KAMAN CORP
Form 10-Q
July 31, 2008

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

FORM 10-Q

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

For the quarterly period ended June 27, 2008

Or

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

Commission File Number: 0-1093

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 o

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 o Non-accelerated filer o Smaller reporting company o

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

At July 25, 2008, there were 25,391,992 shares of Common Stock outstanding

Part I – Financial Information
Item 1. Financial Statements:

Condensed Consolidated Balance Sheets
(In thousands) (Unaudited)

	June 27,2008		December 31, 2007	
Assets:				
Current assets:				
Cash and cash equivalents		$ 13,570		$ 73,898
Accounts receivable, net		211,577		158,435
Inventories		239,353		210,341
Deferred income taxes		24,460		28,724
Other current assets		24,703		20,231
Total current assets		513,663		491,629
Property, plant & equipment, at cost	$ 178,081		$ 163,645	
Less accumulated depreciation				
and amortization	110,581		110,000	
Net property, plant & equipment		67,500		53,645
Goodwill & other intangible assets, net		130,292		46,188
Deferred income taxes		3,507		3,594
Overfunded pension		31,276		30,486
Other assets		11,561		9,321
Total assets		$ 757,799		$ 634,863
Liabilities and Shareholders' Equity:				
Current liabilities:				
Notes payable		$ 1,896		$ 1,680
Accounts payable - trade		98,914		74,236
Accrued salaries and wages		22,046		25,328
Accrued pension costs		13,768		14,202
Accrued contract losses		10,780		9,513
Advances on contracts		10,429		9,508
Other accruals and payables		39,360		36,162
Income taxes payable		2,447		12,002
Total current liabilities		199,640		182,631
Long-term debt, excluding current portion		95,400		11,194
Deferred income taxes, long-term		10,825		199
Other long-term liabilities		42,428		46,313
Commitments and contingencies				
Shareholders' equity		409,506		394,526
Total liabilities and shareholders’ equity		$ 757,799		$ 634,863

See accompanying notes to condensed consolidated financial statements.

Condensed Consolidated Statements of Operations
(In thousands except per share amounts)
(Unaudited)

	For the Three Months Ended		For the Six Months Ended	
	June 27, 2008	June 29, 2007	June 27, 2008	June 29, 2007
Net sales	$ 316,285	$ 272,382	$ 602,066	$ 538,912
Cost of sales	230,013	197,798	439,203	389,167
Selling, general and administrative expense	63,774	58,781	126,472	117,976
Goodwill impairment	7,810	-	7,810	-
Net (gain)/loss on sale of assets	97	(58)	207	(15)
	301,694	256,521	573,692	507,128
Operating income from continuing operations	14,591	15,861	28,374	31,784
Interest expense (income), net	463	1,656	462	3,200
Other expense (income), net	321	258	462	217
Earnings from continuing operations before income taxes	13,807	13,947	27,450	28,367
Income tax expense	(7,717)	(4,940)	(12,492)	(10,287)
Net earnings from continuing operations	6,090	9,007	14,958	18,080
Earnings from discontinued operations before income taxes	-	1,655	-	3,279
Gain on disposal of discontinued operations	506	-	506	-
Income tax expense	(183)	(603)	(183)	(1,225)
Net earnings from discontinued operations	323	1,052	323	2,054
Net earnings	$ 6,413	$ 10,059	$ 15,281	$ 20,134
Net earnings per share:				
Basic net earnings per share from continuing operations	0.24	0.37	0.60	0.74
Basic net earnings per share from discontinued operations	-	0.04	-	0.09
Basic net earnings per share from disposal discontinued operations	0.01	-	0.01	-
Basic net earnings per share	$ 0.25	$ 0.41	$ 0.61	$ 0.83
Diluted net earnings per share from continuing operations	0.24	0.36	0.59	0.73

Diluted net earnings per share from discontinued operations		-		0.04		-		0.08
Diluted net earnings per share from disposal discontinued operations		0.01		-		0.01		-
Diluted net earnings per share	$	0.25	$	0.40	$	0.60	$	0.81
Average shares outstanding:								
Basic		25,232		24,285		25,166		24,213
Diluted		25,497		25,210		25,444		25,157
Dividends declared per share	$	0.140	$	0.125	$	0.280	$	0.250

See accompanying notes to condensed consolidated financial statements.

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Condensed Consolidated Statements of Cash Flows
(In thousands except share and per share amounts) (Unaudited)

