KAMAN CORP
Form 10-Q
April 29, 2013

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

FORM 10-Q

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

For the quarterly period ended March 29, 2013

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 x 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 x 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 x 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 x

At April 19, 2013, there were 27,033,306 shares of Common Stock outstanding.

PART I
Item 1. Financial Statements
CONDENSED CONSOLIDATED BALANCE SHEETS
KAMAN CORPORATION AND SUBSIDIARIES
(In thousands, except share and per share amounts) (Unaudited)

	March 29, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$15,109	$16,593
Accounts receivable, net	207,889	180,798
Inventories	381,514	367,385
Deferred income taxes	27,618	25,835
Other current assets	27,582	27,434
Total current assets	659,712	618,045
Property, plant and equipment, net of accumulated depreciation of $153,593 and $149,696, respectively	132,852	128,669
Goodwill	189,785	192,046
Other intangible assets, net	89,562	92,913
Deferred income taxes	42,092	42,905
Other assets	22,063	22,415
Total assets	$1,136,066	$1,096,993
Liabilities and Shareholders’ Equity		
Current liabilities:		
Notes payable	$—	$21
Current portion of long-term debt	10,000	10,000
Accounts payable – trade	111,981	113,143
Accrued salaries and wages	32,349	35,869
Current portion of amount due to Commonwealth of Australia	6,670	6,659
Other accruals and payables	58,334	55,368
Income taxes payable	2,116	2,892
Total current liabilities	221,450	223,952
Long-term debt, excluding current portion	294,247	249,585
Deferred income taxes	4,725	5,150
Underfunded pension	143,402	148,703
Other long-term liabilities	50,258	49,410
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; 26,996,293 and 26,881,257 shares issued, respectively	26,996	26,881
Additional paid-in capital	125,082	122,522
Retained earnings	402,358	399,473
Accumulated other comprehensive income (loss)	(124,740)	(121,590)
Less 301,067 and 277,473 shares of common stock, respectively, held in treasury, at cost	(7,712)	(7,093)
Total shareholders’ equity	421,984	420,193
Total liabilities and shareholders’ equity	$1,136,066	$1,096,993

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
KAMAN CORPORATION AND SUBSIDIARIES
(In thousands, except per share amounts) (Unaudited)

	For the Three Months Ended	
	March 29, 2013	March 30, 2012
Net sales	$388,075	$383,719
Cost of sales	277,809	279,119
Gross profit	110,266	104,600
Selling, general and administrative expenses	96,420	87,910
Net loss/(gain) on sale of assets	79	(24)
Operating income	13,767	16,714
Interest expense, net	3,068	2,873
Other expense (income), net	331	(303)
Earnings from continuing operations before income taxes	10,368	14,144
Income tax expense	3,214	5,052
Earnings from continuing operations	7,154	9,092
Earnings from discontinued operations, net of taxes	—	311
Net earnings	$7,154	$9,403
Earnings per share:		
Basic earnings per share from continuing operations	$0.27	$0.35
Basic earnings per share from discontinued operations	—	0.01
Basic earnings per share	$0.27	$0.36
Diluted earnings per share from continuing operations	$0.26	$0.35
Diluted earnings per share from discontinued operations	—	0.01
Diluted earnings per share	$0.26	$0.36
Average shares outstanding:		
Basic	26,658	26,294
Diluted	27,054	26,463
Dividends declared per share	$0.16	$0.16

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	
	March 29, 2013	March 30, 2012
Net earnings	$7,154	$9,403
Other comprehensive income, net of tax:		
Foreign currency translation adjustments	(4,514)	3,697
Change in unrealized loss on derivative instruments, net of tax benefit of $68 and $0, respectively	(111)	—
Pension plan adjustments, net of tax expense of $904 and $834, respectively	1,475	1,361
Other comprehensive income	(3,150)	5,058
Comprehensive income	$4,004	$14,461

See accompanying notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
KAMAN CORPORATION AND SUBSIDIARIES
(In thousands) (Unaudited)

