

KAMAN CORP
Form 10-Q
August 05, 2010

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 July 2, 2010

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: 0-1093

KAMAN CORPORATION

(Exact name of registrant as specified in its charter)

Connecticut

06-0613548

(State or other jurisdiction of incorporation or
organization)

(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 ☐

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

Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, 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 30, 2010, there were 25,948,743 shares of Common Stock outstanding.

Item 1. Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEETS

KAMAN CORPORATION AND SUBSIDIARIES

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

	July 2, 2010	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 7,136	\$ 18,007
Accounts receivable, net	167,215	135,423
Inventories	306,765	285,263
Deferred income taxes	28,190	23,040
Income taxes receivable	3,540	-
Other current assets	23,427	20,870
Total current assets	536,273	482,603
Property, plant and equipment, net	83,481	81,322
Goodwill	109,339	88,190
Other intangibles assets, net	43,580	28,684
Deferred income taxes	45,467	69,811
Other assets	18,179	22,457
Total assets	\$ 836,319	\$ 773,067
Liabilities and Shareholders' Equity		
Current liabilities:		
Notes payable	\$ 2,599	\$ 1,835
Current portion of long-term debt	5,000	5,000
Accounts payable – trade	95,310	79,309
Accrued salaries and wages	22,904	19,049
Accrued pension costs	6,903	1,105
Accrued contract losses	3,027	1,310
Advances on contracts	10,039	1,800
Current portion of amount due to Commonwealth of Australia	20,471	-
Other accruals and payables	51,322	39,204
Income taxes payable	-	5,458
Total current liabilities	217,575	154,070
Long-term debt, excluding current portion	95,700	56,800
Deferred income taxes	7,657	8,352
Underfunded pension	122,763	157,266
Due to Commonwealth of Australia, excluding current portion	10,806	34,067
Other long-term liabilities	47,313	49,612
Commitments and contingencies		
Shareholders' equity:		
Capital stock, \$1 par value per share:		
Preferred stock, 200,000 shares authorized; none outstanding	-	-
Common stock, 50,000,000 shares authorized, voting, 26,004,293 and 25,817,477		

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shares issued, respectively	26,004	25,817
Additional paid-in capital	93,717	89,624
Retained earnings	302,605	302,058
Accumulated other comprehensive income (loss)	(86,955)	(104,042)
Less 63,130 and 51,000 shares of common stock, respectively,		
held in treasury, at cost	(866)	(557)
Total shareholders' equity	334,505	312,900
Total liabilities and shareholders' equity	\$ 836,319	\$ 773,067

See accompanying notes to the 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	
	July 2, 2010	July 3, 2009	July 2, 2010	July 3, 2009
Net sales	\$ 317,087	\$ 293,223	\$ 593,859	\$ 587,258
Cost of sales	233,827	214,752	437,844	431,092
	83,260	78,471	156,015	156,166
Selling, general and administrative expenses	72,014	62,251	140,852	130,636
Net (gain)/loss on sale of assets	56	53	(520)	(40)
Operating income	11,190	16,167	15,683	25,570
Interest expense, net	2,337	1,195	4,391	2,639
Other (income) expense, net	(451)	752	(667)	614
Earnings before income taxes	9,304	14,220	11,959	22,317
Income tax expense	3,227	4,826	4,156	7,547
Net earnings	\$ 6,077	\$ 9,394	\$ 7,803	\$ 14,770
Net earnings per share:				
Basic net earnings per share	\$ 0.23	\$ 0.37	\$ 0.30	\$ 0.58
Diluted net earnings per share	\$ 0.23	\$ 0.37	\$ 0.30	\$ 0.58
Average shares outstanding:				
Basic	25,926	25,638	25,877	25,586
Diluted	26,093	25,721	26,055	25,659
Dividends declared per share	\$ 0.14	\$ 0.14	\$ 0.28	\$ 0.28

See accompanying notes to the condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

KAMAN CORPORATION AND SUBSIDIARIES

(In thousands) (Unaudited)

