KAMAN Corp
Form 10-Q
July 30, 2015

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 July 3, 2015

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 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 July 24, 2015, there were 27,182,149 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)

	July 3, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$11,524	$12,411
Accounts receivable, net	231,990	234,648
Inventories	367,718	359,741
Deferred income taxes	25,675	25,888
Other current assets	32,885	29,568
Total current assets	669,792	662,256
Property, plant and equipment, net of accumulated depreciation of $194,660 and $183,829, respectively	147,113	147,825
Goodwill	245,079	238,581
Other intangible assets, net	92,686	94,491
Deferred income taxes	36,248	34,784
Other assets	25,085	23,268
Total assets	$1,216,003	$1,201,205
Liabilities and Shareholders’ Equity		
Current liabilities:		
Current portion of long-term debt	$5,000	$10,000
Accounts payable – trade	131,895	116,787
Accrued salaries and wages	36,655	42,214
Advances on contracts	6,558	2,406
Other accruals and payables	43,923	47,583
Income taxes payable	1,528	2,734
Total current liabilities	225,559	221,724
Long-term debt, excluding current portion	268,188	271,232
Deferred income taxes	2,630	3,391
Underfunded pension	130,304	141,546
Other long-term liabilities	43,770	45,647
Commitments and contingencies (Note 12)		
Shareholders' equity:		
Preferred stock, $1 par value, 200,000 shares authorized; none outstanding	—	—
Common stock, $1 par value, 50,000,000 shares authorized; voting; 27,686,687 and 27,518,226 shares issued, respectively	27,687	27,518
Additional paid-in capital	152,894	145,845
Retained earnings	504,625	479,984
Accumulated other comprehensive income (loss)	(125,762)	(126,261)
Less 485,332 and 385,942 shares of common stock, respectively, held in treasury, at cost	(13,892)	(9,421)
Total shareholders’ equity	545,552	517,665
Total liabilities and shareholders’ equity	$1,216,003	$1,201,205

See accompanying notes to condensed consolidated financial statements.

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

	For the Three Months Ended		For the Six Months Ended	
	July 3, 2015	June 27, 2014	July 3, 2015	June 27, 2014
Net sales	$446,324	$453,018	$889,106	$860,976
Cost of sales	314,372	324,469	629,243	618,427
Gross profit	131,952	128,549	259,863	242,549
Selling, general and administrative expenses	101,953	100,048	207,507	192,350
Net (gain)/loss on sale of assets	(432)	59	(405)	173
Operating income	30,431	28,442	52,761	50,026
Interest expense, net	3,222	3,373	6,549	6,504
Other (income) expense, net	(1)	240	(65)	320
Earnings from continuing operations before income taxes	27,210	24,829	46,277	43,202
Income tax expense	5,519	8,120	11,837	14,549
Earnings from continuing operations	21,691	16,709	34,440	28,653
Losses from discontinued operations, net of taxes	—	(515)	—	(1,002)
Gain on disposal of discontinued operations, net of taxes	—	379	—	379
Net earnings	$21,691	$16,573	$34,440	$28,030
Earnings per share:				
Basic earnings per share from continuing operations	$0.80	$0.62	$1.27	$1.07
Basic loss per share from discontinued operations	—	(0.02)	—	(0.04)
Basic earnings per share from disposal of discontinued operations	—	0.01	—	0.01
Basic earnings per share	$0.80	$0.61	$1.27	$1.04
Diluted earnings per share from continuing operations	$0.77	$0.61	$1.23	$1.04
Diluted loss per share from discontinued operations	—	(0.02)	—	(0.04)
Diluted earnings per share from disposal of discontinued operations	—	0.01	—	0.01
Diluted earnings per share	$0.77	$0.60	$1.23	$1.01
Average shares outstanding:				
Basic	27,240	27,039	27,214	26,981
Diluted	28,098	27,844	27,988	27,717
Dividends declared per share	$0.18	$0.16	$0.36	$0.32

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
KAMAN CORPORATION AND SUBSIDIARIES
(In thousands) (Unaudited)

	For the Three Months Ended		For the Six Months Ended	
	July 3, 2015	June 27, 2014	July 3, 2015	June 27, 2014
Net earnings	$21,691	$16,573	$34,440	$28,030
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	2,624	1,755	(2,836)	1,460
Unrealized gain on derivative instruments, net of tax expense (benefit) of $51 and ($38) and $95 and $41, respectively	84	—	159	69
Change in pension and post-retirement benefit plan liabilities, net of tax expense of $961 and $408 and $1,922 and $810, respectively	1,588	673	3,176	1,337
Other comprehensive income	4,296	2,428	499	2,866
Comprehensive income	$25,987	$19,001	$34,939	$30,896

See accompanying notes to condensed consolidated financial statements.

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

	For the Six Months Ended	
	July 3, 2015	June 27, 2014
Cash flows from operating activities:		
Earnings from continuing operations	$34,440	$28,653
Adjustments to reconcile earnings from continuing operations to net cash provided by (used in) operating activities of continuing operations:		
Depreciation and amortization	18,583	16,916
Accretion of convertible notes discount	1,004	953
Provision for doubtful accounts	1,103	352
Net (gain)/loss on sale of assets	(405)	173
Net loss on derivative instruments	251	289
Stock compensation expense	4,024	3,293
Excess tax benefit from share-based compensation arrangements	(312)	(732)
Deferred income taxes	(3,993)	2,640
Changes in assets and liabilities, excluding effects of acquisitions/divestitures:		
Accounts receivable	3,748	(37,604)
Inventories	(7,285)	10,048
Income tax refunds receivable	—	1,990
Other current assets	(3,366)	403
Accounts payable - trade	16,184	(555)
Accrued contract losses	(111)	(1,253)
Advances on contracts	4,152	(5,984)
Other accruals and payables	(9,152)	5,066
Income taxes payable	(1,206)	(91)
Pension liabilities	(6,150)	(8,332)
Other long-term liabilities	(3,020)	(3,422)
Net cash provided by operating activities of continuing operations	48,489	12,803
Net cash used in operating activities of discontinued operations	—	(661)
Net cash provided by operating activities	48,489	12,142
Cash flows from investing activities:		
Proceeds from sale of assets	551	63
Expenditures for property, plant & equipment	(13,475)	(18,051)
Acquisition of businesses (net of cash acquired)	(11,556)	(75,518)
Other, net	(536)	(1,049)
Cash used in investing activities of continuing operations	(25,016)	(94,555)
Cash used in investing activities of discontinued operations	—	(2)
Cash used in investing activities	(25,016)	(94,557)
Cash flows from financing activities:		
Net borrowings under revolving credit agreements	(27,711)	88,541
Proceeds from issuance of long-term debt	100,000	—
Debt repayment	(81,250)	(2,500)
Net change in book overdraft	(2,614)	1,676
Proceeds from exercise of employee stock awards	3,262	4,639
Purchase of treasury shares	(4,162)	(843)
Dividends paid	(9,236)	(8,616)
Debt issuance costs	(2,482)	—