	For the Three Months Ended	
	March 29, 2013	March 30, 2012
Cash flows from operating activities:		
Earnings from continuing operations	$7,154	$9,092
Adjustments to reconcile earnings from continuing operations to net cash provided by (used in) operating activities of continuing operations:		
Depreciation and amortization	7,635	6,667
Accretion of convertible notes discount	450	426
Provision for doubtful accounts	638	292
Net loss (gain) on sale of assets	79	(24)
Change in amount Due to Commonwealth of Australia, net of gain (loss) on derivative instruments	177	(189)
Stock compensation expense	1,187	1,697
Excess tax (benefit) from share-based compensation arrangements	(248)	(306)
Deferred income taxes	(1,894)	(496)
Changes in assets and liabilities, excluding effects of acquisitions/divestitures:		
Accounts receivable	(28,553)	(16,934)
Inventories	(14,768)	(11,881)
Income tax refunds receivable	—	527
Other current assets	(332)	5,690
Accounts payable - trade	(4,686)	183
Accrued contract losses	12	30
Advances on contracts	(421)	(443)
Other accruals and payables	107	(22,252)
Income taxes payable	(745)	3,300
Pension liabilities	(2,904)	(2,281)
Other long-term liabilities	2,550	2,819
Net cash used in operating activities of continuing operations	(34,562)	(24,083)
Net cash provided by operating activities of discontinued operations	—	312
Net cash used in operating activities	(34,562)	(23,771)
Cash flows from investing activities:		
Proceeds from sale of assets	8	16
Expenditures for property, plant & equipment	(11,841)	(5,287)
Other, net	(131)	3
Cash used in investing activities of continuing operations	(11,964)	(5,268)
Cash used in investing activities of discontinued operations	—	(3)
Cash used in investing activities	(11,964)	(5,271)
Cash flows from financing activities:		
Net borrowings (repayments) under revolving credit agreements	46,815	33,202
Debt repayment	(2,500)	(1,250)
Net change in book overdraft	4,057	887
Proceeds from exercise of employee stock awards	1,482	1,342
Purchase of treasury shares	(613)	(659)
Dividends paid	(4,256)	(4,198)
Other	(51)	—

Windfall tax benefit	248	306
Cash provided by financing activities of continuing operations	45,182	29,630
Cash used in financing activities of discontinued operations	—	(256)
Cash provided by financing activities	45,182	29,374
Net increase (decrease) in cash and cash equivalents	(1,344)	332
Effect of exchange rate changes on cash and cash equivalents	(140)	279
Cash and cash equivalents at beginning of period	16,593	14,985
Cash and cash equivalents at end of period	$15,109	$15,596

See accompanying notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the three months ended March 29, 2013 and March 30, 2012
(Unaudited)

1. BASIS OF PRESENTATION

The December 31, 2012, 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 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 Annual Report on Form 10-K for the year ended December 31, 2012. 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 first quarter for 2013 and 2012 ended on March 29, 2013 and March 30, 2012, respectively.

2. RECENT ACCOUNTING STANDARDS

In January 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-01, Balance Sheet (ASC Topic 210) - Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. ASU No. 2013-01 applies to derivatives accounted for in accordance with Accounting Standards Codification ("ASC") Topic 815, Derivatives and Hedging, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with ASC Section 210-20-45 or ASC Section 815-10-45 or subject to an enforceable master netting arrangement or similar agreement. The standard became effective on January 1, 2013. The Company has determined these changes will not have an impact on its condensed consolidated financial statements.

In January 2013, the FASB also issued ASU No. 2013-02, Comprehensive Income (ASC Topic 220) - Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. ASU No. 2013-02 requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. The Company adopted this standard beginning January 1, 2013. (See Note 15, Shareholders' Equity and Accumulated Other Comprehensive Income.)

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 about 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 is effective for financial statement periods beginning after December 15, 2013 with early adoption permitted. The Company will adopt this standard beginning January 1, 2014. The Company does not anticipate these changes to have an impact on its condensed consolidated financial statements.

