014, as compared to the same periods in 2013 is attributable to the higher gross profit at our Distribution segment. The increase at Distribution was due to higher organic gross profit, which increased 2.8% and 1.9% for the three months and six months ended June 27, 2014, respectively, and the contribution of gross profit recorded by the 2013 and 2014 Distribution segment acquisitions. Offsetting the higher gross profit at our Distribution segment was a decrease in gross profit at our Aerospace segment, primarily related to the sales mix of our bearing products and lower margins on our tooling product sales. These decreases were partially offset by the gross profit associated with New Zealand SH-2G(I) program sales and missile fuzing sales.

#### Selling, General & Administrative Expenses (SG&A)

|                | For the Three Months Ended |                  | For the Six Months Ended |                  |   |
|----------------|----------------------------|------------------|--------------------------|------------------|---|
|                | June 27,<br>2014           | June 28,<br>2013 | June 27,<br>2014         | June 28,<br>2013 |   |
|                | (in thousands)             |                  |                          |                  |   |
| SG&A           | \$101,590                  | \$90,219         | 195,351                  | 186,639          |   |
| \$ change      | 11,371                     | 4,399            | 8,712                    | 12,909           |   |
| % change       | 12.6                       | % 5.1            | % 4.7                    | % 7.4            | % |
| % of net sales | 22.1                       | % 20.9           | % 22.4                   | % 22.8           | % |

SG&A increased by 12.6% and 4.7% for the three months and six months ended June 27, 2014, respectively, as compared to the corresponding 2013 periods. The following table details the components of the change:

|                               | For the Three Months<br>Ended<br>June 27, 2014 | For the Six Months<br>Ended<br>June 27, 2014 |    |
|-------------------------------|--|--|----|
| Organic SG&A <sup>(1)</sup> : |  |  |    |
| Distribution                  | 4.0  | (0.8)  | )% |
| Aerospace                     | (0.3)  | 0.1  | %  |
| Corporate                     | 3.1  | 1.6  | %  |
| Total Organic SG&A            | 6.8  | 0.9  | %  |
| Acquisition SG&A:             |  |  |    |
| Distribution                  | 5.8  | 3.8  | %  |
| Aerospace                     | —  | —  | %  |
| Total Acquisition SG&A        | 5.8  | 3.8  | %  |
| % change in SG&A              | 12.6   | 4.7  | %  |

<sup>(1)</sup>SG&A expense incurred by acquisitions are included in organic SG&A beginning with the thirteenth month following the date of acquisition.

The increase in SG&A for the three-month period ended June 27, 2014, was primarily attributable to higher expenses at our Distribution segment due to the 2013 and 2014 Distribution segment acquisitions and higher employee related incentive costs as a result of improved operating results. Additionally, corporate expenses were \$3.0 million higher for the three-month period ended June 27, 2014, primarily driven by higher incentive compensation costs, an increase in professional services costs and an increase in depreciation expense associated with building renovations.

The increase in SG&A for the six-month period ended June 27, 2014, was primarily attributable to higher expenses at our Distribution segment due to the 2013 and 2014 acquisitions and \$3.4 million of higher corporate expenses driven by the items discussed above and higher acquisition costs as compared to the same period last year.

#### Operating Income

|                  | For the Three Months Ended |                  | For the Six Months Ended |                  |   |
|------------------|----------------------------|------------------|--------------------------|------------------|---|
|                  | June 27,<br>2014           | June 28,<br>2013 | June 27,<br>2014         | June 28,<br>2013 |   |
|                  | (in thousands)             |                  |                          |                  |   |
| Operating income | \$27,687                   | \$31,017         | 48,676                   | 44,784           |   |
| \$ change        | (3,330                     | ) 2,997          | 3,892                    | 50               |   |
| % change         | (10.7                      | )% 10.7          | % 8.7                    | % 0.1            | % |
| % of net sales   | 6.0                        | % 7.2            | % 5.6                    | % 5.5            | % |

The decrease in operating income for the three months ended June 27, 2014, versus the comparable period in 2013 was due to the increase in corporate expenses discussed above and a decrease in operating income at our Aerospace segment, offset by an increase in operating income at our Distribution segment. (See segment discussion below for additional information.)

The increase in operating income for the six months ended June 27, 2014, versus the comparable period in 2013 was due to an increase in operating income at our Distribution segment, offset by the increase in corporate expenses discussed above. The increase in operating income at our Distribution segment included the contribution of operating income from our 2013 and 2014 acquisitions, higher organic gross profit and lower operating expenses including the absence of restructuring costs. (See segment discussion below for additional information.)



## Interest Expense, Net

|                       | For the Three Months Ended |                  | For the Six Months Ended |                  |
|-----------------------|----------------------------|------------------|--------------------------|------------------|
|                       | June 27,<br>2014           | June 28,<br>2013 | June 27,<br>2014         | June 28,<br>2013 |
|                       | (in thousands)             |                  |                          |                  |
| Interest expense, net | \$3,297                    | \$3,163          | \$6,406                  | \$6,231          |

Interest expense, net, generally consists of interest charged on our Credit Agreement (see "Liquidity and Capital Resources - Financing Arrangements", below), which includes a revolving credit facility and a term loan facility, and other borrowings and the amortization of debt issuance costs, offset by interest income. The increase in interest expense, net for the three-month and six-month periods ended June 27, 2014, is primarily attributed to the higher average borrowings, as compared to the same periods ended June 28, 2013. (See Liquidity and Capital Resources section below for information on our borrowings.)

## Effective Income Tax Rate

|                           | For the Three Months Ended |                  | For the Six Months Ended |                  |   |
|---------------------------|----------------------------|------------------|--------------------------|------------------|---|
|                           | June 27,<br>2014           | June 28,<br>2013 | June 27,<br>2014         | June 28,<br>2013 |   |
| Effective income tax rate | 32.8                       | % 35.6           | % 33.8                   | % 34.4           | % |

The effective income tax rate represents the combined federal, state and foreign tax effects attributable to pretax earnings for the year. The decrease in the effective tax rate for the three-month period and six-month period ended June 27, 2014, as compared to the rates for the same periods in the prior year is primarily due to a reduction in the effective state tax rate and discrete tax benefits in the second quarter of 2014, which include the recognition of a foreign exchange loss and additional inventory-related tax benefits.

