

KAMAN Corp  
Form 10-Q  
November 03, 2014

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

FORM 10-Q

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

For the quarterly period ended September 26, 2014

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

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

Commission File Number: 001-35419

KAMAN CORPORATION

(Exact name of registrant as specified in its charter)

Connecticut	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 ☐

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

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

Yes ☒ No ☐

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

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

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

Yes ☐ No ☒

At October 24, 2014, there were 27,116,160 shares of Common Stock outstanding.

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## PART I

## Item 1. Financial Statements

## CONDENSED CONSOLIDATED BALANCE SHEETS

## KAMAN CORPORATION AND SUBSIDIARIES

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

	September 26, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$9,760	\$10,384
Accounts receivable, net	259,035	205,873
Inventories	379,301	390,495
Deferred income taxes	25,953	30,128
Income tax refunds receivable	3,329	2,297
Other current assets	28,564	26,028
Total current assets	705,942	665,205
Property, plant and equipment, net of accumulated depreciation of \$181,431 and \$167,282, respectively	150,025	148,508
Goodwill	242,154	203,923
Other intangible assets, net	98,645	89,449
Deferred income taxes	6,274	10,287
Other assets	23,262	23,259
Total assets	\$1,226,302	\$1,140,631
Liabilities and Shareholders' Equity		
Current liabilities:		
Notes payable	\$—	\$559
Current portion of long-term debt	12,500	10,000
Accounts payable – trade	119,873	119,482
Accrued salaries and wages	43,501	33,677
Advances on contracts	1,351	9,470
Other accruals and payables	53,387	54,095
Income taxes payable	—	673
Total current liabilities	230,612	227,956
Long-term debt, excluding current portion	325,526	264,655
Deferred income taxes	3,691	3,855
Underfunded pension	75,495	85,835
Other long-term liabilities	43,241	47,038
Commitments and contingencies (Note 11)		
Shareholders' equity:		
Preferred stock, \$1 par value, 200,000 shares authorized; none outstanding	—	—
Common stock, \$1 par value, 50,000,000 shares authorized; voting; 27,479,386 and 27,189,922 shares issued, respectively	27,479	27,190
Additional paid-in capital	143,615	133,517
Retained earnings	469,262	439,441
Accumulated other comprehensive income (loss)	(83,346)	(81,121)
Less 381,250 and 330,487 shares of common stock, respectively, held in treasury, at cost	(9,273)	(7,735)
Total shareholders' equity	547,737	511,292
Total liabilities and shareholders' equity	\$1,226,302	\$1,140,631
See accompanying notes to condensed consolidated financial statements.		



## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

## KAMAN CORPORATION AND SUBSIDIARIES

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

	For the Three Months Ended		For the Nine Months Ended	
	September 26, 2014	September 27, 2013	September 26, 2014	September 27, 2013
Net sales	\$462,332	\$423,663	\$1,335,353	\$1,243,463
Cost of sales	332,827	304,806	961,653	893,083
Gross profit	129,505	118,857	373,700	350,380
Selling, general and administrative expenses	103,502	87,436	298,853	274,075
Net loss on sale of assets	47	—	215	100
Operating income	25,956	31,421	74,632	76,205
Interest expense, net	3,444	3,113	10,060	9,344
Other expense (income), net	252	(21)	541	368
Earnings from continuing operations before income taxes	22,260	28,329	64,031	66,493
Income tax expense	7,387	9,634	21,507	22,752
Earnings from continuing operations	14,873	18,695	42,524	43,741
Earnings from discontinued operations, net of taxes	(94)	) 64	285	64
Gain on disposal of discontinued operations, net of taxes	—	420	—	420
Total earnings from discontinued operations, net of taxes	(94)	) 484	285	484
Net earnings	\$14,779	\$19,179	\$42,809	\$44,225
Earnings per share:				
Basic earnings per share from continuing operations	\$0.55	\$0.70	\$1.57	\$1.64
Basic earnings per share from discontinued operations	—	—	0.01	—
Basic earnings per share from disposal of discontinued operations	—	0.02	—	0.02
Basic earnings per share	\$0.55	\$0.72	\$1.58	\$1.66
Diluted earnings per share from continuing operations	\$0.53	\$0.68	\$1.53	\$1.61
Diluted earnings per share from discontinued operations	—	—	0.01	—
Diluted earnings per share from disposal of discontinued operations	—	0.02	—	0.02
Diluted earnings per share	\$0.53	\$0.70	\$1.54	\$1.63
Average shares outstanding:				
Basic	27,113	26,770	27,025	26,721
Diluted	27,862	27,233	27,766	27,062
Dividends declared per share	\$0.16	\$0.16	\$0.48	\$0.48

See accompanying notes to condensed consolidated financial statements.



CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

KAMAN CORPORATION AND SUBSIDIARIES

(In thousands) (Unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	September 26, 2014	September 27, 2013	September 26, 2014	September 27, 2013
Net earnings	\$ 14,779	\$ 19,179	\$ 42,809	\$ 44,225
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(5,766	) 4,669	(4,306	) (89
Unrealized gain (loss) on derivative instruments, net of tax expense (benefit) of \$6 and (\$74), and \$47 and (\$36), respectively	6	(119	) 75	(58
Change in pension and post-retirement benefit plan liabilities, net of tax expense of \$405 and \$941, and \$1,215 and \$2,751, respectively	669	1,536	2,006	4,487
Other comprehensive income (loss)	(5,091	) 6,086	(2,225	) 4,340
Comprehensive income	\$ 9,688	\$ 25,265	\$ 40,584	\$ 48,565

See accompanying notes to condensed consolidated financial statements.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

## KAMAN CORPORATION AND SUBSIDIARIES

(In thousands) (Unaudited)

	For the Nine Months Ended	
	September 26, 2014	September 27, 2013
Cash flows from operating activities:		
Earnings from continuing operations	\$42,524	\$43,741
Adjustments to reconcile earnings from continuing operations to net cash provided by (used in) operating activities of continuing operations:		
Depreciation and amortization	26,537	23,720
Accretion of convertible notes discount	1,439	1,366
Provision for doubtful accounts	499	1,100
Net loss on sale of assets	215	100
Net loss on derivative instruments	615	130
Stock compensation expense	4,307	4,056
Excess tax benefit from share-based compensation arrangements	(766)	(350)
Deferred income taxes	7,837	2,619
Changes in assets and liabilities, excluding effects of acquisitions/divestitures:		
Accounts receivable	(41,127)	(33,354)
Inventories	19,558	(14,269)
Income tax refunds receivable	(1,037)	(3,099)
Other current assets	(1,598)	(1,371)
Accounts payable - trade	(6,009)	(4,814)
Accrued contract losses	(1,613)	(565)
Advances on contracts	(8,119)	16,063
Other accruals and payables	11,986	(1,762)
Income taxes payable	(712)	(2,263)
Pension liabilities	(8,430)	(5,208)
Other long-term liabilities	(2,637)	(1,016)
Net cash provided by operating activities of continuing operations	43,469	24,824
Net cash provided by operating activities of discontinued operations	285	484
Net cash provided by operating activities	43,754	25,308
Cash flows from investing activities:		
Proceeds from sale of assets	41	111
Expenditures for property, plant & equipment	(22,188)	(30,118)
Acquisition of businesses (net of cash acquired)	(77,018)	(19,934)
Other, net	(1,205)	(642)
Cash used in investing activities of continuing operations	(100,370)	(50,583)
Cash used in investing activities of discontinued operations	—	—
Cash used in investing activities	(100,370)	(50,583)
Cash flows from financing activities:		
Net borrowings under revolving credit agreements	66,978	30,116
Debt repayment	(5,000)	(5,000)
Net change in book overdraft	1,893	3,617
Proceeds from exercise of employee stock awards	5,387	4,002
Purchase of treasury shares	(845)	(644)
Dividends paid	(12,950)	(12,806)
Other	—	(51)
Windfall tax benefit	766	350



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Cash provided by financing activities of continuing operations	56,229	19,584
Cash provided by financing activities of discontinued operations	—	—
Cash provided by financing activities	56,229	19,584
Net increase (decrease) in cash and cash equivalents	(387	) (5,691
Effect of exchange rate changes on cash and cash equivalents	(237	) 150
Cash and cash equivalents at beginning of period	10,384	16,593
Cash and cash equivalents at end of period	\$9,760	\$11,052

See accompanying notes to condensed consolidated financial statements.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months and nine months ended September 26, 2014 and September 27, 2013

(Unaudited)

### 1. BASIS OF PRESENTATION

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

The Company has a calendar year-end; however, its first three fiscal quarters follow a 13-week convention, with each quarter ending on a Friday. The third quarter for 2014 and 2013 ended on September 26, 2014, and September 27, 2013, respectively.

### 2. RECENT ACCOUNTING STANDARDS

In August 2014, the FASB issued ASU No. 2014-15, "Presentation of Financial Statements - Going Concern (ASC Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern." The new standard provides guidance around management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted. The adoption of this standard is not expected to have a material impact on the Company's financial statements.