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 consolidated financial position of this component as discontinued operations within the condensed consolidated financial statements for all periods presented.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three months ended March 29, 2013 and March 30, 2012
(Unaudited)

3. DISCONTINUED OPERATIONS (CONTINUED)

The following tables provide information regarding the results of discontinued operations:

	For the Three Months Ended	
	March 29, 2013	March 30, 2012
In thousands		
Net sales of discontinued operations	$—	$5,003
Income from discontinued operations	—	466
Other income (expense) from discontinued operations	—	(62)
Earnings from discontinued operations before income taxes	—	404
Income tax expense	—	93
Earnings from discontinued operations	$—	$311

4. RESTRUCTURING COSTS

During the first quarter of 2013, the Company initiated restructuring activities at its Distribution segment in order to align the cost structure of the organization to its current revenue levels. This includes workforce reductions and the consolidation of field operations where its Distribution segment has multiple facilities in the same location.

The restructuring has resulted in net workforce reductions of 121 employees and the exiting of 5 facilities. As of March 29, 2013, we have communicated the workforce reductions to affected employees. The Company intends to incur all workforce reduction costs and facility related costs during 2013.

The following table summarizes the accrual balances by cost type for the 2013 restructuring actions:

	Severance	Other [(a)]	Total
Restructuring accrual balance at December 31, 2012	$—	$—	$—
Provision	2,790	250	3,040
Cash payments	—	(52)	(52)
Restructuring accrual balance at March 29, 2013	$2,790	$198	$2,988

(a) Includes costs associated with the consolidation of facilities.

5. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net consists of the following:

	March 29, 2013	December 31, 2012
In thousands		
Trade receivables	$133,484	$117,426
U.S. Government contracts:		
Billed	26,110	18,261
Costs and accrued profit – not billed	2,566	2,568
Commercial and other government contracts:		
Billed	48,887	45,547
Costs and accrued profit – not billed	144	144

Less allowance for doubtful accounts	(3,302)	(3,148)
Accounts receivable, net	$207,889	$180,798

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three months ended March 29, 2013 and March 30, 2012
(Unaudited)

5. ACCOUNTS RECEIVABLE, NET (CONTINUED)

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

In thousands	March 29, 2013	December 31, 2012
Contract changes, negotiated settlements and claims for unanticipated contract costs	$—	$397
Total	$—	$397

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 following table presents the carrying value and fair value of financial instruments that are not carried at fair value at March 29, 2013 and December 31, 2012:

	March 29, 2013		December 31, 2012	
In thousands	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt	$304,247	$325,022	$259,585	$287,595

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 and an increase in the quoted market price for the Company's convertible notes.

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.

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 ended March 29, 2013 and March 30, 2012
(Unaudited)

6. FAIR VALUE MEASUREMENTS (CONTINUED)

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:

In thousands	Total Carrying Value at March 29, 2013	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Derivative instruments	$203	$—	$203	$—
Total liabilities	$203	$—	$203	$—

In thousands	Total Carrying Value at December 31, 2012	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Derivative instruments	$1,506	$—	$1,506	$—
Total assets	$1,506	$—	$1,506	$—

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 and other long-term liabilities on the Condensed Consolidated Balance Sheets at March 29, 2013 and December 31, 2012. 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 March 29, 2013, 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. 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 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. No amounts were reclassified to income from other comprehensive income for derivative instruments formerly designated as cash flow hedges during the three months ended March 29, 2013 or March 30, 2012. Over the next twelve months, the income related to cash flow hedges expected to be reclassified from other comprehensive income is $0.2 million.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three months ended March 29, 2013 and March 30, 2012
(Unaudited)

7. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

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 2013, 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 2014 and 2015. These interest rate swap agreements were designated as cash flow hedges and intended to manage interest rate risk associated with the Company’s variable rate borrowings and minimize the impact of interest rate fluctuations attributable to changes in LIBOR rates on the Company’s earnings and cash flows.

