KAMAN Corp
Form 10-Q
May 03, 2016

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 April 1, 2016

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 29, 2016, there were 27,063,112 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)

| | April 1, 2016 | December 31, 2015 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $18,033 | $16,462 |
| Accounts receivable, net | 252,217 | 238,102 |
| Inventories | 391,773 | 385,747 |
| Income tax refunds receivable | 561 | 3,591 |
| Other current assets | 32,507 | 32,133 |
| Total current assets | 695,091 | 676,035 |
| Property, plant and equipment, net of accumulated depreciation of $209,023 and $202,648, respectively | 177,878 | 175,586 |
| Goodwill | 358,509 | 352,710 |
| Other intangible assets, net | 142,211 | 144,763 |
| Deferred income taxes | 66,743 | 66,815 |
| Other assets | 23,520 | 23,702 |
| Total assets | $1,463,952 | $1,439,611 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Current portion of long-term debt | $5,000 | $5,000 |
| Accounts payable – trade | 127,157 | 121,044 |
| Accrued salaries and wages | 36,080 | 40,284 |
| Advances on contracts | 14,825 | 11,274 |
| Other accruals and payables | 67,855 | 58,761 |
| Income taxes payable | 537 | 326 |
| Total current liabilities | 251,454 | 236,689 |
| Long-term debt, excluding current portion | 442,730 | 434,227 |
| Deferred income taxes | 15,003 | 15,207 |
| Underfunded pension | 146,061 | 158,984 |
| Other long-term liabilities | 52,658 | 51,427 |
| Commitments and contingencies (Note 10) | | |
| Shareholders' equity: | | |
| Preferred stock, $1 par value, 200,000 shares authorized; none outstanding | — | — |
| Common stock, $1 par value, 50,000,000 shares authorized; voting; 27,861,979 and 27,735,757 shares issued, respectively | 27,862 | 27,736 |
| Additional paid-in capital | 160,510 | 156,803 |
| Retained earnings | 525,769 | 520,865 |
| Accumulated other comprehensive income (loss) | (131,477) | (140,138) |
| Less 807,394 and 698,183 shares of common stock, respectively, held in treasury, at cost | (26,618) | (22,189) |
| Total shareholders' equity | 556,046 | 543,077 |
| Total liabilities and shareholders' equity | $1,463,952 | $1,439,611 |

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 | |
|---|---|---|
| | April 1, 2016 | April 3, 2015 |
| Net sales | $451,198 | $442,782 |
| Cost of sales | 316,768 | 314,871 |
| Gross profit | 134,430 | 127,911 |
| Selling, general and administrative expenses | 116,108 | 105,554 |
| Net (gain)/loss on sale of assets | (28) | 27 |
| Operating income | 18,350 | 22,330 |
| Interest expense, net | 3,807 | 3,327 |
| Other expense (income), net | 86 | (64) |
| Earnings before income taxes | 14,457 | 19,067 |
| Income tax expense | 4,680 | 6,318 |
| Net earnings | $9,777 | $12,749 |
| | | |
| Earnings per share: | | |
| Basic earnings per share | $0.36 | $0.47 |
| Diluted earnings per share | $0.35 | $0.46 |
| Average shares outstanding: | | |
| Basic | 27,059 | 27,188 |
| Diluted | 27,806 | 27,878 |
| Dividends declared per share | $0.18 | $0.18 |

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 | |
|---|---|---|
| | April 1, 2016 | April 3, 2015 |
| Net earnings | $9,777 | $12,749 |
| Other comprehensive income (loss), net of tax: | | |
| Foreign currency translation adjustments | 7,213 | (5,460) |
| Unrealized (loss) gain on derivative instruments, net of tax benefit (expense) of $337 and ($45), respectively | (557) | 75 |
| Change in pension and post-retirement benefit plan liabilities, net of tax expense of $1,213 and $961, respectively | 2,005 | 1,588 |
| Other comprehensive income (loss) | 8,661 | (3,797) |
| Comprehensive income | $18,438 | $8,952 |

See accompanying notes to condensed consolidated financial statements.