	For the Six Months Ended	
	July 2, 2010	July 3, 2009
Cash flows from operating activities:		
Net earnings	\$ 7,803	\$ 14,770
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities		
Depreciation and amortization	9,457	7,692
Change in allowance for doubtful accounts	(93)	172
Net (gain) loss on sale of assets	(520)	(40)
(Gain) loss on Australian payable, net of loss on derivative instruments	(487)	862
Stock compensation expense	2,654	1,727
Excess tax expense (benefit) from share-based compensation arrangements	(179)	71
Deferred income taxes.	(2,364)	1,357
Changes in assets and liabilities, excluding effects of acquisitions/divestitures:		
Accounts receivable	(14,867)	(2,780)
Inventories	(10,470)	18,989
Income tax receivable	(2,417)	3,450
Other current assets	2,226	1,603
Accounts payable	7,918	(12,169)
Accrued contract losses	1,719	(251)
Advances on contracts	8,238	(684)
Accrued expenses and payables	4,277	(3,928)
Income taxes payable	(4,912)	1,571
Pension liabilities	6,675	(8,869)
Other long-term liabilities	(1,149)	(654)
Net cash provided by (used in) operating activities	13,509	22,889
Cash flows from investing activities:		
Proceeds from sale of assets	1,075	31
Expenditures for property, plant & equipment	(8,124)	(5,508)
Acquisition of businesses including earn out adjustment, net of cash received	(50,637)	(550)
Other, net	963	(1,237)
Cash provided by (used in) investing activities	(56,723)	(7,264)
Cash flows from financing activities:		
Net borrowings (repayments) under revolving credit agreements	41,266	(1,117)

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Debt repayment	(2,500)	(2,500)
Net change in book overdraft	1,288	(1,989)
Proceeds from exercise of employee stock plans	1,599	899
Dividends paid	(7,444)	(7,350)
Debt issuance costs	(43)	-
Windfall tax (expense) benefit	179	(71)
Other	(211)	(36)
Cash provided by (used in) financing activities	34,134	(12,164)
Net increase (decrease) in cash and cash equivalents	(9,080)	3,461
Effect of exchange rate changes on cash and cash equivalents	(1,791)	797
Cash and cash equivalents at beginning of period	18,007	8,161
Cash and cash equivalents at end of period	\$ 7,136	\$ 12,419

See accompanying notes to the condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months and six months ended July 2, 2010 and July 3, 2009

(Unaudited)

1. BASIS OF PRESENTATION

The December 31, 2009 condensed consolidated balance sheet amounts have been derived from the previously audited consolidated balance sheet of Kaman Corporation and subsidiaries. In the opinion of management, the remainder of 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 Form 10-K for the year ended December 31, 2009. The results of operations for the interim period 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 2010 and 2009 ended on July 2, 2010 and July 3, 2009, respectively.

2. RECENT ACCOUNTING STANDARDS

In September 2009, the Financial Accounting Standards Board ("FASB") issued guidance related to revenue recognition for multiple element deliverables which eliminates the requirement that all undelivered elements must have objective and reliable evidence of fair value before a company can recognize the portion of the consideration that is attributable to items that already have been delivered. Under the new guidance, the relative selling price method is required to be used in allocating consideration between deliverables and the residual value method will no longer be permitted. This guidance is effective prospectively for revenue arrangements entered into or materially modified on or after January 1, 2011, although early adoption is permitted. A company may elect, but will not be required, to adopt the amendments retrospectively for all prior periods. The Company does not believe the adoption of this guidance will have a material impact on its consolidated financial statements.

In January 2010, the FASB issued changes to disclosure requirements for fair value measurements. Specifically, the changes require a reporting entity to disclose, in the reconciliation of fair value measurements using significant unobservable inputs (Level 3), separate information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number). These changes become effective beginning January 1, 2011. The Company has determined that these changes will not have an impact on its consolidated financial statements.

Effective January 1, 2010, the Company adopted changes issued by the FASB on January 21, 2010, to disclosure requirements for fair value measurements. Specifically, the changes require a reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. The changes also clarify existing disclosure requirements related to how assets and liabilities should be grouped by class and valuation techniques used for recurring and nonrecurring fair value measurements. The adoption of these changes had no impact on the consolidated financial statements.