## Changes in Condensed Consolidated Balance Sheets

Due to the acquisition of the operating assets of B.W. Rogers in the second quarter of 2014, certain line items on our Condensed Consolidated Balance Sheets increased as of June 27, 2014 as compared to December 31, 2013.

Specifically, Accounts Receivable, net, Goodwill and Long-term debt, excluding current portion were impacted by this acquisition. In order to fund this acquisition, the Company used borrowings under the Revolving Credit Agreement, increasing the total borrowings under this agreement. See Note 4, Acquisitions for further detail of assets acquired and liabilities assumed as part of the acquisition.

In addition to the acquisition of B.W. Rogers, Accounts Receivable, net also increased from December 31, 2013 due to an increase in unbilled costs and accrued profit for certain Aerospace commercial contracts.

## Distribution Segment

## Results of Operations

|                  | For the Three Months Ended |                  | For the Six Months Ended |                  |    |
|------------------|----------------------------|------------------|--------------------------|------------------|----|
|                  | June 27,<br>2014           | June 28,<br>2013 | June 27,<br>2014         | June 28,<br>2013 |    |
|                  | (in thousands)             |                  |                          |                  |    |
| Net sales        | \$304,186                  | \$270,233        | \$569,056                | \$527,401        |    |
| \$ change        | 33,953                     | 17,371           | 41,655                   | 21,904           |    |
| % change         | 12.6                       | % 6.9            | % 7.9                    | % 4.3            | %  |
| Operating income | \$15,419                   | \$13,669         | \$26,554                 | \$18,299         |    |
| \$ change        | 1,750                      | (497)            | 8,255                    | (8,181)          | )  |
| % change         | 12.8                       | % (3.5)          | )% 45.1                  | % (30.9)         | )% |
| % of net sales   | 5.1                        | % 5.1            | % 4.7                    | % 3.5            | %  |



## Net sales

The increase in net sales for the three months and six months ended June 27, 2014, as compared to the same periods in 2013 was primarily driven by the contribution of sales from our 2013 and 2014 acquisitions which totaled \$25.7 million and \$32.5 million, respectively.

Organic sales per sales day is a metric management uses to evaluate performance trends at our Distribution segment and is calculated by taking organic sales divided by the number of sales days in the period. The following table illustrates the calculation of organic sales per sales day. (See Management's Discussion and Analysis of Financial Condition and Results of Operations - Non-GAAP Financial Measures.)

|  |   | For the Three Months Ended |                  | For the Six Months Ended |                  |    |
|--|---|----------------------------|------------------|--------------------------|------------------|----|
|  |   | June 27,<br>2014           | June 28,<br>2013 | June 27,<br>2014         | June 28,<br>2013 |    |
|  |   | (in thousands)             |                  |                          |                  |    |
| Current period                                     |   |                            |                  |                          |                  |    |
| Net sales  |   | \$304,186                  | \$270,233        | \$569,056                | \$527,401        |    |
| Acquisition sales <sup>(1)</sup>                   |   | 25,670                     | 25,163           | 32,536                   | 48,373           |    |
| Organic sales                                      |   | \$278,516                  | \$245,070        | \$536,520                | \$479,028        |    |
| Sales days   |   | 64                         | 64               | 126                      | 127              |    |
| Organic sales per sales day for the current period | a | \$4,352                    | \$3,829          | \$4,258                  | \$3,772          |    |
| Prior period                                       |   |                            |                  |                          |                  |    |
| Net sales from the prior year                      |   | \$270,233                  | \$252,862        | \$527,401                | \$505,497        |    |
| Sales days from the prior year                     |   | 64                         | 64               | 127                      | 128              |    |
| Organic sales per sales day from the prior year    | b | \$4,222                    | \$3,951          | \$4,153                  | \$3,949          |    |
| % change in organic sales per sales day (a-b)÷b    |   | 3.1                        | % (3.1           | )% 2.5                   | % (4.5           | )% |

<sup>(1)</sup> Sales contributed by an acquisition are included in organic sales beginning with the thirteenth month following the date of acquisition. Prior period information is adjusted to reflect acquisition sales for that period as organic sales when calculating organic sales per sales day.

Net sales for the three months and six months ended June 27, 2014, increased 3.1% and 2.5%, respectively, as compared to the same periods in 2013, when measured on a same day sales basis. The increase in organic sales per sales day for the three months ended June 27, 2014, as compared to the corresponding prior year period was primarily driven by increases in sales volume to maintenance, repair and operations customers. We experienced higher sales in the machinery manufacturing, food manufacturing and the computer and electronic product manufacturing markets. These increases were partially offset by declines in the fabricated metal product manufacturing market.

The increase in organic sales per sales day for the six months ended June 27, 2014, as compared to the corresponding prior year period was primarily driven by increases in sales volume to both maintenance, repair and operations customers and original equipment manufacturer customers. We experienced higher sales for the six-month period ended June 27, 2014, in the computer and electronic product manufacturing and fabricated metal product manufacturing markets. These increases were mostly offset by declines in the merchant wholesalers and durable goods market.

## Operating income



The increase in Distribution segment operating income for the three months and six months ended June 27, 2014, as compared to the corresponding prior year periods was driven by 2013 and 2014 acquisitions. Additionally, for the six-month period ended June 27, 2014, there was an increase in organic gross profit and lower SG&A expenses, partially offset by additional losses on mining contracts at our Mexico operations. The decline in SG&A expenses was primarily due to the absence of \$3.0 million in restructuring charges and lower pension costs, partially offset by costs associated with the expansion of our sales force and higher incentive compensation as a result of improved operating results.