Other	(52)	—
Windfall tax benefit	312	732
Cash provided by (used in) financing activities of continuing operations	(23,933)	83,629
Cash provided by (used in) financing activities of discontinued operations	—	—
Cash provided by (used in) financing activities	(23,933)	83,629
Net increase (decrease) in cash and cash equivalents	(460)	1,214
Effect of exchange rate changes on cash and cash equivalents	(427)	78
Cash and cash equivalents at beginning of period	12,411	10,384
Cash and cash equivalents at end of period	$11,524	$11,676

See accompanying notes to condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the three-month and six-month fiscal periods ended July 3, 2015 and June 27, 2014
(Unaudited)

1. BASIS OF PRESENTATION

The December 31, 2014, 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, 2014. The results of operations for the interim periods presented are not necessarily indicative of trends or of results to be expected for the entire year.

The Company has a calendar year-end; however, its first three fiscal quarters follow a 13-week convention, with each quarter ending on a Friday. The second quarters for 2015 and 2014 ended on July 3, 2015, and June 27, 2014, respectively.

2. RECENT ACCOUNTING STANDARDS

In April 2015, the FASB issued ASU No. 2015-03, "Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs." ASU No. 2015-03 amends the FASB Accounting Standards Codification (the "Codification") to require that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of the related liability. Such treatment is consistent with the current presentation of debt discounts or premiums. As it stood prior to amendment, debt issuance costs were reported in the balance sheet as an asset (i.e., a deferred charge), whereas debt discounts and premiums were, and remain, reported as deductions from or additions to the debt itself. Recognition and measurement guidance for debt issuance costs is not affected by amendments to the Codification. The new standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. The adoption of this standard is not expected to have a material impact on the Company's financial statements.

In February 2015, the FASB issued ASU No. 2015-02, "Consolidation (Topic 810)." ASU 2015-02 focuses on the consolidation evaluation for reporting organizations that are required to evaluate whether they should consolidate certain legal entities. The new standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. The adoption of this standard is not expected to have a material impact on the Company's financial statements.

In January 2015, the FASB issued ASU No. 2015-01, "Income Statement - Extraordinary and Unusual Items (Subtopic 225-20)." The new standard eliminates the concept of extraordinary items and their segregation from the results of ordinary operations and expands presentation and disclosure guidance to include items that are both unusual in nature and occur infrequently. The new standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. The adoption of this standard is not expected to have a material impact on the Company's financial statements.

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, ending 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 adoption of this standard is not expected to have a material impact on the Company's financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three-month and six-month fiscal periods ended July 3, 2015 and June 27, 2014
(Unaudited)

2. RECENT ACCOUNTING STANDARDS (CONTINUED)

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. On July 9, 2015, the FASB announced a one-year deferral of this standard. The provisions of this ASU will be effective for interim and annual periods beginning after December 15, 2017, with early adoption permitted for annual periods beginning after December 15, 2016. 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 annual periods beginning on or after December 15, 2014, and interim periods beginning on or after December 15, 2015. The adoption of this standard did not have a material impact on the Company's financial statements for the fiscal quarter ended July 3, 2015.

3. DISCONTINUED OPERATIONS

On December 19, 2014, the Company sold the Distribution segment's Mexican business unit, Delamac de Mexico, S.A. de C.V. ("Delamac"). 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. For the three-month and six-month fiscal periods ended July 3, 2015, there were no earnings or losses from discontinued operations. For the three-month fiscal period ended June 27, 2014, the Company recorded $6.1 million in net sales from discontinued operations, $0.7 million of losses and a related tax benefit of $0.2 million, resulting in $0.5 million of net loss from discontinued operations. For the six-month fiscal period ended June 27, 2014, the Company recorded $12.0 million in net sales from discontinued operations, $1.4 million of losses and a related tax benefit of $0.4 million, resulting in $1.0 million of net loss from discontinued operations.

On December 31, 2012, the Company sold substantially all of the assets and liabilities of the Distribution's 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-month and six-month fiscal periods ended July 3, 2015, there were no earnings or losses from discontinued operations. During the second quarter of 2014, the Company recorded earnings from discontinued operations of $0.5 million, $0.4 million net of tax, related to a pension settlement that resulted from the 2012 disposal of the Distribution segment's Canadian operations.

4. ACQUISITIONS

On January 30, 2015, the Company acquired substantially all of the operating assets of G.C. Fabrication, Inc. ("GCF") for a purchase price of $9.5 million. Located in Northvale, New Jersey, GCF is a premier Schneider Electric/Square D distributor and carries a variety of electrical power, automation, process controls, specialized HVAC, water and wastewater systems, communication and networking devices from a premier set of global manufacturers. The acquisition of GCF has expanded the Company's automation, control and energy product offerings into the New York metro market. This acquisition is immaterial to the Company's results of operations and financial position.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three-month and six-month fiscal periods ended July 3, 2015 and June 27, 2014
(Unaudited)

5. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net consists of the following:

	July 3, 2015	December 31, 2014
In thousands		
Trade receivables	$150,568	$141,481
U.S. Government contracts:		
Billed	15,267	21,909
Costs and accrued profit – not billed	2,447	1,581
Commercial and other government contracts:		
Billed	66,498	51,166
Costs and accrued profit – not billed	899	21,719
Less allowance for doubtful accounts	(3,689)	(3,208)
Accounts receivable, net	$231,990	$234,648

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

	July 3, 2015	December 31, 2014
In thousands		
Contract changes, negotiated settlements and claims for unanticipated contract costs	$900	$4,561
Total	$900	$4,561

The decrease in the above balance primarily relates to receipt of payment from a customer for claims related to a composite aerostructures program.

