Fong Ivan K
Form 4
November 05, 2012

FORM 4

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

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
Fong Ivan K

(Last) (First) (Middle)

3M CENTER

(Street)

ST. PAUL, MN 55144-1000

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
3M CO [MMM]

3. Date of Earliest Transaction (Month/Day/Year)
11/01/2012

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Sr. VP, Legal & Gen. Counsel

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security	2. Conversion or Exercise	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any	4. Transaction Code	5. Number of Derivative Securities	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Am Underlying Sec (Instr. 3 and 4)

(Instr. 3)	Price of Derivative Security	(Month/Day/Year)	(Instr. 8)		Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)					
			Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	A o N o
Restricted Stock Units	(1)	11/01/2012	A		11,205		(2)	(2)	Common Stock	1
Non-qualified Stock Option (Right to Buy) (3)	$ 89.25	11/01/2012	A		50,423		11/01/2015(3)	11/01/2022	Common Stock	5

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Fong Ivan K 3M CENTER ST. PAUL, MN 55144-1000			Sr. VP, Legal & Gen. Counsel	

Signatures

/s/ George Ann Biros, attorney-in-fact for Ivan K. Fong	11/05/2012
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Each restricted stock unit represents a contingent right to receive one share of 3M common stock.

(2) The restricted stock units will vest 100% on 11/1/2016.

(3) This option becomes exercisable in equal installments on 11/1/2015, 11/1/2016 and 11/1/2017.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. ily:inherit;font-size:10pt;">. The interest rate for outstanding amounts under the Credit Agreement at October 2, 2015, was 1.62% compared to 1.68% at September 26, 2014.. (See Liquidity and Capital Resources section below for information on our borrowings.)

Effective Income Tax Rate

	For the Three Months Ended		For the Nine Months Ended	
	October 2, 2015	September 26, 2014	October 2, 2015	September 26, 2014
Effective income tax rate	34.7 %	33.0 %	28.9 %	33.4 %

The effective income tax rate represents the combined federal, state and foreign tax effects attributable to pretax earnings for the period. The increase in the effective tax rate for the three-month fiscal period ended October 2, 2015, compared to the corresponding quarter in the prior year, was primarily due to return to provision adjustments recorded during the quarter ended September 26, 2014. The decrease in the effective tax rate for the nine months ended October 2, 2015, when compared to the corresponding period in the prior year, was primarily the result of discrete items recognized in 2015 relating to changes in tax laws. Prior to the law changes we had established valuation allowance against certain net operating loss carryforwards. Such allowances are no longer deemed necessary as the changes to the tax laws now make it 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 Nine Months Ended			
	October 2, 2015		September 26, 2014		October 2, 2015		September 26, 2014	
	(in thousands)							
Net sales	$296,312		$302,294		$911,832		$859,305	
$ change	(5,982	)	36,186		52,527		79,535	
% change	(2.0	)%	13.6	%	6.1	%	10.2	%
Operating income	$14,422		$14,561		$42,789		$42,470	
$ change	(139	)	(1,085	)	319		7,716	
% change	(1.0	)%	(6.9	)%	0.8	%	22.2	%
% of net sales	4.9	%	4.8	%	4.7	%	4.9	%

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Net sales

The decrease in net sales for the three-month fiscal period ended October 2, 2015, as compared to the same period in 2014 was due to lower organic sales, driven by lower sales volume to our original equipment manufacturer customers, offset by one additional sales day in the period. Looking at the markets we serve, sales were lower in the machinery manufacturing, mining, transportation equipment manufacturing, fabricated metal product manufacturing and merchant wholesalers durable goods markets for the three-month fiscal period ended October 2, 2015, as compared to the comparable period in 2014. Partially offsetting these decreases, were higher sales in the paper manufacturing, chemical manufacturing, food processing and computer and electronic manufacturing markets.

