KAMAN Corp
Form 10-Q
April 28, 2014

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

FORM 10-Q

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

For the quarterly period ended March 28, 2014

Or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to ______

Commission File Number: 001-35419

KAMAN CORPORATION

(Exact name of registrant as specified in its charter)

Connecticut	06-0613548
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1332 Blue Hills Avenue
Bloomfield, Connecticut 06002
(Address of principal executive offices) (Zip Code)
(860) 243-7100
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter)
during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes x No ¨

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No x

At April 17, 2014, there were 27,385,812 shares of Common Stock outstanding.

PART I

Item 1. Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEETS

KAMAN CORPORATION AND SUBSIDIARIES

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

	March 28, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$7,987	$10,384
Accounts receivable, net	227,463	205,873
Inventories	378,467	390,495
Deferred income taxes	30,916	30,128
Income tax refunds receivable	—	2,297
Other current assets	29,820	26,028
Total current assets	674,653	665,205
Property, plant and equipment, net of accumulated depreciation of $172,547 and $167,282, respectively	151,408	148,508
Goodwill	204,069	203,923
Other intangible assets, net	86,974	89,449
Deferred income taxes	7,378	10,287
Other assets	23,357	23,259
Total assets	$1,147,839	$1,140,631
Liabilities and Shareholders’ Equity		
Current liabilities:		
Notes payable	$—	$559
Current portion of long-term debt	12,500	10,000
Accounts payable – trade	118,667	119,482
Accrued salaries and wages	30,773	33,677
Advances on contracts	2,332	9,470
Other accruals and payables	52,248	54,095
Income taxes payable	1,575	673
Total current liabilities	218,095	227,956
Long-term debt, excluding current portion	279,132	264,655
Deferred income taxes	3,752	3,855
Underfunded pension	75,728	85,835
Other long-term liabilities	49,517	47,038
Commitments and contingencies (Note 9)		
Shareholders' equity:		
Preferred stock, $1 par value, 200,000 shares authorized; none outstanding	—	—
Common stock, $1 par value, 50,000,000 shares authorized; voting; 27,357,325 and 27,189,922 shares issued, respectively	27,357	27,190
Additional paid-in capital	137,427	133,517
Retained earnings	446,580	439,441
Accumulated other comprehensive income (loss)	(80,683)	(81,121)
Less 364,314 and 330,487 shares of common stock, respectively, held in treasury, at cost	(9,066)	(7,735)
Total shareholders’ equity	521,615	511,292
Total liabilities and shareholders’ equity	$1,147,839	$1,140,631

See accompanying notes to condensed consolidated financial statements.

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

	For the Three Months Ended	
	March 28, 2014	March 29, 2013
Net sales	$413,932	$388,075
Cost of sales	299,071	277,809
Gross profit	114,861	110,266
Selling, general and administrative expenses	93,761	96,420
Net loss on sale of assets	111	79
Operating income	20,989	13,767
Interest expense, net	3,109	3,068
Other expense (income), net	202	331
Earnings before income taxes	17,678	10,368
Income tax expense	6,221	3,214
Net earnings	$11,457	$7,154
Earnings per share:		
Basic earnings per share	$0.43	$0.27
Diluted earnings per share	$0.42	$0.26
Average shares outstanding:		
Basic	26,923	26,658
Diluted	27,591	27,054
Dividends declared per share	$0.16	$0.16

See accompanying notes to condensed consolidated financial statements.

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

	For the Three Months Ended	
	March 28, 2014	March 29, 2013
Net earnings	$11,457	$7,154
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	(295)	(4,514)
Unrealized gain (loss) on derivative instruments, net of tax expense (benefit) of $9 and ($68), respectively	69	(111)
Change in pension and post-retirement benefit plan liabilities, net of tax expense of $402 and $904, respectively	664	1,475
Other comprehensive income (loss)	438	(3,150)
Comprehensive income	$11,895	$4,004

See accompanying notes to condensed consolidated financial statements.