6. FAIR VALUE MEASUREMENTS

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

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

- Level 1 — Quoted prices in active markets for identical assets or liabilities.
- Level 2 — Observable inputs other than quoted prices included in Level 1, such as quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data.
- Level 3 — Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three-month and six-month fiscal periods ended July 3, 2015 and June 27, 2014
(Unaudited)

6. FAIR VALUE MEASUREMENTS (CONTINUED)

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

	July 3, 2015		December 31, 2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
In thousands				
Long-term debt:				
Level 1	$110,028	$152,214	$109,024	$145,188
Level 2	163,160	151,680	172,208	164,204
Total	$273,188	$303,894	$281,232	$309,392

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 transactions occurred.

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 Company holds derivative instruments for 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 and other assets on the Condensed Consolidated Balance Sheet at July 3, 2015, and December 31, 2014. Based on the Company's 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. These contracts and the activity related to these contracts were not material to the Company's Condensed Consolidated Financial Statements as of and for the three-month and six-month fiscal periods ended July 3, 2015, and June 27, 2014.

The Company evaluated the credit risk associated with the counterparties to these derivative instruments and determined that as of July 3, 2015, 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 Condensed Consolidated Balance Sheets as either assets or liabilities and are measured at fair value. Changes in the fair values of derivatives are recorded each period in earnings or accumulated other comprehensive income, depending on whether a derivative is effective as part of a hedged transaction. Gains and losses on derivative instruments reported in accumulated other comprehensive income are subsequently included in earnings in the periods in which earnings are affected by the hedged item. The Company does not use derivative instruments for speculative purposes.

The Company holds forward exchange contracts designed to hedge forecasted transactions denominated in foreign currencies and to minimize the impact of foreign currency fluctuations on the Company's earnings and cash flows. Some of these contracts are designated as cash flow hedges. The Company will include in earnings amounts currently included in accumulated other comprehensive income upon recognition of cost of sales related to the underlying transaction.

The Term Loan Facility of the Company's Credit Agreement (“Term Loan”) contains floating rate obligations and is subject to interest rate fluctuations. During 2013, the Company entered into interest rate swap agreements for the purposes of hedging the eight quarterly variable-rate interest payments under its Term Loan due in 2014 and 2015. These interest rate swap agreements were designated as cash flow hedges and are intended to manage interest rate risk associated with the Company’s variable rate borrowings and minimize the impact on the Company’s earnings and cash flows of interest rate fluctuations attributable to changes in LIBOR rates. These agreements and the activity related to these agreements were not material to the Company's Condensed Consolidated Financial Statements as of and for the three-month and six-month fiscal periods ended July 3, 2015, and June 27, 2014.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three-month and six-month fiscal periods ended July 3, 2015 and June 27, 2014
(Unaudited)

7. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

During the second quarter of 2014, the Company entered into forward exchange contracts designed to hedge forecasted transactions denominated in foreign currencies and to minimize the impact of foreign currency fluctuations on the Company's earnings and cash flows. These contracts were entered into as a result of forecasted foreign currency transactions associated with the New Zealand contract to deliver ten SH-2G(I) aircraft and were designated as cash flow hedges. During the third quarter of 2014, the Company dedesignated these forward contracts, due to a change in the timing of payments. These contracts and the activity related to these contracts were not material to the Company's Condensed Consolidated Financial Statements as of and for the three-month and six-month fiscal periods ended July 3, 2015, and June 27, 2014.

8. INVENTORIES

Inventories consist of the following:

	July 3, 2015	December 31, 2014
In thousands		
Merchandise for resale	$155,614	$149,837
Raw materials	22,079	19,954
Contracts and other work in process	176,169	179,002
Finished goods (including certain general stock materials)	13,856	10,948
Total	$367,718	$359,741

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

	July 3, 2015	December 31, 2014
In thousands		
Contract changes, negotiated settlements and claims for unanticipated contract costs	$15,833	$13,337
Total	$15,833	$13,337

K-MAX® inventory of $19.0 million and $17.2 million as of July 3, 2015, and December 31, 2014, 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 July 3, 2016, in connection with the production of the new build helicopters and the support of the fleet for the foreseeable future.

At July 3, 2015, and December 31, 2014, $14.4 million and $23.5 million, respectively, of SH-2G(I), formerly SH-2G(A), inventory was included on the Company's balance sheet in contracts and other work in process inventory. On May 8, 2013, the Company announced that it had entered into a $120.6 million contract with the New Zealand Ministry of Defence for the sale of ten SH-2G(I) Super Seasprite aircraft, spare parts, a full mission flight simulator, and related logistics support. Although a substantial portion of the SH-2G(I) inventory will be used in the performance of this contract, management believes that $6.2 million of the SH-2G(I) inventory will be sold after July 3, 2016.

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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three-month and six-month fiscal periods ended July 3, 2015 and June 27, 2014
(Unaudited)

8. INVENTORIES (CONTINUED)

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. For the three-month and six-month fiscal periods ended July 3, 2015, there were increases in the Company's operating income attributable to changes in contract estimates of $1.1 million and $2.9 million, respectively. The increases were primarily a result of improved performance on the Joint Programmable Fuze ("JPF") program. For the three-month fiscal period ended June 27, 2014, there was a $0.6 million decrease in the Company's operating income from changes in contract estimates. This decrease was primarily a result of cost growth on the Sikorsky BLACK HAWK helicopter program. For the six-month fiscal period ended June 27, 2014, changes in contract estimates contributed $0.2 million to the Company's operating income. The increase for the six-month period was primarily a result of improved performance on the JPF program, offset by the cost growth on the Sikorsky BLACK HAWK helicopter program.

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, 2014	$141,612	$113,221	$254,833
Accumulated impairment	—	(16,252)	(16,252)
Net balance at December 31, 2014	141,612	96,969	238,581
Additions	5,559	1,506	7,065
Impairments	—	—	—
Foreign currency translation	—	(567)	(567)
Ending balance at July 3, 2015	$147,171	$97,908	$245,079

Additions to goodwill for the Company's Distribution segment relate to the acquisition completed during 2015, as discussed in Note 4, Acquisitions. Additions to goodwill for the Company's Aerospace segment relate to an earnout payment associated with a previous acquisition.