Effective January 1, 2010, the Company adopted changes issued by the FASB on February 24, 2010, to accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued, otherwise known as "subsequent events." Specifically, these changes clarified that an entity that is required to file or furnish its financial statements with the Securities and Exchange Commission ("SEC") is not required to disclose the date through which subsequent events have been evaluated. Other than the elimination of the disclosure of

the date through which management has performed its evaluation for subsequent events, the adoption of these changes had no impact on the consolidated financial statements.

In March 2010, the FASB issued changes related to existing accounting requirements for embedded credit derivatives. Specifically, the changes clarify the scope exception regarding when embedded credit derivative features are not considered embedded derivatives subject to potential bifurcation and separate accounting. These changes became effective on July 1, 2010. The Company has determined these changes will not have an impact on its consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the three months and six months ended July 2, 2010 and July 3, 2009

(Unaudited)

3. ADDITIONAL CASH FLOW INFORMATION

Cash payments for interest were \$3.7 million and \$2.8 million for the six months ended July 2, 2010, and July 3, 2009, respectively. Cash payments for income taxes, net of refunds, for the same periods were \$13.3 million and \$0.5 million, respectively.

On February 12, 2009, the Company completed the transfer of ownership of the Australian SH-2G(A) Super Seasprite Program inventory and equipment. As a result, the Company recorded a non-cash inventory acquisition of \$51.7 million, which represented the elimination of \$32.0 million of net unbilled receivables, the elimination of \$6.1 million of accrued contract losses and the recognition of the \$25.8 million minimum payment liability due to the Commonwealth of Australia.

4. ACQUISITIONS

On April 30, 2010, the Company acquired Minarik Corporation ("Minarik") of Glendale, California for \$42.5 million, inclusive of working capital adjustments. Minarik has become part of the Company's Industrial Distribution segment. Minarik, founded in 1952, is a national distributor of motion control and automation products and has one of the most complete offerings in the industry including many of the leading brands of sensors, drives, motors and automation control products serving U.S. manufacturers. Headquartered in Glendale, California, Minarik operates from sixteen branch locations in most of the major high technology and OEM markets in the U.S. Minarik had annual sales of approximately \$84 million for the year ended December 31, 2009.

On April 5, 2010, the Company acquired Allied Bearings Supply Company ("Allied") of Tulsa, Oklahoma for \$15.2 million, inclusive of working capital adjustments. Allied has become part of the Company's Industrial Distribution segment. Allied, founded in 1934, is a distributor of bearings, power transmission, material handling, and industrial supplies to such diverse markets as the oil, gas, refinery, drilling equipment, steel, cement, paper, and food industries. In addition to Tulsa, Allied also had branches in Oklahoma City, Pryor, Ponca City, Ardmore and Muskogee, Oklahoma; Fort Smith, Arkansas; and Houston, Texas. Allied had annual sales of approximately \$22 million in the fiscal year ended October 31, 2009.

On February 26, 2010, the Company acquired the assets of Fawick de Mexico, S.A. de C. V. ("Fawick") of Mexico City, Mexico for \$4.9 million, inclusive of working capital adjustments. Fawick has become a part of the Industrial Distribution segment's Mexican subsidiary. Fawick, founded in 1965, is a distributor of fluid power and lubrication products, equipment and systems to a wide variety of industries throughout Mexico. In addition, Fawick offers value added services in the areas of pump maintenance and hydraulic and lubrication systems. Fawick had annual sales of approximately 49.9 million pesos (\$3.9 million) for the year ended December 31, 2009.

These acquisitions were accounted for as purchase transactions. In each case, the purchase price was allocated to tangible and intangible assets based on their fair value at the date of acquisition. The combined purchase price allocation for the three acquisitions is as follows (in thousands):

Cash	\$6,094
Accounts receivable, net	17,884
Inventories	12,275
Property Plant and Equipment	4,176
Other tangible assets	4,620

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Goodwill	24,415
Intangible assets	19,102
Debt	(1,418)
Other Liabilities	(19,882)
Total of net assets acquired	67,266
Less cash received	(6,094)
Plus debt assumed	1,418
Total consideration	\$62,590