4

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

| | For the Three Months Ended April 1, 2016 | April 3, 2015 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net earnings | $9,777 | $12,749 |
| Adjustments to reconcile net earnings to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 10,920 | 9,370 |
| Accretion of convertible notes discount | 526 | 499 |
| Provision for doubtful accounts | 218 | 628 |
| Net (gain)/loss on sale of assets | (28) | 27 |
| Net loss on derivative instruments | 374 | 136 |
| Stock compensation expense | 1,494 | 1,605 |
| Excess tax benefit from share-based compensation arrangements | (170) | (168) |
| Deferred income taxes | (1,901) | (973) |
| Changes in assets and liabilities, excluding effects of acquisitions/divestitures: | | |
| Accounts receivable | (13,732) | 16,854 |
| Inventories | (5,715) | (7,109) |
| Income tax refunds receivable | 3,035 | — |
| Other current assets | (546) | (2,217) |
| Accounts payable - trade | 4,732 | 10,754 |
| Accrued contract losses | 216 | (111) |
| Advances on contracts | 3,551 | 284 |
| Other accruals and payables | 2,473 | (7,329) |
| Income taxes payable | (399) | 5,319 |
| Pension liabilities | (9,774) | (8,075) |
| Other long-term liabilities | 676 | 464 |
| Net cash provided by operating activities | 5,727 | 32,707 |
| Cash flows from investing activities: | | |
| Proceeds from sale of assets | 116 | 25 |
| Expenditures for property, plant & equipment | (7,624) | (7,195) |
| Acquisition of businesses (net of cash acquired) | (64) | (10,956) |
| Other, net | (501) | (575) |
| Cash used in investing activities | (8,073) | (18,701) |
| Cash flows from financing activities: | | |
| Net borrowings (repayments) under revolving credit agreements | 10,143 | (8,509) |
| Debt repayment | (1,250) | (2,500) |
| Net change in book overdraft | 1,567 | (913) |
| Proceeds from exercise of employee stock awards | 2,339 | 911 |
| Purchase of treasury shares | (4,427) | (671) |
| Dividends paid | (4,871) | (4,341) |
| Other | (92) | — |
| Windfall tax benefit | 170 | 168 |
| Cash provided by (used in) financing activities | 3,579 | (15,855) |
| Net increase (decrease) in cash and cash equivalents | 1,233 | (1,849) |
| Effect of exchange rate changes on cash and cash equivalents | 338 | (495) |
| Cash and cash equivalents at beginning of period | 16,462 | 12,411 |

| | | |
|---|---|---|
| Cash and cash equivalents at end of period | $18,033 | $10,067 |

See accompanying notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the three-month fiscal periods ended April 1, 2016 and April 3, 2015
(Unaudited)

1. BASIS OF PRESENTATION

The December 31, 2015, 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 consolidated 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, 2015. 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 quarters for 2016 and 2015 ended on April 1, 2016, and April 3, 2015, respectively.

2. RECENT ACCOUNTING STANDARDS

In March 2016, the FASB issued ASU 2016-09, “Compensation - Stock Compensation (Topic 718) - Improvements to Employee Share-Based Payment Accounting.” The objective of this standard is to simplify several aspects of the accounting for share based payment transactions, including, but not limited to, income tax consequences, classification of awards as equity or liabilities and classification on the statement of cash flows. The new standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Early adoption is permitted. The Company is currently assessing the potential impact of this standard on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-08, “Revenue from Contracts with Customers (Topic 606) - Principal versus Agent Considerations (Reporting Revenue Gross versus Net).” The objective of this standard update is to eliminate inconsistent practices with regards to the application of principal versus agent guidance. The amendments in this update affect the guidance for ASU 2014-09 and ASU 2015-14. The provisions of ASU 2016-08 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 standard on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-07, “Investments - Equity Method and Joint Ventures (Topic 323) - Simplifying the Transition to the Equity Method of Accounting.” This standard update eliminates the requirement to retroactively adopt the equity method of accounting when an investment qualifies for use of the equity method. The new standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Earlier adoption is permitted. The adoption of this standard is not expected to have a material impact on the Company’s consolidated financial statements.

In March 2016, the FASB issued ASU 2016-06, “Derivatives and Hedging (Topic 815) - Contingent Put and Call Options in Debt Instruments.” The objective of this standard update is to eliminate inconsistent practices with regards to assessing embedded contingent put and call options in debt instruments. The new standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Early adoption is permitted. The adoption of this standard is not expected to have a material impact on the Company’s consolidated financial statements.