Other intangible assets consisted of:

		At July 3, 2015		At December 31, 2014	
In thousands	Amortization Period	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Customer lists / relationships	6-21 years	$126,766	$(36,756)	$123,005	$(31,868)
Trademarks / trade names	3-8 years	3,636	(2,331)	3,546	(2,080)
Non-compete agreements and other	1-9 years	6,768	(5,509)	6,719	(4,948)
Patents	17 years	523	(411)	523	(406)

Total	$137,693	$(45,007)	$133,793	$(39,302)

The changes in other intangible assets are attributable to changes in foreign currency exchange rates and the acquisition completed during 2015.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three-month and six-month fiscal periods ended July 3, 2015 and June 27, 2014
(Unaudited)

10. DEBT

On May 6, 2015, the Company closed on an amended and restated $700.0 million Credit Agreement (the "Credit Agreement") with JPMorgan Chase Bank, N.A., as Administrative Agent, Bank of America, N.A. and Citizens Bank, N.A. as Co-Syndication Agents and SunTrust Bank, KeyBank National Association, TD Bank, N.A., Branch Banking & Trust Company and Fifth Third Bank, as Co-Documentation Agents. The Credit Agreement amends and restates the Company's previously existing credit facility in its entirety to, among other things: (i) extend the maturity date to May 6, 2020; (ii) increase the aggregate amount of revolving commitments from $400.0 million to $600.0 million; (iii) reinstate the aggregate amount of outstanding Term Loans to $100.0 million; (iv) modify the affirmative and negative covenants set forth in the facility; and (v) effectuate a number of additional modifications to the terms and provisions of the facility, including its pricing. Capitalized terms used but not defined within this Note 10, Debt shall have the meanings ascribed thereto in the Credit Agreement.

The term loan commitment requires quarterly payments of principal (which commenced on June 30, 2015) at the rate of $1.25 million, increasing to $1.875 million on June 30, 2017, and then to $2.5 million on June 30, 2019, with $65.0 million payable in the final quarter of the facility's term. The facility includes an accordion feature that allows the Company to increase the aggregate amount available to up to $900.0 million with additional commitments from the Lenders.

The revolving credit facility permits the Company to pay cash dividends. The Lenders have been granted a security interest in substantially all of the Company's and its domestic subsidiaries' personal property and other assets (including intellectual property but excluding real estate), including a pledge of 66% of the Company's equity interest in certain foreign subsidiaries and 100% of the Company's equity interest in its domestic subsidiaries, as collateral for the Company's obligations under the Credit Agreement. At July 3, 2015, there was $64.4 million of Revolving Loans outstanding under the Credit Agreement, excluding letters of credit, with $345.2 million available for borrowing. Letters of credit are considered borrowings for purposes of the Credit Agreement. A total of $25.1 million in letters of credit was outstanding under the Credit Agreement at July 3, 2015, $19.2 million of which related to the New Zealand SH-2G(I) sales contract. At December 31, 2014, there was $92.2 million of Revolving Loans outstanding under the Credit Agreement, excluding letters of credit, with $248.6 million available for borrowing. A total of $59.2 million in letters of credit was outstanding under the Credit Agreement at December 31, 2014, $54.5 million of which related to the New Zealand SH-2G(I) sales contract.

Interest rates on amounts outstanding under the Credit Agreement are variable, and are determined based on the Consolidated Senior Secured Leverage Ratio. At July 3, 2015, the interest rate for the outstanding amounts on both the revolving credit facility and term loan commitment was 1.59%. In addition, the Company is required to pay a quarterly commitment fee on the unused revolving loan commitment amount at a rate ranging from 0.175% to 0.300% per annum, based on the Consolidated Senior Secured Leverage Ratio. Fees for outstanding letters of credit range from 1.25% to 2.00%, based on the Consolidated Senior Secured Leverage Ratio.

The financial covenants associated with the Credit Agreement include a requirement that (i) the Consolidated Senior Secured Leverage Ratio cannot be greater than 3.50 to 1.00, with an election to increase the maximum to 3.75 to 1.00 for four consecutive quarters, in connection with a Permitted Acquisition with consideration in excess of $125.0 million; (ii) the Consolidated Total Leverage Ratio, as defined in the Credit Agreement, cannot be greater than 4.00 to 1.00, with an election to increase the maximum to 4.25 to 1.00 for four consecutive quarters, in connection with a Permitted Acquisition with consideration in excess of $125.0 million; (iii) the Consolidated Interest Coverage Ratio cannot be less than 4.00 to 1.00; and (iv) Liquidity: (a) as of the last day of the fiscal quarter of the Company ending two full fiscal quarters prior to the stated maturity of the Specified Convertible Notes, cannot be less than an amount equal to 50% of the outstanding principal amount of the Specified Convertible Notes, and (b) as of the last day of each fiscal quarter of the Company ending thereafter, cannot be less than an amount equal to the outstanding principal amount of the Specified Convertible Notes as of such day.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three-month and six-month fiscal periods ended July 3, 2015 and June 27, 2014
(Unaudited)

11. 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	
	July 3, 2015	June 27, 2014	July 3, 2015	June 27, 2014
In thousands				
Service cost for benefits earned during the year	$3,532	$2,940	$51	$64
Interest cost on projected benefit obligation	6,879	7,208	80	86
Expected return on plan assets	(11,033)	(10,261)	—	—
Amortization of prior service cost	15	20	—	—
Amortization of net loss	2,479	1,038	55	23
Net pension cost	$1,872	$945	$186	$173

	For the Six Months Ended			
	Qualified Pension Plan		SERP	
	July 3, 2015	June 27, 2014	July 3, 2015	June 27, 2014
In thousands				
Service cost for benefits earned during the year	$7,065	$5,880	$103	$128
Interest cost on projected benefit obligation	13,757	14,417	159	171
Expected return on plan assets	(22,065)	(20,523)	—	—
Amortization of prior service cost	29	45	—	—
Amortization of net loss	4,959	2,057	110	45
Net pension cost	$3,745	$1,876	$372	$344

The following tables show the amounts of contributions made to the Qualified Pension Plan and SERP during each period and the additional contributions the Company expects to make during the remainder of 2015:

Year-to-date contributions:

	Qualified Pension Plan		SERP	
	As of July 3, 2015	As of December 31, 2014	As of July 3, 2015	As of December 31, 2014
In thousands				
Year-to-date contributions	$10,000	$10,000	$267	$819

Expected additional contributions in 2015:

	Qualified Pension Plan	SERP
In thousands		
Expected additional contributions	$—	$264

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three-month and six-month fiscal periods ended July 3, 2015 and June 27, 2014
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12. COMMITMENTS AND CONTINGENCIES

AH-1Z Program

The Company is currently engaged in discussions with its customer to resolve the technical and design issues experienced on the AH-1Z attack helicopter program that caused production and delivery delays. Engineering design changes were made after the contract date, resulting in excess costs associated with design modification and rework of parts. As a result of these technical issues and schedule delays, the Company has incurred additional costs outside the scope of work for its original contract and, under the provisions of the contract, has filed claims with its customer requesting additional consideration for work performed. Costs associated with these claims is included in inventory as of July 3, 2015. See Note 8, Inventories, for amounts capitalized into inventory associated with unanticipated contract costs.