The Company has paid \$50.6 million of the total consideration of \$62.6 million through July 2, 2010. The remaining \$12.0 million includes \$10.6 million of holdback provisions and \$1.4 million in debt payments of the acquired businesses that the Company has assumed. The goodwill associated with each of these acquisitions is not deductible for tax purposes and is the result of expected synergies from combining the operations of businesses acquired with the Company and intangible assets that do not qualify for separate recognition, such as an assembled workforce.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the three months and six months ended July 2, 2010, and July 3, 2009

(Unaudited)

4. ACQUISITIONS (Continued)

The fair value of the combined identifiable intangible assets of \$19.1 million, consisting of trade names, customer relationships, non-compete agreements and an e-commerce portal, was determined using the income approach. Specifically, the relief-from-royalty method was utilized for the trade names, the discounted cash flows method was utilized for the customer relationships and non-compete agreements, and the replacement cost method was used for the e-commerce portal. The trade names will be amortized over a period of 3 to 7 years, the customer relationships will be amortized over a period of 12 to 15 years, the non-compete agreements will be amortized over a period of 3 to 5 years and the e-commerce portal will be amortized over a period of 7 years, the estimated lives of the assets.

5. ACCOUNTS RECEIVABLE, NET

Accounts receivable consist of the following (in thousands):

	July 2, 2010	December 31, 2009
Trade receivables	\$ 106,340	\$ 65,524
U.S. Government contracts:		
Billed	25,620	33,784
Costs and accrued profit – not billed	7,389	7,034
Commercial and other government contracts:		
Billed	29,336	30,046
Costs and accrued profit – not billed	1,680	1,442
Less allowance for doubtful accounts	(3,150)	(2,407)
Accounts receivable, net	\$ 167,215	\$ 135,423

Accounts receivable, net includes amounts for matters such as contract changes, negotiated settlements and claims for unanticipated contract costs, which totaled \$0.8 million and \$0.9 million at July 2, 2010 and December 31, 2009, respectively. The Company records revenue associated with these matters only when recovery can be estimated reliably and realization is probable. The increase in trade receivables is partially attributable to the addition of \$17.9 million of acquired receivables from the three acquisitions in the Industrial Distribution Segment.

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 us 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 for 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 July 2, 2010 and July 3, 2009

(Unaudited)

6. FAIR VALUE MEASUREMENTS (Continued)

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 (in thousands):

	Total Carrying Value at July 2, 2010	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Derivative instruments	\$ 5,676	\$ -	\$ 5,676	\$ -
Total Assets	\$ 5,676	\$ -	\$ 5,676	\$ -
Derivative instruments	\$ 895	\$ -	\$ 895	\$ -
Total Liabilities	\$ 895	\$ -	\$ 895	\$ -

	Total Carrying Value at December 31, 2009	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Derivative instruments	\$ 7,047	\$ -	\$ 7,047	\$ -
Total Assets	\$ 7,047	\$ -	\$ 7,047	\$ -
Derivative instruments	\$ 664	\$ -	\$ 664	\$ -
Total Liabilities	\$ 664	\$ -	\$ 664	\$ -

The Company's derivative instruments are limited to 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 and other long-term liabilities on the Condensed Consolidated Balance Sheets at July 2, 2010 and December 31, 2009. Based on the continued ability to trade and enter into forward contracts and interest rate swaps, 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 July 2, 2010, such credit risks have not had an adverse impact on the fair value of these instruments.

7. DERIVATIVE FINANCIAL INSTRUMENTS

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 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.

Derivatives Designated as Cash Flow Hedges

The Company's Term Loan Credit Agreement ("Term Loan") contains floating rate obligations and is subject to interest rate fluctuations. During 2009, the Company entered into interest rate swap agreements for the purposes of hedging the eight quarterly variable-rate interest payments on its Term Loan due in 2010 and 2011. These interest rate swap agreements are 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 of interest rate fluctuations on the Company's earnings and cash flows attributable to changes in LIBOR rates. The Company will include in earnings amounts currently included in accumulated other comprehensive income upon payment of its six remaining quarterly variable-rate interest payments.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the three months and six months ended July 2, 2010 and July 3, 2009

(Unaudited)

7. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Derivatives Designated as Cash Flow Hedges – continued

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 were 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 following table shows the fair value of derivative instruments designated as cash flow hedging instruments (in thousands):