The increase in net sales for the nine-month fiscal period ended October 2, 2015, as compared to the same period in 2014 was primarily due to the contribution of sales from our 2014 and 2015 acquisitions and the four additional sales days in the fiscal period ended October 2, 2015. For the nine-month fiscal period ended October 2, 2015, as compared to the same period in 2014, we experienced higher sales in the computer and electronic product manufacturing and paper manufacturing markets, partially offset by lower sales in the primary metal and manufacturing market.

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

		For the Three Months Ended		For the Nine Months Ended	
		October 2, 2015 (in thousands)	September 26, 2014	October 2, 2015	September 26, 2014
Current period					
Net sales		$296,312	$302,294	$911,832	$859,305
Acquisition sales [1]		5,098	31,069	47,893	63,605
Organic sales		291,214	271,225	863,939	795,700
Sales days		64	63	193	189
Organic sales per sales day for the current period	a	$4,550	$4,305	$4,476	$4,210
Prior period					
Net sales from the prior year		$302,294	$266,108	$859,305	$779,770
Sales days from the prior year		63	63	189	190
Sales per sales day from the prior year	b	$4,798	$4,224	$4,547	$4,104
% change	(a-b)÷b	(5.2)%	1.9%	(1.6)%	2.6%

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

Operating income

The Distribution segment's operating income for the three-month fiscal period ended October 2, 2015, remained relatively flat as compared to the corresponding period in the prior year. This was a result of lower organic sales and gross profit, mostly offset by a decrease in operating expenses, the contribution of operating income from the 2015 acquisition and gross margin attributable to the additional sales day in the fiscal period ended October 2, 2015.

The Distribution segment's operating income for the nine-month fiscal period ended October 2, 2015, remained relatively flat as compared to the corresponding period in 2014. This was a result of the contribution of operating income from our 2014 and 2015 acquisitions and four additional sales days, mostly offset by a decrease in organic operating income as a result of higher operating expenses during the first half of 2015. These expenses include higher salary and benefit expenses, including pension, and costs related to our new enterprise resource planning ("ERP") system.

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Other Matters

Enterprise Resource Planning System

In July 2012, we announced a decision to invest in a new enterprise resource planning business system for our Distribution segment with an estimated total cost of $45.0 million. Since our announcement in 2012, Distribution has acquired seven businesses. To date, we have implemented the new ERP system at four acquired entities, of which two were not included in the original project scope. Additionally, an upgraded version of the software has become available since we developed our initial implementation plan. The upgrade is a major release of the ERP software and provides additional functionality and features, along with a new user interface. As a result of the unplanned implementations at the acquired businesses and the software upgrade, our implementation timeline has been extended. We are in the process of assessing the impact on the total project cost associated with the extension of our implementation timeline.

For the three-month and nine-month fiscal periods ended October 2, 2015, expenses incurred totaled approximately $0.1 million and $0.5 million, respectively, and capital expenditures totaled $1.0 million and $4.3 million, respectively. Depreciation expense for the ERP system for the three-month and nine-month fiscal periods ended October 2, 2015, totaled $0.8 million and $2.2 million, respectively.

Aerospace Segment

Results of Operations

	For the Three Months Ended		For the Nine Months Ended	
	October 2, 2015	September 26, 2014	October 2, 2015	September 26, 2014
	(in thousands)			
Net sales	$137,430	$153,761	$411,016	$457,726
$ change	(16,331)	3,049	(46,710)	14,615
% change	(10.6)%	2.0%	(10.2)%	3.3%
Operating income	$27,801	$26,813	$78,775	$75,515
$ change	988	(825)	3,260	(1,712)
% change	3.7%	(3.0)%	4.3%	(2.2)%
% of net sales	20.2%	17.4%	19.2%	16.5%

Net sales

Sales decreased for the three-month fiscal period ended October 2, 2015, as compared to the corresponding period in 2014, due to decreases in sales of both our military and commercial products/programs of $15.7 million and $0.6 million, respectively, and the adverse impact of foreign currency translation of $2.0 million. The decrease in military sales is primarily attributable to lower sales under our SH-2G(I) contract with New Zealand, the JPF program with the USG, legacy missile and bomb fuze programs, the Boeing A-10 program and the Sikorsky BLACK HAWK helicopter program. Additionally, the absence of sales under the C-17 program contributed to this decrease, as this program was completed in the prior year. These decreases, totaling $32.9 million, were offset by $17.2 million in increases, primarily due to higher direct sales to foreign militaries of the JPF.