On April 23, 2015, the Company received a $24.0 million warranty claim from its customer for costs incurred due to rework performed on delivered cabins. The Company is in the process of evaluating this claim; however, based on the Company's preliminary understanding it does not believe there is a legitimate basis for the claim. The Company has signed an agreement with the customer to enter into non-binding mediation in order to attempt to resolve all pending claims and disputes associated with this program. If a mutually acceptable resolution cannot be agreed upon, the Company intends to vigorously defend itself in this matter. As of July 3, 2015, no amounts have been accrued for this matter. If the Company is unsuccessful in settling the claims it has against the customer and/or settling the customer's claims against the Company, this could have a material impact on the Company's financial results and cash flows.

The Company is also in discussions with its customer regarding the acceleration of the delivery of aircraft to the U.S. Marines, which is likely to result in a scope change to the current contract. The Company has submitted a change in scope proposal to the customer and the parties are currently in negotiations. Dependent upon the outcome of these discussions and the disposition of the matters described above, the Company may be required to accrue amounts associated with its customer's claim or write-off a portion of the amounts currently recorded in inventory; however, the resolution of these matters cannot be determined at this time. There is no gross margin being recorded on sales associated with this program. Total program inventory is $44.1 million as of July 3, 2015, and there are currently sales orders of $7.0 million in backlog associated with this program.

New Hartford Property

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

The Company's estimate of its portion of the cost to assess the environmental conditions and remediate this site is $2.4 million, 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 ($0.9 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.

12. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Bloomfield Property

In connection with the Company’s 2008 purchase of the portion of the Bloomfield campus that a Company subsidiary had leased from the Naval Air Systems Command (NAVAIR), the Company assumed responsibility for environmental remediation at the facility as may be required under the Transfer Act and continues the effort to define the scope of the remediation that will be required by the Connecticut Department of Energy & Environmental Protection. The assumed environmental liability of $10.3 million, all of which has been accrued, was determined by taking the undiscounted estimated remediation liability of $20.8 million and discounting it at a rate of 8%. This remediation process will take many years to complete. The total amount paid to date in connection with these environmental remediation activities is $10.0 million. At July 3, 2015, the Company has $4.6 million accrued for this environmental matter. A portion ($1.2 million) of the accrual related to this property is included in other accruals and payables, and the balance ($3.4 million) is included in other long-term liabilities. Although it is reasonably possible that additional costs will be paid in connection with the resolution of this matter, the Company is unable to estimate the amount of such additional costs, if any, at this time.

Other Environmental Matters

The Company has been notified by the Environmental Protection Agency that it is a potentially responsible party ("PRP") at a Superfund Site. At July 3, 2015, 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 all available 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 at this time. As more information is received, the Company will reassess its ability to estimate its portion of the cost for remediation, taking into consideration the financial resources of other PRPs involved in the site, their proportionate share of the total responsibility for waste at the site, the existence of insurance and the financial viability of the insurer.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three-month and six-month fiscal periods ended July 3, 2015 and June 27, 2014
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13. COMPUTATION OF EARNINGS PER SHARE

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

	For the Three Months Ended		For the Six Months Ended	
	July 3, 2015	June 27, 2014	July 3, 2015	June 27, 2014
In thousands, except per share amounts				
Earnings from continuing operations	$21,691	$16,709	$34,440	$28,653
Losses from discontinued operations, net of tax	—	(515)	—	(1,002)
Gain on disposal of discontinued operations, net of taxes	—	379	—	379
Net earnings	$21,691	$16,573	$34,440	$28,030
Basic:				
Weighted average number of shares outstanding	27,240	27,039	27,214	26,981
Earnings per share from continuing operations	$0.80	$0.62	$1.27	$1.07
Loss per share from discontinued operations	—	(0.02)	—	(0.04)
Earnings per share from disposal of discontinued operations	—	0.01	—	0.01
Basic earnings per share	$0.80	$0.61	$1.27	$1.04
Diluted:				
Weighted average number of shares outstanding	27,240	27,039	27,214	26,981
Weighted average shares issuable on exercise of dilutive stock options	152	155	145	157
Weighted average shares issuable on redemption of convertible notes	706	650	629	579
Total	28,098	27,844	27,988	27,717
Earnings per share from continuing operations	$0.77	$0.61	$1.23	$1.04
Loss per share from discontinued operations	—	(0.02)	—	(0.04)
Earnings per share from disposal of discontinued operations	—	0.01	—	0.01
Diluted earnings per share	$0.77	$0.60	$1.23	$1.01

Equity awards

For the three-month and six-month fiscal periods ended July 3, 2015, respectively, 457,425 and 479,344 shares issuable under equity awards granted to employees were excluded from the calculation of diluted earnings per share as they were anti-dilutive based on the average stock price during the period. For the three-month and six-month fiscal periods ended June 27, 2014, respectively, 318,111 and 380,165 shares issuable under equity awards granted to employees were excluded from the calculation of diluted earnings per share as they were anti-dilutive based on the average stock price during the period.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three-month and six-month fiscal periods ended July 3, 2015 and June 27, 2014
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13. COMPUTATION OF EARNINGS PER SHARE (CONTINUED)

Convertible Notes

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

For the three-month fiscal periods ended July 3, 2015, and June 27, 2014, respectively, shares issuable under the Convertible Notes that were dilutive during the period were included in the calculation of earnings per share as the conversion price for the Convertible Notes was less than the average share price of the Company's stock.

Warrants

Excluded from the diluted earnings per share calculation for the three-month and six-month fiscal periods ended July 3, 2015, are 3,420,607 and 3,419,000, respectively, shares issuable under the warrants sold in connection with the Company’s convertible note offering as they would be anti-dilutive. Excluded from the diluted earnings per share calculation for the three-month and six-month fiscal periods ended June 27, 2014, are 3,410,658 and 3,409,866, respectively, shares issuable under the warrants sold in connection with the Company’s convertible note offering as they would be anti-dilutive.