		Fair Value		
	Balance Sheet Location	July 2, 2010	December 31, 2009	Notional Amount
Derivative Liabilities				
Interest rate swap contracts	Other liabilities	\$ 895	\$ 607	\$ 40,000 - \$45,000
Total		\$ 895	\$ 607	

The following table shows the gain or (loss) recognized in other comprehensive income for derivatives designated as cash flow hedges (in thousands):

	For the three months ended		For the six months ended	
	July 2, 2010	July 3, 2009	July 2, 2010	July 3, 2009
Foreign exchange contracts (a)	\$ -	\$ 68	\$ -	\$ (37)
Foreign exchange contracts (b)	-	-	-	(1,941)
Interest rate swap contracts	(210)	1	(593)	(166)
Total	\$ (210)	\$ 69	\$ (593)	\$ (2,144)

(a) Forward exchange contract dedesignated on July 4, 2009. See information below for amounts recognized in the Condensed Consolidated Statements of Operations after dedesignation.

(b) Forward exchange contract dedesignated on February 12, 2009. See information below for amounts recognized in the Condensed Consolidated Statements of Operations after dedesignation.

During the three months and six months ended July 2, 2010, the loss reclassified to income from other comprehensive income for derivative instruments designated as cash flow hedges was \$0.1 million and \$0.3 million, respectively. During the three months and six months ended July 3, 2009, the loss reclassified from other comprehensive income for derivative instruments designated as cash flow hedges was not material. Over the next twelve months the amount related to cash flow hedges expected to be reclassified to income from other comprehensive income is \$0.5 million.

During the three months and six months ended July 3, 2009, 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 for the three months or six months ended July 2, 2010.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the three months and six months ended July 2, 2010 and July 3, 2009

(Unaudited)

7. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Derivatives Not Designated as Hedging Instruments

The following table shows the fair value of derivative instruments not designated as hedging instruments (in thousands):

		Fair Value		
	Balance Sheet Location	July 2, 2010	December 31, 2009	Notional Amount
Derivative Assets				
Foreign exchange contracts	Other current assets	\$ -	\$ 16	\$ 135
Foreign exchange contracts	Other current assets	-	72	187 Euro
				36,516
Foreign exchange contracts	Other current assets / Other assets	5,676	6,959	Australian Dollars
Total		\$ 5,676	\$ 7,047	
Derivative Liabilities				
Foreign exchange contracts	Other current liabilities	\$ -	\$ 57	\$ 1,900
Total		\$ -	\$ 57	

On February 12, 2009, the Company dedesignated the forward contract it had entered into to hedge \$36.5 million (AUD) of its \$39.5 million (AUD) future minimum required payments to the Commonwealth of Australia. At July 2, 2010, the U.S. dollar value of the \$36.5 million (AUD) payable was \$30.8 million.

On July 4, 2009, the Company dedesignated the forward contract it had entered into to hedge future Euro obligations, due to a change in the timing of those payments.

The following table shows the location and amount of the gain (loss) recognized on the condensed consolidated statements of operations for derivatives not designated as hedge instruments (in thousands):

		For the three months ended		For the six months ended	
	Statement of Operations Location	July 2, 2010	July 3, 2009	July 2, 2010	July 3, 2009
Derivative Assets					
Foreign exchange contracts	Other expense, net	\$ -	\$ (42)	\$ 5	\$ (42)
Foreign exchange contracts (a)	Other expense, net	(2,304)	2,547	(1,283)	4,572
Foreign exchange contracts	Other expense, net	(16)	-	(55)	-

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Total	\$	(2,320)	\$	2,505	\$	(1,333)	\$	4,530
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Derivative Liabilities

Foreign exchange contracts	Other expense, net	\$	(2)	\$	-	\$	(61)	\$	-
Total		\$	(2)	\$	-	\$	(61)	\$	-

(a) For the three months and six months ended July 2, 2010, the Company recorded income of \$2.8 million and \$2.0 million, respectively, to other expense related to the change in the value of the previously hedged \$36.5 million (AUD) payable. For the three months and six months ended July 3, 2009, the Company recorded expense of \$3.0 million and \$5.3 million, respectively, to other expense related to the change in the value of the previously hedged \$36.5 million (AUD) payable.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the three months and six months ended July 2, 2010 and July 3, 2009

(Unaudited)

7. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Hedges of a Net Investment in Foreign Operations

Prior to 2010, the Company maintained an approximately \$7.6 million Euro note, part of the revolving credit facility, which qualified and had been designated as an effective hedge against the Company's investment in its German subsidiary (RWG). This loan was repaid during the fourth quarter of 2009.