## Other Matters

## Enterprise Resource Planning System

In July 2012, we announced our decision to invest in a new enterprise-wide business system for our Distribution segment. The anticipated total investment in the new system is approximately \$45 million, which will be incurred over a number of years. Of the total investment, we expect that approximately 75% will be capitalized. From its inception through June 27, 2014, we have spent \$26.4 million on this project, of which \$22.7 million has been capitalized. Depreciation and amortization of the capitalized cost will commence in the second half of 2014 and is expected to increase over the next three to four years. In order to minimize disruptions to our ongoing operations we have developed a project plan that takes a phased approach to implementation and includes appropriate contingencies. In early July 2014, the Distribution segment reached a significant milestone when the Minarik Automation & Controls facilities went live on the new system. For the three months and six months ended June 27, 2014, expenses incurred totaled approximately \$0.2 million and \$0.5 million, respectively, and capital expenditures totaled \$1.2 million and \$5.8 million, respectively.

## Aerospace Segment

## Results of Operations

|                  | For the Three Months Ended |                  | For the Six Months Ended |                  |   |
|------------------|----------------------------|------------------|--------------------------|------------------|---|
|                  | June 27,<br>2014           | June 28,<br>2013 | June 27,<br>2014         | June 28,<br>2013 |   |
|                  | (in thousands)             |                  |                          |                  |   |
| Net sales        | \$154,903                  | \$161,492        | \$303,965                | \$292,399        |   |
| \$ change        | (6,589                     | ) 14,128         | 11,566                   | 13,951           |   |
| % change         | (4.1                       | )% 9.6           | % 4.0                    | % 5.0            | % |
| Operating income | \$26,681                   | \$28,678         | \$48,702                 | \$49,589         |   |
| \$ change        | (1,997                     | ) 2,520          | (887                     | ) 7,530          |   |
| % change         | (7.0                       | )% 9.6           | % (1.8                   | )% 17.9          | % |
| % of net sales   | 17.2                       | % 17.8           | % 16.0                   | % 17.0           | % |

## Net sales

Sales decreased for the three-month period ended June 27, 2014, as compared to the comparable period in 2013, primarily due to a net \$9.4 million decrease in sales of our military products/programs. Sales decreases of \$21.4 million were primarily attributable to lower commercial sales of the JPF to foreign militaries, lower military bearing product sales as anticipated due to non-recurring military retrofit orders in the same period last year, lower shipments on the Sikorsky BLACK HAWK helicopter program and lower sales volume on the Egypt SH-2G(E) upgrade program. These decreases were partially offset by a \$12.1 million increase in military sales resulting from work performed on our SH-2G(I) contract with New Zealand and higher shipments of our JPF to the USG during the quarter.

Offsetting the decline in sales of our military products/programs for the three months ended June 27, 2014, was a \$2.8 million increase in commercial sales, primarily a result of \$2.1 million in higher commercial bearing product sales.

Sales increased for the six-month period ended June 27, 2014, as compared to the comparable period in 2013, due to increases of \$6.6 million and \$5.0 million in sales of our military and commercial products/programs, respectively. Military sales increases of \$31.9 million primarily related to work performed on our SH-2G(I) contract with New Zealand, higher shipments of our JPF to the USG and increased sales volume on our Tomahawk fuze program. These

military sales increases were partially offset by \$25.3 million of decreases attributable to lower commercial sales of the JPF to foreign militaries, lower military bearing product sales as anticipated due to non-recurring military retrofit orders in the same period last year, lower shipments on the Sikorsky BLACK HAWK helicopter program and lower sales volume on the Egypt SH-2G(E) upgrade program.

Commercial sales increases of \$9.8 million related to increased deliveries on commercial composite structures products/programs and higher commercial bearing product sales. These increases were offset by lower sales of engineering design services and lower sales on the Boeing 767 program, totaling \$5.0 million.

## Operating income

The decrease in operating income for the three months ended June 27, 2014, compared to the comparable period in 2013 was primarily due to lower sales and corresponding gross profit on our military bearing products and lower commercial sales of the JPF to foreign militaries. These products/program profit decreases resulted in \$4.2 million of lower operating income, partially offset by approximately \$2.0 million of higher operating income as a result of the work performed on our New Zealand SH-2G(I) program.

The decrease in operating income for the six months ended June 27, 2014, compared to the comparable period in 2013 was primarily due to lower margins on our military bearing products and tooling sales and lower gross profit associated with lower sales on the Egypt SH-2G(E) upgrade program. These decreases, totaling \$7.6 million, were partially offset by an increase of \$7.0 million mostly attributable to the New Zealand SH-2G(I) program, a higher level of sales under the JPF program and higher sales under our Tomahawk fuze program.

## Long-Term Contracts

For long-term aerospace contracts, we generally recognize sales and income based on the percentage-of-completion method of accounting, which allows for recognition of revenue as work on a contract progresses. We recognize sales and profit based on either (1) the cost-to-cost method, in which sales and profit are recorded based upon the ratio of costs incurred to estimated total costs to complete the contract, or (2) the units-of-delivery method, in which sales are recognized as deliveries are made and cost of sales is computed on the basis of the estimated ratio of total cost to total sales.

Revenue and cost estimates for all significant long-term contracts for which revenue is recognized using the percentage-of-completion method of accounting are reviewed and reassessed quarterly. Based upon these reviews, the Company records the effects of adjustments in profit estimates each period. If at any time the Company determines that in the case of a particular contract total costs will exceed total contract revenue, the Company will record a provision for the entire anticipated contract loss at that time. There was a net decrease to the Company's operating income from changes in contract estimates of \$0.6 million for the three-month period ended June 27, 2014. The decrease was primarily a result of cost growth on the Sikorsky BLACK HAWK helicopter program. For the six-month period ended June 27, 2014, changes in contract estimates contributed \$0.2 million to the Company's operating income. The increase for the six-month period was primarily a result of continued improved performance on the JPF program, offset by the cost growth on the Sikorsky BLACK HAWK helicopter program.