In March 2016, the FASB issued ASU 2016-05, “Derivatives and Hedging (Topic 815) - Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships.” The objective of this standard update is to clarify whether a change in the counterparty to a derivative instrument results in a requirement to dedesignate that hedging relationship and discontinue the application of hedge accounting. The new standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Early adoption is permitted. The adoption of this standard is not expected to have a material impact on the Company’s consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842).” The objective of this standard update is to provide a complete and understandable representation of an entity’s leasing activities. This standard requires that lease assets and lease liabilities be recognized on the balance sheet and all key information about leasing arrangements be disclosed. The new standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. Early adoption is permitted. The Company is currently assessing the potential impact of this standard on its consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three-month fiscal periods ended April 1, 2016 and April 3, 2015
(Unaudited)

2. RECENT ACCOUNTING STANDARDS (CONTINUED)

In January 2016, the FASB issued ASU No. 2016-01, “Financial Instruments - Overall (Subtopic 825-10) - Recognition and Measurement of Financial Assets and Financial Liabilities.” The objective of this standard update is to remove inconsistent practices with regards to the accounting for financial instruments between US GAAP and International Financial Reporting Standards (“IFRS”). The standard intends to improve the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The provisions of this ASU are effective for interim and annual periods beginning after December 15, 2017. The Company does not expect these changes to have a material impact on its consolidated financial statements.

In September 2015, the FASB issued ASU 2015-16, “Business Combinations: Simplifying the Accounting for Measurement-Period Adjustments.” This ASU requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The standard became effective the first quarter of fiscal year 2016. The adoption of this standard did not have a material impact on the Company’s consolidated financial statements for the quarter ended April 1, 2016.

In August 2015, the FASB issued ASU 2015-15, “Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements,” which amends ASC 835-30, “Interest - Imputation of Interest”. The ASU clarifies the presentation and subsequent measurement of debt issuance costs associated with lines of credit. These costs may be presented as an asset and amortized ratably over the term of the line of credit arrangement, regardless of whether there are outstanding borrowings on the arrangement. The standard became effective the first quarter of fiscal year 2016. The adoption of this standard did not have a material impact on the Company’s consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, "Inventory (Topic 330) - Simplifying the Measurement of Inventory." ASU 2015-11 requires an entity to measure inventory within the scope of the standard at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The new standard is effective for fiscal years beginning after December 15, 2016, including interim periods within those years. Early adoption is permitted. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

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 this amendment 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 did not have a material impact on the Company's consolidated 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 did not have a material impact on the Company's consolidated financial statements for the quarter ended April 1, 2016, and is not expected to have a material impact on the Company's consolidated financial statements in the future.

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 did not have a material impact on the Company's consolidated financial statements for the quarter ended April 1, 2016, and is not expected to have a material impact on the Company's financial statements in the future.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three-month fiscal periods ended April 1, 2016 and April 3, 2015
(Unaudited)

## 2. RECENT ACCOUNTING STANDARDS (CONTINUED)

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 regarding 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 consolidated 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 did not have a material impact on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (ASC Topic 606)." The objective of this standard update is to remove inconsistent practices with regards to revenue recognition between US GAAP and IFRS. The standard intends to improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. On August 12, 2015, the FASB issued ASU No. 2015-14, deferring the effective date by one year for ASU No. 2014-09. The provisions of ASU No. 2014-09 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 standard on its consolidated financial statements.

## 3. RESTRUCTURING COSTS

During the fourth quarter of 2015, the Company initiated restructuring activities at its Distribution segment in order to align the cost structure of the organization to its current revenue levels. Such actions included workforce reductions and the consolidation of field operations where its Distribution segment had multiple facilities in the same location.

The restructuring resulted in net workforce reductions of 60 employees and the Company's exit from four facilities. As of December 31, 2015, we had communicated the workforce reductions to all affected employees. The Company accrued all workforce reduction costs and facility exit related costs during 2015.

The following table summarizes the accrual balances by cost type for the 2015 restructuring actions:

| | Severance | Other (a) | Total |
|---|---|---|---|
| In thousands | | | |
| Restructuring accrual balance at December 31, 2015 | $ 654 | $375 | $1,029 |
| Provision | (38) | 6 | (32) |
| Cash payments | (492) | (381) | (873) |
| Restructuring accrual balance at April 1, 2016 | $ 124 | $— | $124 |

(a) Includes costs associated with consolidation of facilities

The above accrual balance associated with severance is included in "Accrued salaries and wages" on the Company's Condensed Consolidated Balance Sheet.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three-month fiscal periods ended April 1, 2016 and April 3, 2015
(Unaudited)

## 4. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net consists of the following:

| In thousands | April 1, 2016 | December 31, 2015 |
|---|---|---|
| Trade receivables | $156,480 | $ 144,616 |
| U.S. Government contracts: | | |
| Billed | 16,655 | 20,289 |
| Costs and accrued profit – not billed | 2,341 | 4,248 |
| Commercial and other government contracts: | | |
| Billed | 72,111 | 68,066 |
| Costs and accrued profit – not billed | 7,496 | 3,872 |
| Less allowance for doubtful accounts | (2,866) | (2,989) |
| Accounts receivable, net | $252,217 | $ 238,102 |