The decrease in commercial sales for the three-month fiscal period ended October 2, 2015, as compared to the corresponding period in 2014, is primarily attributable to lower sales volume on our Bell composite blade program and lower sales under certain composite structure programs, totaling $5.8 million. This decrease was partially offset by a $4.8 million increase due to sales under our Boeing 747-8 wing-to-body program, higher sales under our

K-MAX® support program and higher tooling and composite imaging sales.

Sales decreased for the nine-month fiscal period ended October 2, 2015, as compared to the corresponding period in 2014, due to decreases in sales of both our military and commercial products/programs of $34.1 million and $12.6 million, respectively, and the adverse impact of foreign currency translation of $6.9 million. The decrease in military sales is primarily attributable to decreases on the programs noted above as well as lower sales under the SH-2G(I) program with Egypt. These decreases, totaling $69.4 million, were partially offset by a $36.0 million increase in military sales resulting from higher direct sales to foreign militaries of the JPF, sales under the SH-2G program with Peru and higher sales under the AH-1Z program.

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The decrease in commercial sales for the nine-month fiscal period ended October 2, 2015, as compared to the corresponding period in 2014, is primarily attributable to lower sales volume on our Bell composite blade program, lower sales under certain composite structure programs and a decline in sales volume on commercial bearing products primarily used in distribution, regional aircraft and engines. These decreases, totaling $19.7 million, were partially offset by a $7.6 million increase in commercial sales due to the Boeing 747-8 wing-to-body program, higher commercial bearing product sales to an original equipment manufacturer and higher composite imaging sales.

Operating income

Operating income increased for the three-month fiscal period ended October 2, 2015, compared to the corresponding period in 2014. Contributing to the increase in operating income were higher direct sales to foreign militaries of our JPF and corresponding gross profit and higher military bearing product gross profit. Additionally, improved performance on the JPF program led to changes in our contract cost estimates for that program, which contributed approximately $0.8 million to operating income during the quarter. These increases totaling $10.2 million were partially offset by lower sales of our JPF to the USG, lower sales under our SH-2G(I) program with New Zealand, lower sales volume on our Bell composite blade program, lower sales volume on certain commercial composite structure programs and higher operating expenses.

Operating income increased for the nine-month fiscal period ended October 2, 2015, compared to the corresponding period in 2014. Operating income increases totaling $6.6 million were attributable to higher direct sales to foreign militaries of our JPF and corresponding profit, the contribution of gross profit on our SH-2G program with Peru and higher sales volume and corresponding gross profit on our military bearing products. Additionally, as noted above, there was improved performance on the JPF program that led to changes in our contract cost estimates, which contributed approximately $3.6 million to operating income for the nine months ended October 2, 2015. These increases were partially offset by lower sales volume on our legacy missile fuze programs, a decline in gross margin on the Boeing 767/777 program and lower sales volume on our Bell composite blade program.

Long-Term Contracts

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

Revenue and cost estimates for all significant long-term contracts for which revenue is recognized using the percentage-of-completion method of accounting are reviewed and reassessed quarterly. Based upon these reviews, the Company records the effects of adjustments in profit estimates each period. If at any time the Company determines that in the case of a particular contract total costs will exceed total contract revenue, the Company will record a provision for the entire anticipated contract loss at that time. For the three-month and nine-month fiscal periods ended October 2, 2015, there were increases in the Company's operating income attributable to changes in contract estimates of $2.1 million and $5.0 million, respectively. The increases were primarily a result of improved performance on the JPF and another legacy bomb fuze program. There was a net increase to the Company's operating income from changes in contract estimates of $1.3 million and $1.5 million, respectively, for the three-month and nine-month fiscal periods ended September 26, 2014. The increases were primarily a result of improved performance on the New Zealand SH-2G(I) program, the JPF program and a mix of other legacy fuze and composite programs. These improvements were slightly offset by cost growth on the Sikorsky BLACK HAWK helicopter program and Boeing A-10 program.