There was a net decrease to the Company's operating income from changes in contract estimates of \$2.7 million for the three-month and six-month periods ended June 28, 2013. The decreases were a result of cost growth due to revised estimates in various programs, including the Sikorsky BLACK HAWK helicopter program, Bell helicopter offload program and a fuze program.

## Backlog

|         | June 27,<br>2014 | December 31,<br>2013 |
|---------|------------------|----------------------|
|         | (in thousands)   |                      |
| Backlog | \$551,009        | \$601,954            |

Backlog decreased during the first half of 2014. This decrease is primarily due to bearing product sales, JPF deliveries, work performed on the SH-2G(I) New Zealand program, deliveries of BLACK HAWK helicopter cockpits and sales under certain composite structure programs. These sales totaled \$214.9 million and were partially offset by orders of \$164.5 million that consisted of new orders under the JPF and A-10 programs and bearing products orders.

### Major Programs/Product Lines

Below is a discussion of significant changes in the Aerospace segment's major programs during the first half of 2014. See our 2013 Annual Report on Form 10-K for a complete discussion of our Aerospace segment's programs.

#### A-10

The segment has contracted with Boeing to produce the wing control surfaces (inboard and outboard flaps, slats and deceleron assemblies) for the U.S. Air Force's A-10 fleet. This contract has a potential value of over \$110.0 million; however, annual quantities will vary, as they are dependent upon the orders Boeing receives from the U.S. Air Force. Through June 27, 2014,

approximately 80 shipsets have been delivered over the life of this program and we expect to deliver approximately 25 shipsets during the remainder of 2014. The Department of Defense Fiscal Year 2015 Budget has eliminated funding for the A-10 fleet; however, a final determination as to the future of this program has not been made and there is congressional support for its continuation. At June 27, 2014, our program backlog was \$41.4 million and total program inventory was \$19.8 million. We received an order for additional shipsets in January 2014, and through the date of this filing we have not received any indication from our customer that this program will be terminated.

#### BLACK HAWK

The Sikorsky BLACK HAWK helicopter cockpit program involves the manufacture of cockpits including the installation of all wiring harnesses, hydraulic assemblies, control pedals and sticks, seat tracks, pneumatic lines, and the composite structure that holds the windscreen for most models of the BLACK HAWK helicopter. As a result of lower customer demand, we expect to deliver 90 BLACK HAWK cockpits this year, compared to 114 cockpits delivered in 2013. We currently have \$65.9 million of orders under this program in backlog and have delivered 42 cockpits during the first half of 2014.

#### AH-1Z

The segment manufactures cabins for the increased capability AH-1Z attack helicopter, which is produced by Bell Helicopter ("Bell") for the U.S. Marine Corps. The cabin is the largest and most complex airframe structure utilized in the final assembly of the AH-1Z helicopter and has not been manufactured new since 1995. During the first quarter of 2014, Bell conducted the first test flight for the re-designed AH-1Z helicopter. We have provided Bell with partially complete cabins to allow Bell to progress on the completion of initial aircraft; however, revenue for this program is recognized based on the acceptance of completed cabins. We continue to work with Bell to complete the remaining items necessary to deliver completed cabins and recognize the related revenue. As of June 27, 2014, we have shipped a total of two complete cabins and four substantially complete cabins. Revenue has only been recognized on the two complete cabins. Our total program inventory is \$37.3 million and we currently have \$25.4 million in backlog associated with this program; with potential follow-on options the program value could exceed \$200.0 million.

#### C-17

The segment continues production of structural wing subassemblies for the Boeing C-17. During the first quarter of 2014, Boeing announced that it was ending production three months earlier than it had originally planned, resulting in the production of three fewer aircraft. In the first half of 2014, we delivered approximately six shipsets, and now have one shipset remaining in backlog. We do not expect to receive any additional orders.

#### FMU-152 – Joint Programmable Fuze ("JPF")

The segment manufactures the JPF, an electro-mechanical bomb safe and arming device, which allows the settings of a weapon to be programmed in flight. In July 2014, we were awarded an additional \$13.9 million under Option 11, bringing the total award under this option to \$55.8 million, for fuzes to be delivered in 2015 and 2016. Additionally, we were awarded direct commercial sales ("DCS") of \$10.8 million for fuzes to be delivered in 2014. Total JPF backlog at June 27, 2014, is \$108.4 million.

During the quarter we delivered a total of 5,901 fuzes, which consisted of 4,274 fuzes delivered to the U.S. Government and 1,627 fuzes delivered as direct commercial sales to foreign governments. A total of 11,078 fuzes have been delivered through the first half of 2014. We occasionally experience lot acceptance test failures due to the complexity of the product and the extreme parameters of the acceptance test. Given the maturity of the product, we now generally experience isolated failures, rather than systematic failures. As a result, identifying a root cause can take longer and may result in fluctuating delivery performance from quarter to quarter. We expect to deliver approximately 20,000 to 26,000 fuzes in 2014.

Learjet 85

In 2010, our U.K. Composites operation was awarded a contract for the Learjet 85 program. We manufacture composite passenger entry and over-wing exit doors for the Learjet 85, a mid-sized business jet built primarily from composites and featuring advances in aerodynamics, structures and efficiency. We began delivery during the second quarter of 2013. In April 2014, Bombardier conducted the first test flight for the Learjet 85. We anticipated completing deliveries on initial orders under this program in 2014; however, due to technical issues with the main fuselage, Bombardier has moved the delivery schedule for our manufactured parts into 2015.

## LIQUIDITY AND CAPITAL RESOURCES

### Discussion and Analysis of Cash Flows

We assess liquidity in terms of our ability to generate cash to fund working capital requirements and investing and financing activities. Significant factors affecting liquidity include: cash flows generated from or used by operating activities, capital expenditures, investments in our business segments and their programs, acquisitions, divestitures, dividends, availability of future credit, adequacy of available bank lines of credit, and factors that might otherwise affect the company's business and operations generally, as described under the heading "Risk Factors" and "Forward-Looking Statements" in Item 1A of Part I of our 2013 Annual Report on Form 10-K.