14. SHARE-BASED ARRANGEMENTS

General

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

Compensation expense for stock options, restricted stock awards and restricted stock units is recognized on a straight-line basis over the vesting period of the awards. Share-based compensation expense recorded for the three-month and six-month fiscal periods ended July 3, 2015, was $2.4 million and $4.0 million, respectively. Share-based compensation expense recorded for the three-month and six-month fiscal periods ended June 27, 2014, was $2.0 million and $3.3 million, respectively.

During the first quarter of 2015, the Company issued additional stock awards with market and performance based conditions, bringing the total of these shares to 8,238, assuming a 100% achievement level. The Company measures the cost of these awards based on their grant date fair value to the extent of the probable number of shares to be earned upon vesting. Amortization of this cost will be recorded on a straight-line basis over the requisite service period. Throughout the course of the requisite service period, the Company will monitor the level of achievement compared to the target and adjust the number of shares expected to be earned, and the related compensation expense recorded thereafter, to reflect the updated most probable outcome. Compensation expense for these awards for the three-month and six-month fiscal periods ended July 3, 2015, and June 27, 2014, was not material.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
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14. SHARE-BASED ARRANGEMENTS (CONTINUED)

Stock option activity was as follows:

	For the Three Months Ended July 3, 2015		For the Six Months Ended July 3, 2015	
	Options	Weighted - average exercise price	Options	Weighted - average exercise price
Options outstanding at beginning of period	1,099,175	$32.79	904,091	$31.26
Granted	—	$—	202,345	$39.54
Exercised	(49,092)	$25.03	(52,895)	$24.90
Forfeited or expired	(367)	$36.29	(3,825)	$37.81
Options outstanding at July 3, 2015	1,049,716	$33.15	1,049,716	$33.15

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

	For the Six Months Ended	
	July 3, 2015	June 27, 2014
Expected option term (years)	5.1	5.1
Expected volatility	29.0%	37.5%
Risk-free interest rate	1.6%	1.5%
Expected dividend yield	1.6%	1.7%
Per share fair value of options granted	$9.28	$11.60

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

	For the Three Months Ended July 3, 2015		For the Six Months Ended July 3, 2015	
	Restricted Stock	Weighted-average grant date fair value	Restricted Stock	Weighted-average grant date fair value
Restricted Stock outstanding at beginning of period	190,346	$37.98	196,553	$36.29
Granted	23,254	$42.37	79,494	$40.33
Vested	(25,908)	$41.92	(87,052)	$36.32
Forfeited or expired	—	$—	(1,303)	$36.42
Restricted Stock outstanding at July 3, 2015	187,692	$37.99	187,692	$37.99

15. SEGMENT AND GEOGRAPHIC INFORMATION

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

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
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15. SEGMENT AND GEOGRAPHIC INFORMATION (CONTINUED)

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; K-MAX® medium-to-heavy lift helicopters; support for our SH-2G Super Seasprite maritime helicopters and K-MAX® aircraft; and engineering design, analysis and certification services.

Summarized financial information by business segment is as follows:

In thousands	For the Three Months Ended July 3, 2015	June 27, 2014	For the Six Months Ended July 3, 2015	June 27, 2014
Net sales:				
Distribution	$304,050	$298,115	$615,521	$557,011
Aerospace	142,274	154,903	273,585	303,965
Net sales	$446,324	$453,018	$889,106	$860,976
Operating income:				
Distribution	$15,403	$16,176	$28,367	$27,909
Aerospace	29,153	26,681	50,974	48,702
Net gain/(loss) on sale of assets	432	(59)	405	(173)
Corporate expense	(14,557)	(14,356)	(26,985)	(26,412)
Operating income from continuing operations	30,431	28,442	52,761	50,026
Interest expense, net	3,222	3,373	6,549	6,504
Other (income) expense, net	(1)	240	(65)	320
Earnings before income taxes from continuing operations	27,210	24,829	46,277	43,202
Income tax expense	5,519	8,120	11,837	14,549
Earnings from continuing operations	$21,691	$16,709	$34,440	$28,653

16. SHAREHOLDERS' EQUITY AND ACCUMULATED OTHER COMPREHENSIVE INCOME

Changes in shareholders' equity for the six-month fiscal periods ended July 3, 2015, and June 27, 2014, respectively, were as follows:

In thousands	For the Six Months Ended July 3, 2015	June 27, 2014
Beginning balance	$517,665	$511,292
Comprehensive income	34,939	30,896
Dividends declared	(9,799)	(8,652)
Employee stock plans and related tax benefit	3,262	4,639
Purchase of treasury shares	(4,539)	(843)
Share-based compensation expense	4,024	3,293
Ending balance	$545,552	$540,625

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

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

	For the Three Months Ended			
	July 3, 2015		June 27, 2014	
In thousands				
Foreign currency translation:				
Beginning balance	$(26,136	)	$(14,514	)
Net gain/(loss) on foreign currency translation	2,624		1,755	
Reclassification to net income	—		—	
Other comprehensive income/(loss), net of tax	2,624		1,755	
Ending balance	$(23,512	)	$(12,759	)
Pension and other post-retirement benefits[(a)]:				
Beginning balance	(103,676	)	(65,653	)
Reclassifications to net income:				
Amortization of prior service cost, net of tax expense of $6 and $7, respectively	9		13	
Amortization of net loss, net of tax expense of $955 and $401, respectively	1,579		660	
Other comprehensive income/(loss), net of tax	1,588		673	
Ending balance	$(102,088	)	$(64,980	)
Derivative instruments[(b)]:				
Beginning balance	(246	)	(516	)
Net loss on derivative instruments, net of tax benefit of ($8) and ($122), respectively	(13	)	(88	)
Reclassification to net income, net of tax expense of $59 and $84, respectively	97		88	
Other comprehensive income/(loss), net of tax	84		—	
Ending balance	$(162	)	$(516	)
Total accumulated other comprehensive income (loss)	$(125,762	)	$(78,255	)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three-month and six-month fiscal periods ended July 3, 2015 and June 27, 2014
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16. SHAREHOLDERS' EQUITY AND ACCUMULATED OTHER COMPREHENSIVE INCOME (CONTINUED)