The following table shows the amount of the translation gain associated with the Euro note recorded in other comprehensive income (in thousands):

Location	For the three months ended		For the six months ended	
	July 2, 2010	July 3, 2009	July 2, 2010	July 3, 2009
Cumulative Translation Adjustment	\$ -	\$ 420	\$ -	\$ 208
	\$ -	\$ 420	\$ -	\$ 208

The Company did not reclassify any amounts from other comprehensive income to earnings during the three months or six months ended July 2, 2010 or July 3, 2009. Over the next twelve months, the Company does not expect to reclassify any amounts related to the Euro note from other comprehensive income.

8. INVENTORIES

Inventories consist of the following (in thousands):

	July 2, 2010	December 31, 2009
Merchandise for resale	\$ 107,359	\$ 95,904
Contracts and other work in process	180,113	170,742
Finished goods (including certain general stock materials)	19,293	18,617
Total	\$ 306,765	\$ 285,263

Inventories include amounts associated with matters such as contract changes, negotiated settlements and claims for unanticipated contract costs, which totaled \$10.6 million and \$11.4 million at July 2, 2010 and December 31, 2009, respectively. The Company records revenue associated with these matters only when recovery can be estimated reliably and realization is probable. The increase in inventory is partially attributable to the addition of \$12.3 million of acquired inventory from the three acquisitions in the Industrial Distribution Segment.

K-MAX® inventory of \$24.2 million and \$24.6 million as of July 2, 2010 and December 31, 2009, respectively, is included in other work in process and finished goods. Management believes that a significant portion of this K-MAX inventory will be sold after July 2, 2011, based upon the anticipation of supporting the fleet for the foreseeable future.

SH-2G(I), formerly SH-2G(A), inventory of \$54.2 million and \$55.0 million at July 2, 2010 and December 31, 2009, respectively, is included in contracts and other work in process inventory. Management believes that a significant portion of this inventory will be sold after July 2, 2011, based upon the time needed to market the aircraft and prepare them for sale. For more information on the SH-2G(I) inventory see Note 11, Commitments and Contingencies.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the three months and six months ended July 2, 2010 and July 3, 2009

(Unaudited)

9. ENVIRONMENTAL COSTS

The following table displays the activity and balances associated with accruals related to environmental costs included in other accruals and payables and other long-term liabilities (in thousands):

Balance at December 31, 2009	\$15,606
Additions to accrual	353
Payments	(705)
Changes in foreign currency	(145)
Balance at July 2, 2010	\$15,109

For further discussion of these matters see Note 11, Commitments and Contingencies.

10. PENSION PLANS

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

	Qualified Pension Plan		SERP	
	For the three months ended July 2, 2010	July 3, 2009	For the three months ended July 2, 2010	July 3, 2009
Service cost for benefits earned	\$ 2,752	\$ 3,312	\$ 91	\$ 87
Interest cost on projected benefit obligation	7,185	7,684	184	258
Expected return on plan assets	(7,987)	(8,059)	-	-
Effect of curtailment	-	-	-	767
Net amortization and deferral	554	965	51	(165)
Net pension cost	\$ 2,504	\$ 3,902	\$ 326	\$ 947

	Qualified Pension Plan		SERP	
	For the six months ended July 2, 2010	July 3, 2009	For the six months ended July 2, 2010	July 3, 2009
Service cost for benefits earned	\$ 6,022	\$ 6,712	\$ 180	\$ 195
Interest cost on projected benefit obligation	14,735	15,231	404	506
Expected return on plan assets	(16,051)	(15,808)	-	-

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Effect of curtailment	221	-	-	767
Net amortization and deferral	1,555	1,742	127	(336)
Net pension cost	\$ 6,482	\$ 7,877	\$ 711	\$ 1,132