Backlog

	October 2, 2015	December 31, 2014
	(in thousands)	
Backlog	$607,103	$518,025

Backlog increased during the first nine months of 2015 primarily due to the USG JPF Program Option 12 award and JPF commercial sales orders received from foreign militaries, as discussed below.

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Major Programs/Product Lines

Below is a discussion of significant changes in the Aerospace segment's major programs during the first nine months of 2015. See our 2014 Annual Report on Form 10-K for a complete discussion of our Aerospace segment's programs.

AH-1Z

We are currently engaged in discussions with our customer to resolve the technical and design issues that caused production and delivery delays on the AH-1Z attack helicopter program. 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, we have incurred additional costs outside the scope of work for the original contract and, under the provisions of the contract, have filed claims with our customer requesting additional consideration for work performed. Costs associated with these claims is included in inventory as of October 2, 2015. See Note 8, Inventories, for amounts capitalized into inventory associated with unanticipated contract costs.

On April 23, 2015, we received a $24.0 million warranty claim from our customer for costs incurred due to rework performed on delivered cabins. We have evaluated this claim; however, based on our understanding, we do not believe there is a legitimate basis for the claim. We have agreed to enter into nonbinding 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, we intend to vigorously defend ourselves in this matter. Additionally, through the mediation process, we were made aware the customer received notification of a claim from the U.S. Government of approximately $9.0 million that they are in the process of evaluating. As such, this claim has increased the scope of our mediation discussions with the customer. As of October 2, 2015, no amounts have been accrued for this matter. If we are unsuccessful in settling the claims we have against the customer and/or settling the customer's claims against us, this could have a material impact on our financial results and cash flows.

We are also in discussions with our customer regarding a scope change to the current contract. We have submitted change in scope proposals to the customer and we are currently in negotiations. Depending upon the outcome of these discussions and the disposition of the matters described above, we may be required to accrue amounts associated with our 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 $45.0 million as of October 2, 2015, and there are currently sales orders of $6.0 million in backlog associated with this program.

FMU-152 A/B – Joint Programmable Fuze (“JPF”)

The segment manufactures the JPF, an electro-mechanical bomb safe and arming device, which allows the settings of a weapon to be programmed in flight. In March 2015, we were awarded an additional $58.0 million under Option 12 of our contract with the USG, for fuzes to be delivered in 2016 and 2017. In May 2015 and July 2015, we were awarded direct commercial sales contracts of $68.3 million and $23.0 million, respectively, for fuzes to be delivered through 2017. Total JPF backlog at October 2, 2015, is $205.7 million.

During the quarter we delivered a total of 3,782 fuzes, which consisted of 767 fuzes delivered to the USG and 3,015 fuzes delivered as direct commercial sales to foreign governments. A total of 14,789 fuzes have been delivered through the first nine months of 2015. We occasionally experience lot acceptance test failures on this program due to the complexity of the product and the extreme parameters of the acceptance testing. Given the maturity of the product, we now generally experience isolated failures, rather than systematic failures. As a result, identifying a root cause can take longer and may result in fluctuating delivery performance from quarter to quarter. We expect to deliver approximately 20,000 to 24,500 fuzes in 2015.

The Company currently provides the FMU-152A/B to the U.S. Air Force and twenty-six other nations, but the U.S. Navy currently utilizes a different fuze - the FMU 139. Earlier this year, the U.S. Naval Air Systems Command (“NAVAIR”) solicited proposals for a firm fixed price production contract to implement improvements to the performance characteristics of the FMU-139 (such improved fuze having been designated the FMU-139D/B), and the U.S. Air Force has stated that, if and when a contract is awarded and production begins, the funds associated with the FMU-152A/B will be redirected to the FMU-139D/B. During the third quarter of 2015, the U.S. Navy announced that a competitor was awarded the contract for the FMU-139 D/B. In the event the FMU-139 D/B program proceeds as planned and the U.S. Air Force redirects the funds associated with the FMU-152 A/B to the FMU-139 D/B, our business, financial condition, results of operations and cash flows may be materially adversely impacted, although any such impact would not be likely to occur for a number of years.