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

	For the Three Months Ended	
	March 28, 2014	March 29, 2013
Cash flows from operating activities:		
Net earnings	$11,457	$7,154
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	8,212	7,635
Accretion of convertible notes discount	473	450
Provision for doubtful accounts	111	638
Net loss on sale of assets	111	79
Net loss (gain) on derivative instruments	87	177
Stock compensation expense	1,314	1,187
Excess tax (benefit) from share-based compensation arrangements	(522)	(248)
Deferred income taxes	1,628	(1,894)
Changes in assets and liabilities, excluding effects of acquisitions/divestitures:		
Accounts receivable	(21,752)	(28,553)
Inventories	11,959	(14,768)
Income tax refunds receivable	2,297	—
Other current assets	(3,308)	(332)
Accounts payable - trade	(8,191)	(4,686)
Accrued contract losses	(738)	12
Advances on contracts	(7,139)	(421)
Other accruals and payables	(3,332)	107
Income taxes payable	897	(745)
Pension liabilities	(9,309)	(2,904)
Other long-term liabilities	3,775	2,550
Net cash used in operating activities	(11,970)	(34,562)
Cash flows from investing activities:		
Proceeds from sale of assets	6	8
Expenditures for property, plant & equipment	(11,660)	(11,841)
Acquisition of businesses	(160)	—
Other, net	(655)	(131)
Cash used in investing activities	(12,469)	(11,964)
Cash flows from financing activities:		
Net borrowings under revolving credit agreements	15,995	46,815
Debt repayment	—	(2,500)
Net change in bank overdraft	8,389	4,057
Proceeds from exercise of employee stock awards	2,120	1,482
Purchase of treasury shares	(687)	(613)
Dividends paid	(4,298)	(4,256)
Other	—	(51)
Windfall tax benefit	522	248
Cash provided by financing activities	22,041	45,182
Net decrease in cash and cash equivalents	(2,398)	(1,344)
Effect of exchange rate changes on cash and cash equivalents	1	(140)
Cash and cash equivalents at beginning of period	10,384	16,593

Cash and cash equivalents at end of period	$7,987	$15,109

See accompanying notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the three months ended March 28, 2014 and March 29, 2013
(Unaudited)

1. BASIS OF PRESENTATION

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

The Company has a calendar year-end; however, its first three fiscal quarters follow a 13-week convention, with each quarter ending on a Friday. The first quarter for 2014 and 2013 ended on March 28, 2014 and March 29, 2013, respectively.

2. RECENT ACCOUNTING STANDARDS

In March 2013, the FASB issued ASU No. 2013-05, Foreign Currency Matters ("ASC Topic 830") - Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity. The objective is to resolve the diversity in practice with regard to whether ASC Subtopic 810-10, Consolidation - Overall or ASC Subtopic 830-30 Foreign Currency Matters - Translation of Financial Statements, applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity. The update was effective for financial statement periods beginning after December 15, 2013. The Company has adopted this standard beginning January 1, 2014. There was no impact on the Company's condensed consolidated financial statements for the period ended March 28, 2014.

In July 2013, the FASB issued ASU No. 2013-11, Income Taxes ("ASC Topic 740") - Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The objective is to end some inconsistent practices with regard to the presentation on the balance sheet of unrecognized tax benefits.The update was effective for financial statement periods beginning after December 15, 2013. The Company adopted this standard beginning January 1, 2014. There was no material impact on the Company's condensed consolidated financial statements for the period ended March 28, 2014.

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three months ended March 28, 2014 and March 29, 2013
(Unaudited)

3. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net consists of the following:

In thousands	March 28, 2014	December 31, 2013
Trade receivables	$139,096	$125,092
U.S. Government contracts:		
Billed	28,868	14,364
Costs and accrued profit – not billed	7,011	6,340
Commercial and other government contracts:		
Billed	50,348	63,051
Costs and accrued profit – not billed	5,903	853
Less allowance for doubtful accounts	(3,763)	(3,827)
Accounts receivable, net	$227,463	$205,873

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

In thousands	March 28, 2014	December 31, 2013
Contract changes, negotiated settlements and claims for unanticipated contract costs	$189	$1,021
Total	$189	$1,021

4. 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.

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

	March 28, 2014		December 31, 2013	
In thousands	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt:				
Level 1	$107,566	$149,035	$107,093	$147,822

Level 2	184,066	173,212	167,562	155,473
Total	$291,632	$322,247	$274,655	$303,295

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three months ended March 28, 2014 and March 29, 2013
(Unaudited)

4. FAIR VALUE MEASUREMENTS (CONTINUED)

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

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

Recurring Fair Value Measurements

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

	Total Carrying Value at March 28, 2014	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
In thousands				
Derivative instruments	$127	$—	$127	$—
Total assets	$127	$—	$127	$—
Derivative instruments	$302	$—	$302	$—
Total liabilities	$302	$—	$302	$—

	Total Carrying Value at December 31, 2013	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
In thousands				
Derivative instruments	$127	$—	$127	$—
Total assets	$127	$—	$127	$—
Derivative instruments	$276	$—	$276	$—
Total liabilities	$276	$—	$276	$—

The Company’s derivative instruments are foreign exchange contracts and interest rate swaps that are measured at fair value using observable market inputs such as forward rates and our counterparties’ credit risks. Based on these inputs, the derivative instruments are classified within Level 2 of the valuation hierarchy and have been included in other current assets, other assets, other accruals and payables and other long-term liabilities on the Condensed Consolidated Balance Sheets at March 28, 2014, and December 31, 2013. Based on the continued ability to trade and enter into forward contracts, we consider the markets for our fair value instruments to be active.