We continue to rely upon bank financing as an important source of liquidity for our business activities including acquisitions. We believe this, when combined with cash generated from operating activities, will be sufficient to support our anticipated cash requirements for the foreseeable future. However, we may decide to issue additional debt or raise equity capital to support other business activities including potential future acquisitions. We anticipate our capital expenditures will be approximately \$30.0 to \$35.0 million in 2014, primarily related to machinery and equipment and information technology infrastructure. Included in this is approximately \$11.9 million associated with investments in enterprise resource planning (ERP) systems primarily for our Distribution segment and, to a lesser extent, certain Aerospace facilities.

We anticipate a variety of items will have an impact on our liquidity during the next 12 months, in addition to our working capital requirements. These could include one or more of the following:

the matters described in Note 11, Commitments and Contingencies, in the Notes to Condensed Consolidated Financial Statements, including:

- the cost of defending the Wichita matter; and
- the cost of existing environmental remediation matters;
- contributions to our qualified pension plan and Supplemental Employees' Retirement Plan ("SERP");
- costs associated with new aerospace start-up programs; and
- the extension of payment terms by our customers.

However, we do not believe any of these matters will lead to a shortage of capital resources or liquidity that would prevent us from continuing with our business operations as expected.

We regularly monitor credit market conditions to identify potential issues that may adversely affect, or provide opportunities for, the securing and/or pricing of additional financing, if any, that may be necessary to continue with our growth strategy and finance working capital requirements.

Management regularly monitors pension plan asset performance and the assumptions used in the determination of our benefit obligation, comparing them to actual performance. We continue to believe the assumptions selected are valid due to the long-term nature of our benefit obligation.

In 2013, the Company signed a \$120.6 million contract to resell ten of the former Australia SH-2G(A) (now designated SH-2G(I)) aircraft, spare parts, a full mission flight simulator, and related logistics support to the New Zealand Ministry of Defence. Pursuant to the terms of its revenue sharing agreement with the Commonwealth of Australia, the Company will share proceeds from the resale with the Commonwealth on a predetermined basis. Through June 27, 2014, the Company has paid \$39.5 million (AUD), the required minimum amount of payments pursuant to the revenue sharing agreement, and has accrued \$2.2 million for amounts due in excess of the required minimum payments based upon the sale price stipulated in the contract with New Zealand.



Upon entering into the sales contract with the New Zealand Ministry of Defence, we agreed to provide unconditional letters of credit for the receipt of advance payments on this program. As we perform under the contract and meet certain predetermined milestones, the letter of credit requirements will be gradually reduced. As of June 27, 2014, the letter of credit balance associated with this program totaled \$30.3 million.

A summary of our consolidated cash flows from continuing operations is as follows:

|  | For the Six Months Ended |                  |               |
|--|--------------------------|------------------|---------------|
|  | June 27,<br>2014         | June 28,<br>2013 | 2014 vs. 2013 |
|  | (in thousands)           |                  |               |
| Total cash (used in) provided by:  |                          |                  |               |
| Operating activities of continuing operations                                | \$11,763                 | \$(13,407)       | ) \$25,170    |
| Investing activities   | (94,557)                 | ) (26,960)       | ) (67,597)    |
| Financing activities   | 83,629                   | 32,572           | 51,057        |
| Free Cash Flow (a):  |                          |                  |               |
| Net cash provided by (used in) operating activities of continuing operations | \$11,763                 | \$(13,407)       | ) \$25,170    |
| Expenditures for property, plant and equipment                               | (18,058)                 | ) (21,267)       | ) 3,209       |
| Free cash flow   | \$(6,295)                | ) \$(34,674)     | ) \$28,379    |

(a) Free Cash Flow, a non-GAAP financial measure, is defined as net cash provided by operating activities less expenditures for property, plant and equipment, both of which are presented on our Condensed Consolidated Statements of Cash Flows. See Management's Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP Financial Measures for more information regarding Free Cash Flow.

Net cash provided by operating activities increased for the six months ended June 27, 2014, versus the comparable period in 2013, primarily due to an increase in net earnings and lower inventory on the JPF program and lower SH-2G(I) inventory as we continue to perform under the New Zealand program. These changes were partially offset by the decrease in advances on contracts relating to the SH-2G(I) New Zealand contract.

Net cash used in investing activities increased for the six months ended June 27, 2014, versus the comparable period in 2013. The increase was primarily related to the acquisition of the operating assets of B.W. Rogers.

Net cash provided by financing activities increased \$51.1 million for the six months ended June 27, 2014, versus the comparable period in 2013, primarily due to an increase in borrowings under the Revolving Credit Agreement in 2014 as compared to the same period in the prior year. The borrowings in 2014 were used to fund the B.W. Rogers acquisition and working capital requirements.

#### Financing Arrangements

On November 20, 2012, we entered into a Credit Agreement (the "Credit Agreement") that includes a \$400.0 million Revolving Credit Facility expiring July 31, 2017. The Revolving Credit Facility includes an "accordion" feature that would allow us to increase the aggregate amount available to \$500.0 million, subject to additional commitments from lenders. The Revolving Credit Facility may be used for working capital, letters of credit and other general corporate purposes, including acquisitions. The Credit Agreement also includes a \$100.0 million Term Loan Facility expiring on July 31, 2017, which is in addition to our Revolving Credit Facility. Principal payments, which started in the first quarter of 2013, of \$2.5 million are due quarterly, with \$55.0 million of the initial aggregate principal payable in the final quarter of the Term Loan Facility. We may increase the term loan by up to an aggregate of \$100.0 million in accordance with the terms of the agreement.