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K-MAX®

During the second quarter of 2015, we announced that our Aerospace segment is resuming production of commercial K-MAX® aircraft. The aircraft will be manufactured at our Jacksonville, Florida and Bloomfield, Connecticut facilities and production and hiring for the program have already begun. The first new helicopter is expected to be delivered in early 2017. Currently, we have $23.6 million included in backlog for this program, representing orders for three aircraft. In addition to the aircraft on order, we have received initial deposits on two more aircraft and believe there is additional demand for new aircraft to support firefighting, logging and other industries requiring repetitive aerial lift capabilities. The K-MAX® is extremely well suited for all of these applications.

LIQUIDITY AND CAPITAL RESOURCES

Discussion and Analysis of Cash Flows

We assess liquidity in terms of our ability to generate cash to fund working capital requirements and investing and financing activities. Significant factors affecting liquidity include: cash flows generated from or used by operating activities, capital expenditures, investments in our business segments and their programs, acquisitions, divestitures, dividends, availability of future credit, adequacy of available bank lines of credit, and factors that might otherwise affect the company's business and operations generally, as described under the heading “Risk Factors” and “Forward-Looking Statements” in Item 1A of Part I of our 2014 Annual Report on Form 10-K.

We continue to rely upon bank financing as an important source of liquidity for our business activities including acquisitions. We believe this, when combined with cash generated from operating activities, will be sufficient to support our anticipated cash requirements for the foreseeable future; however, we may decide to raise additional debt or equity capital to support other business activities including potential future acquisitions. We anticipate our capital expenditures will be approximately $30.0 to $40.0 million in 2015, primarily related to machinery and equipment and information technology infrastructure. Included in this is approximately $6.3 million associated with investments in ERP systems primarily for our Distribution segment and, to a lesser extent, certain Aerospace facilities.

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

- the matters described in Note 12, Commitments and Contingencies, in the Notes to Condensed Consolidated Financial Statements, including the cost of existing environmental remediation matters and deposits required to be made to the environmental escrow for our former Moosup facility;
- contributions to our qualified pension plan and Supplemental Employees’ Retirement Plan (“SERP”);
- repurchase of common stock under the 2015 Share Repurchase Program;
- payment of dividends;
- costs associated with new aerospace start-up programs, including the K-MAX® line; and
- the extension of payment terms by our customers.

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

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

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

Effective December 31, 2015, the qualified pension plan will be frozen with respect to future benefit accruals. Under U.S. Government Cost Accounting Standard (“CAS”) 413 we must determine the U.S. Government’s share of any pension curtailment adjustment calculated in accordance with CAS. Such adjustments can result in an amount due to the U.S. Government for pension plans that are in a surplus position or an amount due to the contractor for plans that are in a deficit position. We are unable to make a determination at this time as to the financial implications this curtailment adjustment will have, if any, on our balance sheet as of December 31, 2015, and the current year's results of operations.

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In 2013, we signed a $120.6 million contract to resell ten of the former Australia SH-2G(A) (now designated SH-2G(I)) aircraft, spare parts, a full mission flight simulator, and related logistics support to the New Zealand Ministry of Defence. Upon entering into the sales contract with the New Zealand Ministry of Defence, we agreed to provide unconditional letters of credit for the receipt of advance payments on this program. As we perform under the contract and meet certain predetermined milestones, the letter of credit requirements will be gradually reduced. The letter of credit balance related to the SH-2G(I) New Zealand sales contract was $19.2 million at October 2, 2015. Since the end of the third quarter, the letter of credit balance related to the SH-2G(I) New Zealand sales contract was reduced to $2.0 million, with $17.2 million released on October 9, 2015.