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

	Balance Sheet Location	Fair Value March 29, 2013	December 31, 2012	Notional Amount
In thousands				
Derivative Liabilities				
Interest rate swap contracts	Other long-term liabilities	$179	$—	$90,000- $70,000
Total		$179	$—	

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

	For the Three Months Ended March 29, 2013	March 30, 2012
In thousands		
Derivative Liabilities		
Interest rate swap contracts	$(179)	$—
Total	$(179)	$—

Derivatives Not Designated as Hedging Instruments

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

In thousands	Balance Sheet Location	Fair Value March 29, 2013	December 31, 2012	Notional Amount
Derivative Assets				
Foreign exchange contracts	Other current assets	$—	$1,345	$0 / $3,408 Australian Dollars
Foreign exchange contracts	Other current assets	—	161	$4,110
Total		$—	$1,506	
Derivative Liabilities				
Foreign exchange contracts	Other current liabilities	24	—	$3,747
Total		$24	$—	

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three months ended March 29, 2013 and March 30, 2012
(Unaudited)

7. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Derivatives Not Designated as Hedging Instruments - continued

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 March 29, 2013, the U.S. dollar value of the remaining hedged $3.4 million (AUD) payable was $3.5 million. On April 2, 2013, the Company settled its final minimum required payment with the Commonwealth of Australia.

The following table shows the location and amount of the gain or (loss) recognized on the Condensed Consolidated Statements of Operations for derivatives not designated as hedge instruments:

		For the Three Months Ended	
	Income Statement Location	March 29, 2013	March 30, 2012
In thousands			
Derivative Assets			
Foreign exchange contracts (a)	Other (income) expense, net	$20	$268
Foreign exchange contracts	Other (income) expense, net	—	149
Total		$20	$417
Derivative Liabilities			
Foreign exchange contracts	Other (income) expense, net	$185	$—
Total		$185	$—

a) For the three months ended March 30, 2012, the Company recorded expense of $0.2 million to other expense related to the change in the value of the previously hedged AUD payable. For the three months ended March 29, 2013, the expense recorded was insignificant.

8. INVENTORIES

Inventories consist of the following:

	March 29, 2013	December 31, 2012
In thousands		
Merchandise for resale	$134,352	$137,426
Contracts and other work in process	234,353	216,233
Finished goods (including certain general stock materials)	12,809	13,726
Total	$381,514	$367,385

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

	March 29, 2013	December 31, 2012
In thousands		
Contract changes, negotiated settlements and claims for unanticipated contract costs	$6,754	$6,861
Total	$6,754	$6,861

K-MAX® inventory of $18.1 million and $18.0 million as of March 29, 2013, and December 31, 2012, 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 March 29, 2014, based upon the anticipation of supporting the fleet for the foreseeable future.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three months ended March 29, 2013 and March 30, 2012
(Unaudited)

8. INVENTORIES (CONTINUED)

SH-2G(I), formerly SH-2G(A), inventory of $52.5 million and $52.6 million as of March 29, 2013 and December 31, 2012, respectively, is included in contracts and other work in process inventory. Management believes that a significant portion of this inventory will be sold after March 29, 2014, based upon the time needed to prepare the aircraft for sale. 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 no material impact to the Company's operating income for the three-month period ended March 29, 2013, from changes in contract estimates. There was a net decrease to operating income of $1.5 million for the three-month period ended March 30, 2012, from changes in contract estimates.

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:

In thousands	Distribution	Aerospace	Total
Gross balance at December 31, 2012	$96,155	$110,072	$206,227
Accumulated impairment	—	(14,181)	(14,181)
Net balance at December 31, 2012	96,155	95,891	192,046
Additions	—	—	—
Impairments	—	—	—
Foreign currency translation	36	(2,297)	(2,261)
Ending balance at March 29, 2013	$96,191	$93,594	$189,785

Other intangible assets consisted of:

		At March 29, 2013		At December 31, 2012	
In thousands	Amortization Period	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization

Customer lists / relationships	6-21 years	$102,426	$(17,061)	$103,894	$(15,541)
Trademarks / trade names	3-7 years	2,655	(1,263)	2,655	(1,128)
Non-compete agreements and other	1-9 years	5,960	(3,295)	5,979	(3,091)
Patents	17 years	636	(496)	636	(491)
Total		$111,677	$(22,115)	$113,164	$(20,251)