The Company contributed \$10.7 million for the 2010 plan year to the Qualified Pension Plan in July 2010. The Company expects to contribute \$3.3 million to the SERP for the 2010 plan year, of which \$0.4 million has been contributed through July 2, 2010. For the 2009 plan year, the Company made contributions of \$10.9 million to the Qualified Pension Plan and \$5.7 million to the SERP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the three months and six months ended July 2, 2010 and July 3, 2009

(Unaudited)

10. PENSION PLANS (Continued)

On February 23, 2010, the Company's Board of Directors approved an amendment to the Qualified Pension Plan that, among other things, closes the Qualified Pension Plan to all new hires on or after March 1, 2010 and changes the benefit calculation for existing employees related to pay and years of service. Specifically, changes in pay will be taken into account for benefit calculation purposes until the end of calendar year 2010, the benefit formula will be improved to use the highest five years out of the last ten years of service up to December 31, 2010, whether consecutive or not, and years of service will continue to be added for purposes of the benefit calculations through December 31, 2015, with no further accrual of benefits for service thereafter except for vesting purposes. The changes to the Qualified Pension Plan resulted in a net curtailment loss of \$0.2 million, a \$25.2 million reduction of accumulated other comprehensive loss, a \$15.5 million decrease of deferred tax assets and a \$40.7 million reduction in our pension liability on the Company's Condensed Consolidated Balance Sheet.

The following table shows the change in the Company's pension liability from December 31, 2009:

Balance at December 31, 2009	\$157,266
Remeasurement	1,568
Pension expense	4,645
Effect of curtailment	(40,716)
Balance at July 2, 2010	\$122,763

On February 23, 2010, the Company's Board of Directors also authorized certain enhancements to the Company's Defined Contribution Plan including, among other things, an increase in employer matching contributions made to the plan based on each participant's pre-tax contributions. The enhancements will become effective January 1, 2011.

11. COMMITMENTS AND CONTINGENCIES

Legal Matters

Two warranty matters continue to impact the FMU-143 program at the Aerospace segment's Orlando facility ("Orlando Facility"). The items involved are an impact switch embedded in certain bomb fuzes that was recalled by a supplier and an incorrect version of a part, called a bellows motor, found to be contained in bomb fuzes manufactured for the U.S. Army utilizing systems which originated before the Orlando Facility was acquired by the Company. The U.S. Army Sustainment Command ("USASC"), the procurement agency that administers the FMU-143 contract, had authorized warranty rework for the bellows motor matter in late 2004/early 2005; however, the Company was not permitted to finish the rework due to issues raised by the USASC primarily related to administrative matters and requests for verification of the accuracy of test equipment (which accuracy was subsequently verified).

In late 2006, the USASC informed the Company that it was changing its remedy under the contract from performance of warranty rework to an "equitable adjustment" to the contract price. The Company responded, explaining its view that it had complied with contract requirements. In June 2007, the USASC affirmed its position and gave instructions for disposition of the subject fuzes, including both the impact switch and bellows motor-related items, to a Navy facility and the Company complied with that direction. By letter dated July 16, 2009, USASC informed the Company that it demands payment of \$9.8 million under the contract related to warranty rework. In November 2009, the United States Government ("USG") also instituted suit, alleging liability associated with this matter, including specific claims

of about \$6.0 million (treble damages) in connection with allegedly "false claims" by the Company for payment for fuzes containing the incorrect version of the part and \$3.0 million in connection with rework. The Company believes that all these allegations are unfounded and it is defending itself vigorously. At July 2, 2010, the Company had no amount accrued for this demand.

As reported previously, a separate contract dispute between the Orlando Facility and the USASC relative to the FMU-143 fuze program is now in litigation. The USASC has basically alleged the existence of latent defects in certain fuzes due to unauthorized rework during production and has sought to revoke its acceptance. Management believes that the Orlando Facility has performed in accordance with the contract and it is the government that has materially breached its terms in several ways; as a result, during the fourth quarter of 2007, the Company cancelled the contract and, in January 2008, commenced litigation before the Armed Services Board of Contract Appeals (the "Board") requesting a declaratory judgment that the cancellation was proper. Shortly thereafter, the USASC notified the Company that it was terminating the contract for default, making the allegations noted above, and the Company filed a second complaint with the Board appealing that termination decision. The litigation process continues. In the same July 2009 letter referenced above, USASC also demanded a repayment by the Company of \$5.7 million for these alleged latent defects. The Company also contests this demand and has filed an appeal before the Board. At July 2, 2010, the Company had no amount accrued for these matters as it believes that the likelihood of an adverse outcome to this litigation is remote.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the three months and six months ended July 2, 2010 and July 3, 2009