Interest rates on amounts outstanding under the Credit Agreement are variable. At June 27, 2014, the interest rate for the outstanding amounts on the Credit Agreement was 1.58%. At December 31, 2013, the interest rate for the outstanding amounts on the Credit Agreement was 1.72%.

The financial covenants associated with the Credit Agreement include a requirement that (i) the ratio of Consolidated Senior Secured Indebtedness to Consolidated EBITDA, as defined in the Credit Agreement, cannot be greater than 3.50 to 1.00, (ii) the ratio of Consolidated Total Indebtedness to Consolidated EBITDA, as defined in the Credit Agreement, cannot be greater than 4.00 to 1.00, and (iii) the ratio of Consolidated EBITDA, as defined in the Credit Agreement, to the sum of (a) all interest, premium payments, debt discounts, fees, charges and related expenses and (b) the portion of rent expense under capital leases that is treated as interest expense, as defined in the Credit Agreement, cannot be less than 4.00 to 1.00. We were in compliance with those financial covenants as of and for the quarter ended June 27, 2014, and we do not anticipate noncompliance in the foreseeable future.

Total average bank borrowings during the quarter ended June 27, 2014, were \$208.4 million compared to \$188.8 million for the year ended December 31, 2013. As of June 27, 2014, and December 31, 2013, there was \$197.7 million and \$285.6 million available for borrowing, respectively, under the Revolving Credit Facility, net of letters of credit. However, based on EBITDA levels for the six months ended June 27, 2014, amounts available for borrowing were limited to \$177.7 million. Letters of credit are generally considered borrowings for purposes of the Revolving Credit Facility. A total of \$35.0 million and \$36.8 million in letters of credit was outstanding under the Revolving Credit Facility as of June 27, 2014, and December 31, 2013, respectively. The letter of credit balance related to the SH-2G(I) New Zealand sales contract was \$30.3 million at June 27, 2014. The letter of credit balance related to this contract could reach a potential \$60.1 million over its three-year term.

#### Other Sources/Uses of Capital

This year we have contributed \$10.0 million to the qualified pension plan and \$0.6 million to the SERP through the end of the second quarter. We do not expect to make any further contributions to the qualified pension plan during 2014. We plan to contribute an additional \$0.3 million to the SERP in 2014. For the 2013 plan year, we contributed \$10.0 million to the qualified pension plan and \$2.3 million to the SERP.

In November 2000, our Board of Directors approved a replenishment of our stock repurchase program, providing for repurchase of an aggregate of 1.4 million common shares for use in administration of our stock plans and for general corporate purposes. There were no shares repurchased under this program during the first six months of 2014. At June 27, 2014, approximately 1.0 million shares remained authorized for repurchase under this program.

#### NON-GAAP FINANCIAL MEASURES

Management believes the non-GAAP (Generally Accepted Accounting Principles) measures used in this report on Form 10-Q provide investors with important perspectives into our ongoing business performance. We do not intend for the information to be considered in isolation or as a substitute for the related GAAP measures. Other companies may define the measures differently. We define the non-GAAP measures used in this report and other disclosures as follows:

##### Organic Sales per Sales Day

Organic sales per sales day is defined as GAAP “Net sales of the Distribution segment” less sales derived from acquisitions completed during the preceding twelve months divided by the number of sales days in a given period. Sales days are the number of business days that the Distribution segment’s branch locations were open for business and exclude weekends and holidays. Management believes sales per sales day provides an important perspective on how net sales may be impacted by the number of days the segment is open for business. Management uses organic sales per sales day as a measurement to compare periods in which the numbers of sales days differ.

##### Free Cash Flow

Free cash flow is defined as GAAP “Net cash provided by (used in) operating activities” less “Expenditures for property, plant & equipment”, both of which are presented in our Condensed Consolidated Statements of Cash Flows. Management believes free cash flow provides an important perspective on the cash available for dividends to shareholders, debt repayment, and acquisitions after making capital investments required to support ongoing business operations and long-term value creation. Free cash flow does not represent the residual cash flow available for discretionary expenditures as it excludes certain mandatory expenditures such as repayment of maturing debt. Management uses free cash flow internally to assess both business performance and overall liquidity.

CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS

There have been no material changes outside the ordinary course of business in our contractual obligations or off-balance sheet arrangements during the first six months of 2014. See our 2013 Annual Report on Form 10-K for a discussion of our contractual obligations and off-balance sheet arrangements.

## CRITICAL ACCOUNTING ESTIMATES

Preparation of the Company's financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management believes the most complex and sensitive judgments, because of their significance to the consolidated financial statements, result primarily from the need to make estimates about the effects of matters that are inherently uncertain. Management's Discussion and Analysis and the Notes to Consolidated Financial Statements in the Company's 2013 Annual Report on Form 10-K describe the critical accounting estimates and significant accounting policies used in preparation of the Consolidated Financial Statements. Actual results in these areas could differ from management's estimates. There have been no significant changes in the Company's critical accounting estimates and significant accounting policies in 2014.

## RECENT ACCOUNTING STANDARDS

Information regarding recent changes in accounting standards is included in Note 2, Recent Accounting Standards, of the Notes to Condensed Consolidated Financial Statements in this report.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no significant changes in the Company's exposure to market risk during the second quarter of 2014. See the Company's 2013 Annual Report on Form 10-K for a discussion of the Company's exposure to market risk.

### Item 4. Controls and Procedures

#### Evaluation of Disclosure Controls and Procedures

The Company has carried out an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of June 27, 2014. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of June 27, 2014, the disclosure controls and procedures were effective.

#### Changes in Internal Controls

As of June 27, 2014, there were no changes in internal controls over financial reporting at the Company that have materially affected, or were reasonably likely to materially affect, our internal controls over financial reporting.

## PART II

### Item 1. Legal Proceedings

#### General

From time to time, as a normal incident of the nature and kinds of businesses in which the Company and its subsidiaries are, and were, engaged, various claims or charges are asserted and legal proceedings are commenced by or against the Company and/or one or more of its subsidiaries. Claimed amounts may be substantial but may not bear any reasonable relationship to the merits of the claim or the extent of any real risk of court or arbitral awards. We record accruals for losses related to those matters that we consider to be probable and that can be reasonably estimated. Gain contingencies, if any, are recognized when they are realized and legal costs generally are expensed when incurred.