The changes in other intangible assets are attributable to changes in foreign currency exchange rates.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three months ended March 29, 2013 and March 30, 2012
(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	
	March 29, 2013	March 30, 2012	March 29, 2013	March 30, 2012
In thousands				
Service cost for benefits earned during the year	$3,587	$3,519	$85	$96
Interest cost on projected benefit obligation	6,399	6,578	72	105
Expected return on plan assets	(10,337)	(9,470)	—	—
Amortization of prior service cost	25	25	—	—
Amortization of net loss	2,277	1,961	77	39
Net pension benefit cost	$1,951	$2,613	$234	$240

The following tables show the amount of the contributions made to the Qualified Pension Plan and SERP during each period and the amount of contributions the Company expects to make during 2013:

Year-to-date contributions:

	Qualified Pension Plan		SERP	
	Through March 29, 2013	Through December 31, 2012	Through March 29, 2013	Through December 31, 2012
In thousands				
Year-to-date contributions	$5,000	$10,000	$134	$1,550

Expected Additional Contributions in 2013:

	Qualified Pension Plan	SERP
In thousands		
Expected additional contributions	$5,000	$2,157

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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 the Company's Aerospace Wichita facility, 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 requested information related to the period January 1, 2006, through June 30, 2008. The U.S. Attorney's Office for the District of Kansas recently notified PlasticFab that it may commence a criminal proceeding against PlasticFab but it expressed a willingness to explore a pre-charge disposition of the matter. PlasticFab 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 investigation or 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 March 29, 2013, the Company had no amount accrued for this matter, as it is unable to estimate the amount of costs that might be incurred in connection with the resolution of this matter at this time. Sales for PlasticFab represented 1.2% of consolidated sales for the year ended December 31, 2012.

40 mm

The Orlando facility is one of five defendants in a qui tam suit under the False Claims Act brought by John D. King, a former employee of one of the other defendants. The case, United States ex rel. King v. DSE, Inc., et al., No. 8:08-cv-02416 (M.D. Fla.), is currently pending in the U.S. District Court for the Middle District of Florida. The United States Department of Justice has declined to intervene in the suit, and the case is being brought by Mr. King. The suit alleges that the Orlando facility knowingly submitted false claims or made false statements in connection with its work on 40 mm grenade programs. Management believes that it has fully complied with its legal obligations in connection with this program. On February 19, 2013, the Court issued an order dismissing the case with prejudice as to Mr. King. A judgment on the order was entered by the Court on February 20, 2013. Mr. King has filed a notice of appeal, to which the defendants have filed a motion to dismiss that is pending before the Court. At March 29, 2013, 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 resolution of this matter at this time. The Company believes that the likelihood of an adverse outcome to this matter is remote.

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) (now designated the SH-2G(I)) aircraft, 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. Cumulative payments of $33.1 million (AUD) were made through March 29, 2013. The final minimum payment of $6.4 million (AUD) was paid on April 2, 2013, making the total cumulative payments $39.5 million (AUD) at that date.

To secure the payments, the Company provided the Commonwealth of Australia with an unconditional letter of credit, which was reduced as such payments were made. The letter of credit balance at March 29, 2013, was $6.7 million. As of March 29, 2013, the U.S. dollar value of the remaining $6.4 million (AUD) required payment was $6.7 million. The final minimum payment was made on April 2, 2013, which reduced the letter of credit balance to zero.

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11. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Other Matters - continued

Moosup

This facility is currently being held for disposal. 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 $4.4 million, unchanged from the previously reported estimate, all of which has been accrued. The total amount paid to date in connection with environmental remediation activities at this location is $2.4 million. A portion ($0.2 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 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 ongoing.

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. A portion ($0.3 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. 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 Kaman Aerospace Corporation 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 CTDEP. 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 $5.3 million. A portion ($1.7 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 £1.6 million for environmental compliance at the acquired facilities. The remaining balance of the accrual at March 29, 2013, was £0.4 million, with £1.0 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 March 29, 2013, is $0.7 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.