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

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

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

2014. The Company does not expect these changes to have a material impact on its consolidated financial statements.

In July 2013, the FASB issued ASU No. 2013-11, "Income Taxes ("ASC Topic 740") - Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists." The objective is to end some inconsistent practices with regard to the presentation on the balance sheet of unrecognized tax benefits. The update was effective for financial statement periods beginning after December 15, 2013. The Company adopted this standard beginning January 1, 2014. There was no material impact on the Company's condensed consolidated balance sheet as of September 26, 2014.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued  
 For the three months and nine months ended September 26, 2014 and September 27, 2013  
 (Unaudited)

## 2. RECENT ACCOUNTING STANDARDS (CONTINUED)

In March 2013, the FASB issued ASU No. 2013-05, "Foreign Currency Matters ("ASC Topic 830") - Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity." The objective is to resolve the diversity in practice with regard to whether ASC Subtopic 810-10, Consolidation - Overall or ASC Subtopic 830-30 Foreign Currency Matters - Translation of Financial Statements, applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity. The update was effective for financial statement periods beginning after December 15, 2013. The Company has adopted this standard beginning January 1, 2014. There was no impact on the Company's condensed consolidated financial statements for the period ended September 26, 2014.

## 3. DISCONTINUED OPERATIONS

On December 31, 2012, the Company sold substantially all of the assets and liabilities of the Distribution segment's Canadian operations. As a result, the Company has reported the results of operations and financial position of this component as discontinued operations within the condensed consolidated financial statements for all periods presented. For the three months and nine months ended September 26, 2014, the Company recorded earnings (losses) from discontinued operations of \$(0.1) million and \$0.3 million, respectively. The activity through the nine months ended September 26, 2014, is primarily related to a pension settlement that resulted from the 2012 disposal of the Distribution segment's Canadian operations. For the three months and nine months ended September 27, 2013, the Company recorded earnings from discontinued operations of \$0.5 million, which was due to a favorable tax result versus previous estimates and other activity related to the settlement of the closing balance sheet.

## 4. ACQUISITIONS

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

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

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

Total consideration	\$71,887
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The Company has paid \$71.3 million of the total consideration of \$71.9 million for this acquisition through September 26, 2014. The goodwill associated with B.W. Rogers is tax deductible and is the result of expected synergies from combining the operations of the acquired business with the Company's operations and intangible assets that do not qualify for separate recognition, such as an assembled workforce. Included in the Condensed Consolidated Statements of Operations is \$28.5 million and \$47.3 million of revenue from this acquisition for the three months and nine months ended September 26, 2014.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued  
 For the three months and nine months ended September 26, 2014 and September 27, 2013  
 (Unaudited)

#### 4. ACQUISITIONS (CONTINUED)

The fair values of the identifiable intangible assets, which totaled \$16.9 million and consisted of customer relationships, non-compete agreements and trade names, were determined using the income approach. Specifically, the discounted cash flows method was utilized for customer relationships and non-compete agreements and the relief-from-royalty method was utilized for the trade names. The fair value of the customer relationships (\$14.9 million) is broken out into two asset categories, which are amortized on a straight-line basis over periods of 11 and 18 years; the fair value of the non-compete agreements (\$1.1 million) is being amortized over periods ranging from 1.5 to 3 years; and the fair value of the trade names (\$0.9 million) is being amortized over a period of 8 years, the estimated lives of the assets.

During the third quarter of 2014, the Company acquired a smaller distribution business that operates in the fluid power market as a Parker distributor of pneumatic and hydraulic fluid power and motion control systems. Proforma results of operations have not been presented because the effects of the acquisition were not material.

#### 5. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net consists of the following:

	September 26, 2014	December 31, 2013
In thousands		
Trade receivables	\$ 159,702	\$ 125,092
U.S. Government contracts:		
Billed	14,717	14,364
Costs and accrued profit – not billed	4,287	6,340
Commercial and other government contracts:		
Billed	55,472	63,051
Costs and accrued profit – not billed	29,006	853
Less allowance for doubtful accounts	(4,149)	(3,827)
Accounts receivable, net	\$ 259,035	\$ 205,873

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

	September 26, 2014	December 31, 2013
In thousands		
Contract changes, negotiated settlements and claims for unanticipated contract costs	\$—	\$ 1,021
Total	\$—	\$ 1,021

#### 6. FAIR VALUE MEASUREMENTS

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



NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued  
For the three months and nine months ended September 26, 2014 and September 27, 2013  
(Unaudited)

## 6. FAIR VALUE MEASUREMENTS (CONTINUED)

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.

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

	September 26, 2014		December 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
In thousands				
Long-term debt:				
Level 1	\$108,531	\$147,550	\$107,093	\$147,822
Level 2	229,495	217,924	167,562	155,473
Total	\$338,026	\$365,474	\$274,655	\$303,295

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

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

### Recurring Fair Value Measurements

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

	Total Carrying Value at September 26, 2014	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
In thousands				
Derivative instruments	\$38	\$—	\$38	\$—
Total assets	\$38	\$—	\$38	\$—
Derivative instruments	\$435	\$—	\$435	\$—
Total liabilities	\$435			