We evaluate, on a quarterly basis, developments in legal proceedings that could affect the amount of any accrual and developments that would make a loss contingency both probable and reasonably estimable. Our loss contingencies are subject to substantial uncertainties, however, including for each such contingency the following, among other factors: (i) the procedural status of the case; (ii) whether the case has or may be certified as a class action suit; (iii) the outcome of preliminary motions; (iv) the impact of discovery; (v) whether there are significant factual issues to be determined or resolved; (vi) whether the proceedings involve a large number of parties and/or claims in multiple jurisdictions or jurisdictions in which the relevant laws are complex or unclear; (vii) the extent of potential damages, which are often unspecified or indeterminate; and (viii) the status of settlement discussions, if any, and the settlement postures of the parties. Because of these uncertainties, management has determined that, except as otherwise noted below, the amount of loss or range of loss that is reasonably possible in respect of each matter described below (including any reasonably possible losses in excess of amounts already accrued), is not reasonably estimable.

While it is not possible to predict the outcome of these matters with certainty, based upon available information, management believes that all settlements, arbitration awards and final judgments, if any, which are considered probable of being rendered against us in legal proceedings and that can be reasonably estimated are accrued for at June 27, 2014. Despite this analysis, there can be no assurance that the final outcome of these matters will not have a material adverse effect on our business, financial condition, results of operations or cash flows.

Except as set forth below, as of June 27, 2014, neither the Company nor any of its subsidiaries is a party, nor is any of its or their property subject, to any material pending legal proceedings, other than ordinary routine litigation incidental to the business of the Company and its subsidiaries. Additional information relating to certain of these matters is set forth in Note 11, Commitments and Contingencies of the Notes to Condensed Consolidated Financial Statements.

#### Wichita Matter

As previously disclosed, the U.S. District Court for the District of Kansas issued a grand jury subpoena in 2011 to Plastic Fabricating Company, Inc. ("PlasticFab"), an indirect wholly owned subsidiary of the Company now known as Kaman Composites - Wichita, Inc., regarding a government investigation of record keeping associated with the manufacture of certain composite parts at PlasticFab's facility located in Wichita, Kansas. The subpoena required information related to the period January 1, 2006, through June 30, 2008. During the fiscal quarter ended March 29, 2013, the U.S. Attorney's Office for the District of Kansas notified PlasticFab that it may seek to commence a criminal proceeding against PlasticFab but it expressed a willingness to explore a pre-charge disposition of the matter. PlasticFab believes it has cooperated fully with the investigation and intends to continue to do so as it engages in further discussions with the U.S. Attorney's Office about this matter. Under present U.S. Government procurement laws and regulations, if indicted or adjudged to be in violation of procurement or other Federal laws, a contractor, such as PlasticFab, could be subject to fines, penalties, repayments, or compensatory or treble damages, or suspension

or debarment on U.S. Government contract awards if warranted. Thus, as with any government contractor, an adverse outcome in a proceeding such as this could have a material adverse effect on our business, financial condition, results of operations or cash flows. Management continues to cooperate with the government's investigation; however, we are unable to predict the outcome of any proceeding that may be brought or to estimate the amounts of resulting claims or other actions that could be instituted against PlasticFab, its officers, employees, or affiliates. At June 27, 2014, the amount accrued for this matter is not material.



## Environmental Matters

The Company and its subsidiaries are subject to numerous U.S. Federal, state and international environmental laws and regulatory requirements and are involved from time to time in investigations or litigation of various potential environmental issues concerning activities at our facilities or former facilities or remediation as a result of past activities (including past activities of companies we have acquired). From time to time, we receive notices from the U.S. Environmental Protection Agency or equivalent state or international environmental agencies that we are a potentially responsible party under the Comprehensive Environmental Response, Compensation and Liability Act (commonly known as the “Superfund Act”) and/or equivalent laws. Such notices assert potential liability for cleanup costs at various sites, which include sites owned by us, sites we previously owned and treatment or disposal sites not owned by us, allegedly containing hazardous substances attributable to us from past operations. We are currently named as a potentially responsible party at one site. While it is not possible to predict the outcome of these proceedings, in the opinion of management, any payments we may be required to make as a result of such claims in existence at June 27, 2014, will not have a material adverse effect on our business, financial condition, results of operations or cash flows.

## Asbestos Litigation

Like many other industrial companies, the Company and/or one of its subsidiaries may be named as a defendant in lawsuits alleging personal injury as a result of exposure to asbestos integrated into certain products sold or distributed by the Company and/or the named subsidiary. A substantial majority of these asbestos-related claims have been covered by insurance or other forms of indemnity or have been dismissed without payment. The rest have been resolved for amounts that are not material to the Company, either individually or in the aggregate. Based on information currently available, we do not believe that the resolution of any currently pending asbestos-related matters will have a material adverse effect on our business, financial condition, results of operations or cash flows.

## Item 1A. Risk Factors

Investors should carefully review and consider the information regarding certain factors that could materially affect our business, results of operations, financial condition and cash flows as set forth under Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2013 (“2013 Form 10-K”). We do not believe there have been any material changes to the risk factors previously disclosed in our 2013 Form 10-K, but we may disclose changes to such factors or disclose additional factors from time to time in future filings with the SEC. Additional risks and uncertainties not presently known to us or that we currently believe not to be material may also adversely impact our business, results of operations, financial position and cash flows.