The Company evaluated the credit risk associated with the counterparties to these derivative instruments and determined that as of March 28, 2014, such credit risks have not had an adverse impact on the fair value of these instruments.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three months ended March 28, 2014 and March 29, 2013
(Unaudited)

5. DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives Overview

The Company is exposed to certain risks relating to its ongoing business operations, including market risks relating to fluctuations in foreign currency exchange rates 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 were designated as cash flow hedges. The Company will include in earnings amounts currently included in accumulated other comprehensive income upon recognition of cost of sales related to the underlying transaction. During the three months ended March 28, 2014, there was $0.1 million of expense reclassified from other comprehensive income. No amounts were reclassified to expense from other comprehensive income during the three months ended March 29, 2013. Over the next twelve months, the expense related to cash flow hedges expected to be reclassified from other comprehensive income is $0.6 million.

Derivatives Designated as Cash Flow Hedges

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.

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

In thousands	Balance Sheet Location	Fair Value March 28, 2014	December 31, 2013	Notional Amount
Derivative Liabilities				
Interest rate swap contracts	Other liabilities / Other long-term liabilities	$302	$276	$70,000- $90,000
Total		$302	$276	

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

	For the Three Months Ended March 28, 2014	March 29, 2013
In thousands		

Derivative Liabilities		
Interest rate swap contracts	$(85)	$(179)
Total	$(85)	$(179)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three months ended March 28, 2014 and March 29, 2013
(Unaudited)

5. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Derivatives Not Designated as Hedging Instruments

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

	Balance Sheet Location	Fair Value March 28 2014	December 31, 2013	Notional Amount
In thousands				
Derivative Assets				
Foreign exchange contracts	Other current assets	$127	$127	$1,818/ $2,349
Total		$127	$127	

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

	Income Statement Location	For the Three Months Ended March 28, 2014	March 29, 2013
In thousands			
Derivative Assets			
Foreign exchange contracts	Other (income) expense, net	$—	$20
Foreign exchange contracts	Other (income) expense, net	5	—
Total		$5	$20
Derivative Liabilities			
Foreign exchange contracts	Other (income) expense, net	$—	$185
Total		$—	$185

6. INVENTORIES

Inventories consist of the following:

	March 28, 2014	December 31, 2013
In thousands		
Merchandise for resale	$151,006	$152,194
Raw materials	19,603	20,609
Contracts and other work in process	196,652	205,220
Finished goods (including certain general stock materials)	11,206	12,472
Total	$378,467	$390,495

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three months ended March 28, 2014 and March 29, 2013
(Unaudited)

6. INVENTORIES (CONTINUED)

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

	March 28, 2014	December 31, 2013
In thousands		
Contract changes, negotiated settlements and claims for unanticipated contract costs	$7,337	$11,581
Total	$7,337	$11,581

The reduction in this balance is due to the settlement of a claim related to a commercial composite structures program.

K-MAX® inventory of $17.4 million and $17.0 million as of March 28, 2014, and December 31, 2013, respectively, is included in contracts and other work in process inventory and finished goods. Management believes that a significant portion of this K-MAX® inventory will be sold after March 28, 2015, based upon the anticipation of supporting the fleet for the foreseeable future.

At March 28, 2014, and December 31, 2013, $38.6 million and $43.8 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 $13.4 million of the SH-2G(I) inventory will be sold after March 28, 2015, based upon the time needed to prepare the aircraft for sale and the requirements of our customer. For more information on the SH-2G(I) inventory, see Note 9, Commitments and Contingencies.

Long-term Contracts

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

Revenue and cost estimates for all significant long-term contracts for which revenue is recognized using the percentage-of-completion method of accounting are reviewed and reassessed quarterly. Based upon these reviews, the Company records the effects of adjustments in profit estimates each period. If at any time the Company determines that in the case of a particular contract total costs will exceed total contract revenue, the Company will record a provision for the entire anticipated contract loss at that time. Changes in contract estimates contributed $0.8 million to the Company's operating income for the three-month period ended March 28, 2014. The increase for the three-month period was primarily a result of improved performance on the JPF program and material and labor hour improvements on one of our commercial aerostructures programs. Changes in contract estimates did not have a material impact on the Company's operating income for the three-month period ended March 29, 2013.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three months ended March 28, 2014 and March 29, 2013
(Unaudited)

7. 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, 2013	$105,637	$114,538	$220,175
Accumulated impairment	—	(16,252)	(16,252)
Net balance at December 31, 2013	105,637	98,286	203,923
Additions	—	259	259
Impairments	—	—	—
Foreign currency translation	—	(113)	(113)
Ending balance at March 28, 2014	$105,637	$98,432	$204,069

The addition to goodwill for the Company's Aerospace segment relates to an earnout payment associated with a previous acquisition.