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

	For the Nine Months Ended		
	October 2, 2015	September 26, 2014	2015 vs. 2014
	(in thousands)		
Total cash provided by (used in):			
Operating activities	$84,827	$45,132	$39,695
Investing activities	(35,043)	(100,372)	65,329
Financing activities	(50,150)	56,229	(106,379)
Free Cash Flow (a):			
Net cash provided by operating activities	$84,827	$45,132	$39,695
Expenditures for property, plant and equipment	(23,130)	(22,177)	(953)
Free cash flow	$61,697	$22,955	$38,742

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

Net cash provided by operating activities of continuing operations increased for the nine-month fiscal period ended October 2, 2015, versus the comparable period in 2014, primarily due to higher accounts receivable collections, partially due to increased milestone payments under the SH-2G(I) program, and higher accounts payable at the end of the third quarter of 2015, due to the timing of payments. Offsetting these changes was a growth in inventory at both segments.

Net cash used in investing activities of continuing operations decreased for the nine-month fiscal period ended October 2, 2015, versus the comparable period in 2014, due to a $65.1 million decrease in cash used for acquisitions.

Net cash used in financing activities of continuing operations for the nine-month fiscal period ended October 2, 2015, was $50.2 million, compared to net cash provided by financing activities of continuing operations for the comparable period in 2014 of $56.2 million. This change is primarily due to net repayments under the revolving credit agreement in the current year of $43.3 million, compared to $67.0 million of borrowings in the prior year. Repayments exceeded borrowings due to lower acquisition activity and improved cash flow generation. Additionally, we purchased $9.0 million of shares under our 2015 Share Repurchase Program.

Financing Arrangements

As described in Note 10, Debt, in the Notes to Condensed Consolidated Financial Statements, on May 6, 2015, we closed on an amended and restated $700.0 million Credit Agreement. The Credit Agreement amends and restates the

Company's previously existing credit facility 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. We were in compliance with our financial covenants as of and for the quarter ended October 2, 2015, and we do not anticipate noncompliance in the foreseeable future.

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Total average bank borrowings during the quarter ended October 2, 2015, were $175.3 million compared to $214.8 million for the year ended December 31, 2014. As of October 2, 2015, and December 31, 2014, there was $369.2 million and $248.6 million available for borrowing, respectively, under the Revolving Credit Facility, net of letters of credit. Letters of credit are generally considered borrowings for purposes of the Revolving Credit Facility. A total of $25.1 million and $59.2 million in letters of credit was outstanding under the Revolving Credit Facility as of October 2, 2015, and December 31, 2014, respectively.

Other Sources/Uses of Capital

We contributed $10.0 million to the qualified pension plan and $0.4 million to the SERP through the end of the third quarter. We do not expect to make any further contributions to the qualified pension plan during 2015. We plan to contribute an additional $0.1 million to the SERP in 2015. For the 2014 plan year, we contributed $10.0 million to the qualified pension plan and $0.8 million to the SERP.

On April 29, 2015, we announced that our Board of Directors approved a share repurchase program ("2015 Share Repurchase Program") authorizing the repurchase of up to $100.0 million of the common stock, par value $1.00 per share, of the Company. This new program replaces our 2000 Stock Repurchase Program. We currently intend to repurchase shares to offset the annual issuance of shares under our employee stock plans, but the timing and actual number of shares repurchased will depend on a variety of factors including stock price, market conditions, corporate and regulatory requirements, capital availability and other factors, including acquisition opportunities. As of October 2, 2015, we had repurchased 202,776 shares under the 2015 Share Repurchase Program and approximately $91.8 million remained available for repurchases under this authorization.

NON-GAAP FINANCIAL MEASURES

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

Organic Sales per Sales Day

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

Free Cash Flow

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

CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS

There have been no material changes outside the ordinary course of business in our contractual obligations or off-balance sheet arrangements during the first nine months of 2015. See our 2014 Annual Report on Form 10-K for a discussion of our contractual obligations and off-balance sheet arrangements.