	For the Six Months Ended	
	July 3, 2015	June 27, 2014
In thousands		
Foreign currency translation:		
Beginning balance	$(20,676)	$(14,219)
Net gain/(loss) on foreign currency translation	(2,836)	1,460
Reclassification to net income	—	—
Other comprehensive income/(loss), net of tax	(2,836)	1,460
Ending balance	$(23,512)	$(12,759)
Pension and other post-retirement benefits[a]:		
Beginning balance	(105,264)	(66,317)
Reclassifications to net income:		
Amortization of prior service cost, net of tax expense of $11 and $17, respectively	18	28
Amortization of net loss, net of tax expense of $1,911 and $793, respectively	3,158	1,309
Other comprehensive income/(loss), net of tax	3,176	1,337
Ending balance	$(102,088)	$(64,980)
Derivative instruments[b]:		
Beginning balance	(321)	(585)
Net loss on derivative instruments, net of tax benefit of ($36) and ($78), respectively	(58)	(129)
Reclassification to net income, net of tax expense of $131 and $119, respectively	217	198
Other comprehensive income/(loss), net of tax	159	69
Ending balance	$(162)	$(516)
Total accumulated other comprehensive income (loss)	$(125,762)	$(78,255)

[a] These accumulated other comprehensive income components are included in the computation of net periodic pension cost.
(See Note 11, Pension Plans for additional information.)

[b] See Note 7, Derivative Financial Instruments, for additional information regarding our derivative instruments.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
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17. INCOME TAXES

	For the Three Months Ended		For the Six Months Ended	
	July 3, 2015	June 27, 2014	July 3, 2015	June 27, 2014
Effective Income Tax Rate	20.3 %	32.7 %	25.6 %	33.7 %

The effective income tax rate represents the combined federal, state and foreign tax effects attributable to pretax earnings for the year. The decrease in the effective tax rate for the three-month and six-month fiscal periods ended July 3, 2015, as compared to the rate for the corresponding period in the prior year is due to certain discrete items within the periods. The discrete items recognized in the three-month period ended July 3, 2015, are primarily the result of changes in tax laws which will allow the Company to realize future state tax benefits. Prior to the changes in the tax laws the Company established valuation allowances against certain net operating loss carryforwards, which are no longer deemed necessary as it is now more likely than not that these benefits will be realized in the future.

18. SUBSEQUENT EVENTS

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

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

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to provide readers of our condensed consolidated financial statements with the perspectives of management. It presents, in narrative form, information regarding our financial condition, results of operations, liquidity and certain other factors that may affect our future results, and is designed to enable the readers of this report to obtain an understanding of our businesses, strategies, current trends and future prospects. It should be read in conjunction with our 2014 Annual Report on Form 10-K and the Condensed Consolidated Financial Statements included in Item 1 of this Form 10-Q.

OVERVIEW OF BUSINESS

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

- The Distribution segment is a leading power transmission, motion control, electrical and automation, and fluid power industrial distributor with operations throughout the United States. We provide products including bearings, mechanical and electrical power transmission, fluid power, motion control, automation, material handling components, electrical control and power distribution, and MRO supplies to a broad spectrum of industrial markets throughout the United States.
- The Aerospace segment produces and/or markets proprietary aircraft bearings and components; complex metallic and composite aerostructures for commercial, military and general aviation fixed and rotary wing aircraft; safe and arming solutions for missile and bomb systems for the U.S. and allied militaries; K-MAX® medium-to-heavy lift helicopters; support for our SH-2G Super Seasprite maritime helicopters and K-MAX® aircraft; and engineering design, analysis and certification services.

Financial performance

- Net sales from continuing operations decreased 1.5% for the three-month fiscal period ended July 3, 2015, compared to the comparable fiscal period in the prior year. Net sales from continuing operations increased 3.3% for the six-month fiscal period ended July 3, 2015, compared to the comparable fiscal period in the prior year.
- Earnings from continuing operations increased 29.8% and 20.2% for the three-month and six-month fiscal periods ended July 3, 2015, compared to the comparable fiscal periods in the prior year.
- Diluted earnings per share from continuing operations increased to $0.77, an increase of $0.16, or 26.2% for the three-month fiscal period ended July 3, 2015, compared to the comparable fiscal period in the prior year. For the six-month fiscal period ended July 3, 2015, diluted earnings per share from continuing operations increased to $1.23, an increase of $0.19, or 18.3% compared to the comparable period in the prior year.
- Cash flows provided by operating activities of continuing operations for the six-month fiscal period ended July 3, 2015, were $48.5 million, $35.7 million more than the comparable fiscal period in the prior year.

Key events

- On July 16, 2015, and May 12, 2015, the Company announced that its Aerospace segment was awarded commercial sales orders in the amounts of $23.0 million and $68.3 million, respectively, for the procurement of Joint Programmable Fuzes ("JPF"). Delivery of the fuzes is anticipated to occur through 2017.
- On June 5, 2015, the Company announced that it will resume production of commercial K-MAX® heavy-lift utility helicopters. The aircraft will be manufactured at our Jacksonville, Florida and Bloomfield, Connecticut facilities.
- On June 2, 2015, the Company announced that its Board of Directors appointed Jennifer M. Pollino as a Director. The board also appointed Pollino to serve on its Personnel & Compensation Committee.
- On May 6, 2015, the Company announced it closed on an amended and restated $700 million credit facility.
- On April 29, 2015, the Company announced that the Board of Directors approved a $100.0 million share repurchase program, which replaces our previous share repurchase program.

Outlook

We are revising our full-year outlook for 2015, as follows:

- Distribution:
  - Sales of $1,200 million to $1,225 million
  - Operating margins of 4.8% to 5.0%
- Aerospace:
  - Sales of $610 million to $620 million
  - Operating margins of 18.1% to 18.4%
- Interest expense of approximately $13 million
- Corporate expenses of $53 million to $54 million
- Estimated annualized tax rate of approximately 31%
- Depreciation and amortization expense of approximately $40 million
- Capital expenditures of $30 million to $40 million
- Free cash flow in the range of $75 million to $90 million

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

	2015 Outlook		
In millions			
Free Cash Flow[a]:			
Net cash provided by operating activities	$105.0	to	$130.0
Expenditures for property, plant and equipment	30.0	to	40.0
Free Cash Flow	$75.0	to	$90.0

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

RESULTS OF OPERATIONS

Consolidated Results

Net Sales

	For the Three Months Ended		For the Six Months Ended	
	July 3, 2015	June 27, 2014	July 3, 2015	June 27, 2014
	(in thousands)			
Net sales	$446,324	$453,018	$889,106	$860,976
$ change	(6,694)	27,799	28,130	54,915
% change	(1.5)%	6.5%	3.3%	6.8%

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

	For the Three Months Ended July 3, 2015	For the Six Months Ended July 3, 2015
Organic Sales[1]:		
Distribution	(1.5)%	1.8%
Aerospace	(2.8)%	(3.5)%
Total Organic Sales	(4.3)%	(1.7)%
Sales by Recent Acquisitions:		
Distribution	2.8%	5.0%
Aerospace	—%	—%
Total Acquisition Sales	2.8%	5.0%
% change in net sales	(1.5)%	3.3%

[1] Sales contributed by acquisitions are included in organic sales beginning with the thirteenth month following the date of acquisition. See segment discussions below for additional information regarding the changes in net sales.