Other intangible assets consisted of:

		At March 28, 2014		At December 31, 2013	
In thousands	Amortization Period	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Customer lists / relationships	6-21 years	$109,709	$(25,719)	$109,790	$(23,647)
Trademarks / trade names	3-7 years	2,695	(1,704)	2,695	(1,594)
Non-compete agreements and other	1-9 years	6,131	(4,262)	6,133	(4,055)
Patents	17 years	523	(399)	523	(396)
Total		$119,058	$(32,084)	$119,141	$(29,692)

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

8. 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	
In thousands	March 28, 2014	March 29, 2013	March 28, 2014	March 29, 2013
Service cost for benefits earned during the year	$2,940	$3,587	$64	$85
Interest cost on projected benefit obligation	7,209	6,399	85	72

Expected return on plan assets	(10,262)	(10,337)	—	—
Amortization of prior service cost	25	25	—	—
Amortization of net loss	1,019	2,277	22	77
Net pension benefit cost	$931	$1,951	$171	$234

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three months ended March 28, 2014 and March 29, 2013
(Unaudited)

8. PENSION PLANS (CONTINUED)

The following tables show the amount of the contributions made to the Qualified Pension Plan and SERP during each period and the amount of contributions the Company expects to make during 2014:

Year-to-date contributions:

	Qualified Pension Plan		SERP	
	As of March 28, 2014	As of December 31, 2013	As of March 28, 2014	As of December 31, 2013
In thousands				
Year-to-date contributions	$10,000	$10,000	$419	$2,291

Expected additional contributions in 2014:

	Qualified Pension Plan	SERP
In thousands		
Expected additional contributions	$—	$400

9. COMMITMENTS AND CONTINGENCIES

Legal Matters

Wichita Matter

As previously disclosed, the U.S. District Court for the District of Kansas issued a grand jury subpoena in 2011 to Plastic Fabricating Company, Inc. (“PlasticFab”), an indirect wholly owned subsidiary of the Company now known as Kaman Composites - Wichita, Inc., regarding a government investigation of record keeping associated with the manufacture of certain composite parts at PlasticFab's facility located in Wichita, Kansas. The subpoena required information related to the period January 1, 2006, through June 30, 2008. In March 2013, the U.S. Attorney's Office for the District of Kansas notified PlasticFab that it may seek to commence a criminal proceeding against PlasticFab but it expressed a willingness to explore a pre-charge disposition of the matter. PlasticFab believes it has cooperated fully with the investigation and intends to continue to do so as it engages in further discussions with the U.S. Attorney's Office about this matter. Under present U.S. Government procurement laws and regulations, if indicted or adjudged to be in violation of procurement or other Federal laws, a contractor, such as PlasticFab, could be subject to fines, penalties, repayments, or compensatory or treble damages, or suspension or debarment on U.S. Government contract awards if warranted. Thus, as with any government contractor, an adverse outcome in a proceeding such as this could have a material adverse effect on our business, financial condition, results of operations or cash flows. Management continues to cooperate with the government's investigation; however, we are unable to predict the outcome of any proceeding that may be brought or to estimate the amounts of resulting claims or other actions that could be instituted against PlasticFab, its officers, employees, or affiliates. Sales for PlasticFab represented 1.0% of the Company's consolidated sales for the year ended December 31, 2013. At March 28, 2014, the amount accrued for this matter was not material.

Other Matters

Revenue Sharing Agreement with the Commonwealth of Australia

During the second quarter of 2013, the Company signed a $120.6 million contract to resell ten of the 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. Pursuant to the terms of its revenue sharing agreement with the Commonwealth of Australia, the Company will share proceeds from the resale with the Commonwealth on a predetermined basis. Through March 28, 2014, the Company has paid $39.5 million (AUD) to the Commonwealth of Australia, the required minimum amount of payments pursuant to the revenue sharing agreement. The Company has $1.9 million accrued for additional revenue sharing payments, calculated pursuant to the terms of the revenue sharing agreement. Any additional amounts will be recorded when they are due to the Commonwealth of Australia.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three months ended March 28, 2014 and March 29, 2013
(Unaudited)

9. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Other Matters - continued

Moosup

This facility is currently being held for disposal. Site characterization of the environmental condition of the property, which began in 2008, is continuing. The total anticipated cost of the environmental remediation activities associated with the Moosup property is $4.5 million, all of which has been accrued. The total amount paid to date in connection with environmental remediation activities at this location is $2.5 million. A portion ($0.2 million) of the accrual related to this property is included in other accruals and payables and the balance is included in other long-term liabilities. The remaining balance of the accrual reflects the total anticipated cost of completing these environmental remediation activities. Although it is reasonably possible that additional costs will be paid in connection with the resolution of this matter, the Company is unable to estimate the amount of such additional costs, if any, at this time.