CRITICAL ACCOUNTING ESTIMATES

Preparation of the Company’s financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management believes the most complex and sensitive judgments, because of their significance to the Consolidated Financial Statements, result primarily from the need to make estimates about the effects of matters that are inherently uncertain. Management’s Discussion and Analysis and the Notes to Consolidated Financial Statements in the Company’s 2014 Annual Report on Form 10-K describe the critical accounting estimates and significant accounting policies used in preparing the Consolidated Financial Statements. Actual results in these areas could differ from management’s estimates. There have been no significant changes in the Company's critical accounting estimates and significant accounting policies in 2015.

RECENT ACCOUNTING STANDARDS

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no significant changes in the Company’s exposure to market risk during the first nine months of 2015. See the Company’s 2014 Annual Report on Form 10-K for a discussion of the Company’s exposure to market risk.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures
The Company has carried out an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of October 2, 2015. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of October 2, 2015, the disclosure controls and procedures were effective.

Changes in Internal Controls
There was no change in the Company’s internal control over financial reporting that occurred during the Company’s most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.
The Company is in the process of implementing a new enterprise-wide business system for our Distribution segment. In order to minimize disruptions to our ongoing operations we have developed a project plan that takes a phased approach to implementation and includes appropriate contingencies. The implementation of the new ERP system will likely affect the processes that constitute our internal control over financial reporting and will require testing for effectiveness.

PART II

Item 1. Legal Proceedings

General

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

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

While it is not possible to predict the outcome of these matters with certainty, based upon available information, management believes that all settlements, arbitration awards and final judgments, if any, which are considered probable of being rendered against us in legal proceedings and that can be reasonably estimated are accrued for at October 2, 2015. Despite this analysis, there can be no assurance that the final outcome of these matters will not have a material adverse effect on our business, financial condition, results of operations or cash flows.

Except as set forth below, as of October 2, 2015, neither the Company nor any of its subsidiaries is a party, nor is any of its or their property subject, to any material pending legal proceedings, other than ordinary routine litigation incidental to the business of the Company and its subsidiaries. Additional information relating to certain of these matters is set forth in Note 12, Commitments and Contingencies of the Notes to Condensed Consolidated Financial Statements.

Environmental Matters

The Company and its subsidiaries are subject to numerous U.S. Federal, state and international environmental laws and regulatory requirements and are involved from time to time in investigations or litigation of various potential environmental issues concerning activities at our facilities or former facilities or remediation as a result of past activities (including past activities of companies we have acquired). From time to time, we receive notices from the U.S. Environmental Protection Agency or equivalent state or international environmental agencies that we are a potentially responsible party under the Comprehensive Environmental Response, Compensation and Liability Act (commonly known as the "Superfund Act") and/or equivalent laws. Such notices assert potential liability for cleanup costs at various sites, which include sites owned by us, sites we previously owned and treatment or disposal sites not owned by us, allegedly containing hazardous substances attributable to us from past operations. We are currently named as a potentially responsible party at one site. While it is not possible to predict the outcome of these proceedings, in the opinion of management, any payments we may be required to make as a result of such claims in existence at October 2, 2015, will not have a material adverse effect on our business, financial condition, results of operations or cash flows.

Asbestos Litigation

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

Item 1A. Risk Factors

Investors should carefully review and consider the information regarding certain factors that could materially affect our business, results of operations, financial condition and cash flows as set forth under Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2014 (“2014 Form 10-K”). We do not believe there have been any material changes to the risk factors previously disclosed in our 2014 Form 10-K, but we may disclose changes to such factors or disclose additional factors from time to time in future filings with the SEC. Additional risks and uncertainties not presently known to us or that we currently believe not to be material may also adversely impact our business, results of operations, financial position and cash flows.