## FORWARD-LOOKING STATEMENTS

This report contains "forward-looking statements" within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements also may be included in other publicly available documents issued by the company and in oral statements made by our officers and representatives from time to time. These forward-looking statements are intended to provide management's current expectations or plans for our future operating and financial performance, based on assumptions currently believed to be valid. They can be identified by the use of words such as "anticipate," "intend," "plan," "goal," "seek," "believe," "project," "estimate," "expect," "strategy," "future," "likely," "may," "should," "would," "could," "will" and other words of similar meaning in connection with a discussion of future operating or financial performance. Examples of forward looking statements include, among others, statements relating to future sales, earnings, cash flows, results of operations, uses of cash and other measures of financial performance.

Because forward-looking statements relate to the future, they are subject to inherent risks, uncertainties and other factors that may cause the company's actual results and financial condition to differ materially from those expressed or implied in the forward-looking statements. Such risks, uncertainties and other factors include, among others: (i) changes in domestic and foreign economic and competitive conditions in markets served by the company, particularly the defense, commercial aviation and industrial production markets; (ii) changes in government and customer priorities and requirements (including cost-cutting initiatives, government and customer shut-downs, the potential deferral of awards, terminations or reductions of expenditures to respond to the priorities of Congress and the Administration, or budgetary cuts resulting from Congressional actions or automatic sequestration); (iii) changes in geopolitical conditions in countries where the company does or intends to do business; (iv) the successful conclusion of competitions for government programs and thereafter contract negotiations with government authorities, both foreign and domestic; (v) the existence of standard government contract provisions permitting renegotiation of terms and termination for the convenience of the government; (vi) the conclusion to government inquiries or investigations regarding government programs, including the resolution of the Wichita subpoena matter; (vii) risks and uncertainties associated with the successful implementation and ramp up of significant new programs; (viii) potential difficulties associated with variable acceptance test results, given sensitive production materials and extreme test parameters; (ix) the receipt and successful execution of production orders for the JPF U.S. government contract, including the exercise of all contract options and receipt of orders from allied militaries, as all have been assumed in connection with goodwill impairment evaluations; (x) the continued support of the existing K-MAX® helicopter fleet, including sale of existing K-MAX® spare parts inventory; (xi) the accuracy of current cost estimates associated with environmental remediation activities at the Bloomfield, Moosup and New Hartford, CT facilities and our U.K. facilities; (xii) the profitable integration of acquired businesses into the company's operations; (xiii) the ability to implement our ERP systems in a cost-effective and efficient manner, limiting disruption to our business, and to capture their planned benefits while maintaining an adequate internal control environment; (xiv) changes in supplier sales or vendor incentive policies; (xv) the effects of price increases or decreases; (xvi) the effects of pension regulations, pension plan assumptions, pension plan asset performance and future contributions; (xvii) future levels of indebtedness and capital expenditures; (xviii) the continued availability of raw materials and other commodities in adequate supplies and the effect of increased costs for such items; (xix) the effects of currency exchange rates and foreign competition on future operations; (xx) changes in laws and regulations, taxes, interest rates, inflation rates and general business conditions; (xxi) future repurchases and/or issuances of common stock; and (xxii) other risks and uncertainties set forth herein and in our 2013 Form 10-K.

Any forward-looking information provided in this report should be considered with these factors in mind. We assume no obligation to update any forward-looking statements contained in this report.

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### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information about purchases of Common Stock by the Company during the three months ended June 27, 2014:

| Period                          | Total Number of Shares Purchased (a) | Average Price Paid per Share | Total Number of Shares Purchased as Part of a Publicly Announced Plan (b) | Maximum Number of Shares That May Yet Be Purchased Under the Plan |
|---------------------------------|--------------------------------------|------------------------------|---|---|
| March 29, 2014 – April 25, 2014 | 1,949                                | \$40.54                      | —   | 964,757   |
| April 26, 2014 – May 23, 2014   | —                                    | \$—                          | —   | 964,757   |
| May 24, 2014 – June 27, 2014    | 1,815                                | \$42.39                      | —   | 964,757   |
| Total                           | 3,764                                |                              | —   |   |

(a) These shares represent shares repurchased in connection with employee tax withholding obligations as permitted by our equity compensation plans, which are SEC Rule 16b-3 qualified compensation plans. These are not purchases under our publicly announced program.

(b) In November 2000, our board of directors approved a replenishment of the Company's stock repurchase program providing for repurchase of an aggregate of 1.4 million shares of Common Stock for use in the administration of our stock plans and for general corporate purposes.

### Item 4. Mine Safety Disclosure

Information concerning mine safety violations required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") and Item 104 of Regulation S-K was not required for this quarterly report on Form 10-Q as there were no reportable violations during the quarter.

### Item 6. Index To Exhibits

|         |   |                     |
|---------|---|---------------------|
| 3.1     | Amended and Restated Certificate of Incorporation of the Company, amended and restated as of November 3, 2005 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K dated November 4, 2005, Commission File No. 333-66179). | Previously<br>Filed |
| 3.2     | Amended and Restated Bylaws of the Company, dated February 26, 2008 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K dated February 28, 2008, Commission File No. 000-01093).  | Previously<br>Filed |
| 31.1    | Certification of Chief Executive Officer Pursuant to Rule 13a-14 under the Securities Exchange Act of 1934  | Filed Herewith      |
| 31.2    | Certification of Chief Financial Officer Pursuant to Rule 13a-14 under the Securities Exchange Act of 1934  | Filed Herewith      |
| 32.1    | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002   | Filed Herewith      |
| 32.2    | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002   | Filed Herewith      |
| 101.INS | XBRL Instance Document  |                     |
| 101.SCH | XBRL Taxonomy Extension Schema Document   |                     |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document   |                     |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document  |                     |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document   |                     |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document  |                     |



SIGNATURES

Kaman Corporation and Subsidiaries

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.

Date: August 4, 2014

KAMAN CORPORATION

Registrant

/s/ Neal J. Keating

By: Neal J. Keating  
Chairman, President and  
Chief Executive Officer

Date: August 4, 2014

/s/ Robert D. Starr

By: Robert D. Starr  
Senior Vice President and  
Chief Financial Officer

KAMAN CORPORATION  
INDEX TO EXHIBITS

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