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11. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Other Matters - continued

Other Environmental Matters

The Company was notified by the Environmental Protection Agency that it is a potentially responsible party ("PRP") at a Superfund Site. The Company is working with the other PRPs for this site in determining the total cost of remediation. At March 29, 2013, 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 of waste at the site, the existence of insurance and the financial viability of the insurer.

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 reflects the common stock equivalency of dilutive options granted to employees under the Stock Incentive Plan and shares issuable on redemption of Convertible Notes.

	For the Three Months Ended	
	March 29, 2013	March 30, 2012
In thousands, except per share amounts		
Earnings from continuing operations	$7,154	$9,092
Earnings from discontinued operations, net of tax	—	311
Net earnings	$7,154	$9,403
Basic:		
Weighted average number of shares outstanding	26,658	26,294
Earnings per share from continuing operations	$0.27	$0.35
Earnings per share from discontinued operations	—	0.01
Basic net earnings per share	$0.27	$0.36
Diluted:		
Weighted average number of shares outstanding	26,658	26,294
Weighted average shares issuable on exercise of dilutive stock options	163	169
Weighted average shares issuable on redemption of convertible notes	233	—
Total	27,054	26,463
Earnings per share from continuing operations	$0.26	$0.35
Earnings per share from discontinued operations	—	0.01
Diluted net earnings per share	$0.26	$0.36

Excluded from the diluted earnings per share calculation for the three months ended March 29, 2013, and March 30, 2012, respectively, are 445,471 and 343,930 shares associated with equity awards granted to employees that are anti-dilutive based on the average stock price during those periods.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
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12. COMPUTATION OF EARNINGS PER SHARE (CONTINUED)

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 period ended March 29, 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. Shares issuable under the Convertible Notes were excluded from the diluted earnings per share calculation for the three-month period ended March 30, 2012, because the conversion price was greater than the average market price of our stock during the period. Excluded from the diluted earnings per share calculation for the three months ended March 29, 2013, and March 30, 2012, are 3,401,757 and 3,393,665 shares, respectively, issuable under the warrants sold in connection with the Company’s convertible note offering as they would be anti-dilutive.

13. SHARE-BASED ARRANGEMENTS

General

The Company accounts for stock options and restricted stock as equity awards whereas the stock appreciation rights and employee stock purchase plan are accounted for as liability awards. Compensation expense for stock options and restricted stock awards is recognized on a straight-line basis over the vesting period of the awards.

The following table summarizes share-based compensation expense recorded during each period presented:

	For the Three Months Ended	
	March 29, 2013	March 30, 2012
In thousands		
Stock options	$432	$654
Restricted stock awards	646	940
Employee stock purchase plan	109	103
Total share-based compensation	$1,187	$1,697

Stock option activity is as follows:

	For the Three Months Ended March 29, 2013	
	Options	Weighted - average exercise price
Options outstanding at December 31, 2012	921,040	$26.21
Granted	156,160	36.29
Exercised	(27,981)	22.95
Forfeited or expired	(11,198)	29.18
Options outstanding at March 29, 2013	1,038,021	27.78

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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 Three Months Ended			
	March 29, 2013		March 30, 2012	
Expected option term (years)	5.2		5.4	
Expected volatility	45.5	%	46.5	%
Risk-free interest rate	0.9	%	0.9	%
Expected dividend yield	2.0	%	1.9	%
Per share fair value of options granted	$12.38		$12.00	

Restricted Stock activity is as follows:

	For the Three Months Ended March 29, 2013		
	Restricted Stock Awards		Weighted-average grant date fair value
Restricted Stock outstanding at December 31, 2012	251,359		$28.30
Granted	67,645		36.36
Vested	(73,637	)	27.03
Forfeited or expired	(6,074	)	29.01
Restricted Stock outstanding at March 29, 2013	239,293		30.95

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 the third largest power transmission/motion control industrial distributor in North America. The segment provides 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 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.