(Unaudited)

11. COMMITMENTS AND CONTINGENCIES

Other Matters

Revenue Sharing Agreement with the Commonwealth of Australia

The Company is actively engaged in efforts to resell the former Australia SH-2G(A) aircraft (now designated the SH-2G(I)), spare parts and equipment to other potential customers. Pursuant to the terms of its revenue sharing agreement with the Commonwealth of Australia, the Company will share all proceeds from the resale of the aircraft, spare parts, and equipment with the Commonwealth on a predetermined basis, and total payments of at least \$39.5 million (AUD) must be made to the Commonwealth regardless of sales, of which at least \$26.7 million (AUD) must be paid by March 2011. To the extent that cumulative payments have not yet reached \$39.5 million (AUD), additional payments of \$6.4 million (AUD) each must be paid in March of 2012 and 2013. In late 2008, the Company entered into foreign currency exchange contracts that limit the foreign currency risks associated with these required payments. These contracts will enable the Company to purchase \$36.5 million (AUD) for \$23.7 million. See Note 7, Derivative Financial Instruments, for further discussion of these instruments. In addition, to secure these payments, the Company has provided the Commonwealth with a \$39.5 million (AUD) unconditional letter of credit, which is being reduced as such payments are made. Through July 2, 2010, the Company had made required payments of \$2.4 million (AUD). As of that date, the U.S. dollar value of the remaining \$37.1 million (AUD) required payment was \$31.3 million.

Moosup

The Connecticut Department of Environmental Protection ("CTDEP") has given the Company approval for reclassification of groundwater in the vicinity of the Moosup, CT facility consistent with the character of the area. This facility is currently being held for disposal. The Company has completed the process of connecting neighboring properties to public drinking water in accordance with such approval and in coordination with the CTDEP and local authorities. 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 \$4.1 million, all of which has been accrued. The total amount paid to date in connection with these environmental remediation activities is \$2.0 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 sale of the Music segment in 2007, the Company assumed responsibility for meeting certain requirements of the Connecticut Transfer Act (the "Transfer Act") that applied to our 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, is still in process.

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 previously reported estimates, all of which has been accrued. The total amount paid to date in connection with these environmental remediation activities is \$0.4 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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For the three months and six months ended July 2, 2010 and July 3, 2009

(Unaudited)

11. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Other Matters – Continued

Bloomfield

In connection with the 2008 purchase of the portion of the Bloomfield campus that Kaman Aerospace Corporation had leased from 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 CTDEP. The assumed environmental liability of \$10.3 million 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 \$2.8 million. A portion (\$1.3 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. 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 U.K. Composites, the Company accrued, at the time of acquisition, £1.6 million for environmental compliance at the facilities. The total amount paid to date in connection with these environmental remediation activities is £0.2 million. The U.S. dollar equivalent of the remaining environmental compliance liability as of July 2, 2010, is \$2.1 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.

In December 2008, a workplace accident occurred at one of the Company's U.K. Composites facilities in which one employee died and another was seriously injured. In accordance with U.K. law, the matter was investigated by Lancashire Police and the Health and Safety Executive ("HSE") and in April 2010, an inquest conducted by the regional Coroner (which is customary in cases where the local police have not sought prosecution) found that the employee's death was accidental. The Company expects that the HSE will conduct civil proceedings under U.K. Health and Safety legislation. The Company currently estimates that the total potential financial exposure of the U.K. Composites operation with respect to these government proceedings is not likely to be material to our consolidated financial statements.

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 year. The computation of diluted earnings per share includes the common stock equivalency of dilutive options granted to employees under the Stock Incentive Plan.

For the three months ended		For the six months ended	
July 2, 2010	July 3, 2009	July 2, 2010	July 3, 2009
(in thousands, except per share amount)		(in thousands, except per share amount)	