Gross Profit

	For the Three Months Ended		For the Six Months Ended	
	July 3, 2015	June 27, 2014	July 3, 2015	June 27, 2014
	(in thousands)			
Gross profit	$131,952	$128,549	$259,863	$242,549
$ change	3,403	8,197	17,314	13,394
% change	2.6%	6.8%	7.1%	5.8%
% of net sales	29.6%	28.4%	29.2%	28.2%

Gross profit increased for the three-month and six-month fiscal periods ended July 3, 2015, as compared to the same periods in 2014, due to higher gross profit at both our Distribution and Aerospace segments. The primary driver of the increases is the contribution of gross margin from our 2014 and 2015 Distribution segment acquisitions. Additionally, for the six-month fiscal period ended July 3, 2015, the Distribution segment had higher organic gross profit, which increased 1.9% when compared to the corresponding 2014 period.

Selling, General & Administrative Expenses (SG&A)

	For the Three Months Ended		For the Six Months Ended	
	July 3, 2015	June 27, 2014	July 3, 2015	June 27, 2014
	(in thousands)			
SG&A	$101,953	$100,048	$207,507	$192,350
$ change	1,905	11,585	15,157	8,888
% change	1.9%	13.1%	7.9%	4.8%
% of net sales	22.8%	22.1%	23.3%	22.3%

SG&A increased for the three-month and six-month fiscal periods ended July 3, 2015, as compared to the corresponding 2014 periods. The following table details the components of the change:

	For the Three Months Ended July 3, 2015	For the Six Months Ended July 3, 2015
Organic SG&A[(1)]:		
Distribution	0.2 %	3.2 %
Aerospace	(1.5)%	(0.8)%
Corporate	0.3 %	0.2 %
Total Organic SG&A	(1.0)%	2.6 %
Acquisition SG&A:		
Distribution	2.9 %	5.3 %
Aerospace	— %	— %
Total Acquisition SG&A	2.9 %	5.3 %
% change in SG&A	1.9 %	7.9 %

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

The increase in SG&A for the three-month fiscal period ended July 3, 2015, was primarily due to higher expenses at our Distribution segment. This increase in expenses primarily relates to the addition of SG&A expenses from our 2014 and 2015 acquisitions. This increase was offset by lower expenses at our Aerospace segment, primarily due to a buildup of inventory on government contracts where allowable general and administrative expenses are included in inventory.

The increase in SG&A for the six-month fiscal period ended July 3, 2015, was primarily due to higher expenses at our Distribution segment. The increase in expenses relates to the addition of SG&A expenses from our 2014 and 2015 acquisitions, higher salary and benefit expenses and higher depreciation expense in part attributable to the introduction of the new ERP system. These increases were offset by lower expenses at our Aerospace segment, primarily due to a buildup of inventory on government contracts where allowable general and administrative expenses are included in inventory.

Operating Income

	For the Three Months Ended		For the Six Months Ended	
	July 3, 2015	June 27, 2014	July 3, 2015	June 27, 2014
	(in thousands)			
Operating income	$30,431	$28,442	$52,761	$50,026
$ change	1,989	(3,425)	2,735	4,437
% change	7.0 %	(10.7)%	5.5 %	9.7 %
% of net sales	6.8 %	6.3 %	5.9 %	5.8 %

The increases in operating income for the three-month and six-month fiscal periods ended July 3, 2015, versus the comparable periods in 2014 were primarily due to an increase in operating income at our Aerospace segment and the contribution of operating income from our 2014 and 2015 Distribution segment acquisitions. The increases were in part offset by lower organic operating income at Distribution. (See segment discussion below for additional information.)

Interest Expense, Net

	For the Three Months Ended		For the Six Months Ended	
	July 3, 2015	June 27, 2014	July 3, 2015	June 27, 2014
	(in thousands)			
Interest expense, net	$3,222	$3,373	$6,549	$6,504

Interest expense, net, generally consists of interest charged on our Credit Agreement (see Note 10, Debt, in the Notes to Condensed Consolidated Financial Statements), which includes a revolving credit facility and a term loan facility, and other borrowings and the amortization of debt issuance costs, offset by interest income. The decrease in interest expense, net for the three-month fiscal period ended July 3, 2015, was primarily attributable to lower average borrowings, as compared to the comparable period ended June 27, 2014. The interest rate for outstanding amounts under the Credit Agreement at July 3, 2015, was 1.59% compared to 1.58% at June 27, 2014. Interest expense remained relatively flat for the six-month fiscal period ended July 3, 2015, as compared to the comparable period ended June 27, 2014. (See Liquidity and Capital Resources section below for information on our borrowings.)

Effective Income Tax Rate

	For the Three Months Ended				For the Six Months Ended			
	July 3, 2015		June 27, 2014		July 3, 2015		June 27, 2014	
Effective income tax rate	20.3	%	32.7	%	25.6	%	33.7	%

The effective income tax rate represents the combined federal, state and foreign tax effects attributable to pretax earnings for the year. The decrease in the effective tax rate for the three-month and six-month fiscal periods ended July 3, 2015, as compared to the rate for the corresponding period in the prior year is due to certain discrete items within the periods. The discrete items recognized in the three-month period ended July 3, 2015, are primarily the result of changes in tax laws which will allow us to realize future state tax benefits. Prior to the changes in the tax laws we established valuation allowances against certain net operating loss carryforwards, which are no longer deemed necessary as it is now more likely than not that these benefits will be realized in the future.

Distribution Segment

Results of Operations

	For the Three Months Ended				For the Six Months Ended			
	July 3, 2015		June 27, 2014		July 3, 2015		June 27, 2014	
	(in thousands)							
Net sales	$304,050		$298,115		$615,521		$557,011	
$ change	5,935		34,388		58,510		43,349	
% change	2.0	%	13.0	%	10.5	%	8.4	%
Operating income	$15,403							