FORWARD-LOOKING STATEMENTS

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

Because forward-looking statements relate to the future, they are subject to inherent risks, uncertainties and other factors that may cause the Company's actual results and financial condition to differ materially from those expressed or implied in the forward-looking statements. Such risks, uncertainties and other factors include, among others: (i) changes in domestic and foreign economic and competitive conditions in markets served by the Company, particularly the defense, commercial aviation and industrial production markets; (ii) changes in government and customer priorities and requirements (including cost-cutting initiatives, government and customer shut-downs, the potential deferral of awards, terminations or reductions of expenditures to respond to the priorities of Congress and the Administration, or budgetary cuts resulting from Congressional actions or automatic sequestration); (iii) changes in geopolitical conditions in countries where the Company does or intends to do business; (iv) the successful conclusion of competitions for government programs (including new, follow-on and successor programs) and thereafter successful contract negotiations with government authorities (both foreign and domestic) for the terms and conditions of the programs; (v) the existence of standard government contract provisions permitting renegotiation of terms and termination for the convenience of the government; (vi) the successful resolution of government inquiries or investigations relating to our businesses and programs; (vii) risks and uncertainties associated with the successful implementation and ramp up of significant new programs, including the ability to manufacture the products to the detailed specifications required and recover start-up costs and other investments in the programs; (viii) potential difficulties associated with variable acceptance test results, given sensitive production materials and extreme test parameters; (ix) the receipt and successful execution of production orders under the Company's existing U.S. government JPF contract, including the exercise of all contract options and receipt of orders from allied militaries, but excluding any next generation programmable fuze programs, as all have been assumed in connection with goodwill impairment evaluations; (x) the continued support of the existing K-MAX® helicopter fleet, including sale of existing K-MAX® spare parts inventory and the receipt of orders for new aircraft sufficient to recover our investment in the restart of the K-MAX® production line; (xi) the accuracy of current cost estimates associated with environmental remediation activities; (xii) the profitable integration of acquired businesses into the Company's operations; (xiii) the ability to implement our ERP systems in a cost-effective and efficient manner, limiting disruption to our business, and allowing us to capture their planned benefits while maintaining an adequate internal control environment; (xiv) changes in supplier sales or vendor incentive policies; (xv) the effects of price increases or decreases; (xvi) the effects of pension regulations, pension plan assumptions, pension plan asset performance, future contributions and the pension freeze; (xvii) future levels of indebtedness and capital expenditures; (xviii) the continued availability of raw materials and other commodities in adequate supplies and the effect of increased costs for such items; (xix) the effects of currency exchange rates and foreign competition on future operations; (xx) changes in laws and regulations, taxes, interest rates, inflation rates and general business conditions; (xxi) future repurchases and/or issuances of common stock; and (xxii) other risks and uncertainties set forth herein and in our 2014 Form 10-K.

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

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

The following table provides information about purchases of Common Stock by the Company during the three-month fiscal period ended October 2, 2015:

Period	Total Number of Shares Purchased (a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan (b)	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plan (in thousands)
July 4, 2015 – July 31, 2015	26,150	$41.81	26,150	$95,117
August 1, 2015 – August 28, 2015	37,473	$39.32	37,440	$93,645
August 29, 2015 – October 2, 2015	50,336	$36.79	50,336	$91,793
Total	113,959		113,926	

(a) During the quarter the Company also purchased 33 shares in connection with employee tax withholding obligations as permitted by our equity compensation plans, which are SEC Rule 16b-3 qualified compensation plans (these are not purchases under our publicly announced program).

(b) On April 29, 2015, the Company announced that its Board of Directors approved a $100.0 million share repurchase program ("2015 Share Repurchase Program").

Item 4. Mine Safety Disclosure

Information concerning mine safety violations required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") and Item 104 of Regulation S-K has been included in Exhibit 95 to this Form 10-Q.

Item 6. Index To Exhibits

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

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SIGNATURES

Kaman Corporation and Subsidiaries

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	KAMAN CORPORATION Registrant	
Date: October 29, 2015		/s/ Neal J. Keating
	By:	Neal J. Keating Chairman, President and Chief Executive Officer
Date: October 29, 2015		/s/ Robert D. Starr
	By:	Robert D. Starr Executive Vice President and Chief Financial Officer

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KAMAN CORPORATION
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