	For the Six Months Ended	
	June 27, 2008	June 29, 2007
Cash flows from operating activities:		
Net earnings from continuing operations	$ 14,958	$ 18,080
Adjustments to reconcile net earnings from continuing operations to net cash		
provided by (used in) operating activities of continuing operations:		
Depreciation and amortization	5,435	4,842
Change in allowance for doubtful accounts	(213)	(36)
Net (gain) loss on sale of assets	207	(15)
Goodwill impairment	7,810	-
Stock compensation expense	1,111	2,157
Excess tax benefits from share-based compensation arrangements	(205)	(464)
Deferred income taxes	3,517	(4,998)
Changes in assets and liabilities, excluding effects of acquisition/divestitures:		
Accounts receivable	(36,991)	(28,851)
Inventories	(15,929)	(5,531)
Income taxes receivable	(3,603)	(2,056)
Other current assets	3,618	412
Accounts payable	4,547	6,636
Accrued contract losses	1,270	(65)
Advances on contracts	921	(251)
Accrued expenses and payables	(9,964)	(6,819)
Income taxes payable	(11,100)	(7,240)
Pension liabilities	(2,871)	2,432
Other long-term liabilities	(1,557)	3,579
Net cash provided by (used in) operating activities of continuing operations	(39,039)	(18,188)
Net cash provided by (used in) operating activities of discontinued operations	(183)	2,637
Net cash provided by (used in) operating activities	(39,222)	(15,551)
Cash flows from investing activities:		
Proceeds from sale of assets	65	193
Net proceeds from sale of discontinued operations	447	-
Expenditures for property, plant & equipment	(6,651)	(6,503)
Acquisition of businesses and earn out adjustments, net of cash acquired	(100,168)	(1,393)
Other, net	(2,782)	(2,551)
Cash provided by (used in) investing activities of continuing	(109,089)	(10,254)

operations		
Cash provided by (used in) investing activities of discontinued operations	-	(372)
Cash provided by (used in) investing activities	(109,089)	(10,626)
Cash flows from financing activities:		
Net borrowings (repayments) under revolving credit agreements	84,458	36,146
Debt repayment	-	(1,543)
Net change in book overdraft	7,293	(2,622)
Proceeds from exercise of employee stock plans	2,519	2,829
Dividends paid	(7,064)	(6,056)
Debt issuance costs	-	(150)
Windfall tax benefit	205	464
Other	304	96
Intercompany debt	-	(2,933)
Cash provided by (used in) financing activities of continuing operations	87,715	26,231
Cash provided by (used in) financing activities of discontinued operations	-	(282)
Cash provided by (used in) financing activities	87,715	25,949
Net increase (decrease) in cash and cash equivalents	(60,596)	(228)
Effect of exchange rate changes on cash and cash equivalents	268	410
Cash and cash equivalents at beginning of period	73,898	12,720
Cash and cash equivalents at end of period	$ 13,570	$ 12,902

See accompanying notes to condensed consolidated financial statements.

Notes to Condensed Consolidated Financial Statements
(In thousands except share and per share amounts) (Unaudited)

1. Basis of Presentation

The December 31, 2007 condensed consolidated balance sheet amounts have been derived from the previously audited consolidated balance sheet of Kaman Corporation and subsidiaries. In the opinion of management, the balance of the condensed financial information reflects all adjustments which are 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 prior period condensed consolidated financial statements have been reclassified to conform to current year presentation. The statements should be read in conjunction with the consolidated financial statements and notes included in the company's Form 10-K for the year ended December 31, 2007. The results of operations for the interim periods presented are not necessarily indicative of trends or of results to be expected for the entire year.

The company has a calendar year-end; however, its first three fiscal quarters follow a 13-week convention, with each quarter ending on a Friday. The second quarter for 2008 and 2007 ended on June 27, 2008 and June 29, 2007, respectively.

In July 2008, the Fuzing segment changed its name to the Precision Products segment.

Recently Issued Accounting Pronouncements
In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162, "The Hierarchy of Generally Accepted Accounting Principles" (SFAS 162). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements. SFAS 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles". The company is currently evaluating the potential impact of SFAS 162 but does not anticipate that the impact will be material.

In March 2008, the FASB issued Statement of Financial Accounting Standards No 161, "Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133" (SFAS 161). Under this standard, companies with derivative instruments are required to disclose information that enables financial statement users to understand how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for under Statement 133, and how derivative instruments and related hedged items affect a company's financial position, financial performance, and cash flows. The new standard must be applied prospectively for interim periods and fiscal years beginning after November 15, 2008. The company is currently evaluating the potential impact of SFAS 161 but does not anticipate that the impact will be material.

In December 2007, the FASB issued Statement of Financial Accounting Standards No 141(R), "Business Combinations" (SFAS 141(R)). The objective of this Statement is to improve the relevance and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. To accomplish that, SFAS 141(R) establishes principles and requirements for how the acquirer (a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; (b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and (c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The potential impact of SFAS 141(R) on our consolidated financial position, results of operations and cash flows will be dependent upon the terms, conditions and details of such acquisitions.

In December 2007, the FASB issued Statement of Financial Accounting Standards No 160, “Noncontrolling Interests in Consolidated Financial Statements — an amendment of ARB No. 51” (SFAS 160). The objective of SFAS 160 is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements. This Statement amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. This Statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. Since we currently do not have any minority interest investments, we do not expect SFAS 160 will have an impact on our consolidated financial position, results of operations or cash flows.

Cash Flow Items

Cash payments for interest were $863 and $3,141 for the six months ended June 27, 2008 and June 29, 2007, respectively. Cash payments for income taxes, net of refunds, for the comparable periods were $24,395 and $19,792, respectively. Non-cash financing activity for the first six months 2007 includes the conversion of 975 debentures with a total value of $975 into 41,731 shares of common stock. There were no such conversions during 2008 as the outstanding debentures were fully redeemed in December 2007.

Income Taxes

The effective income tax rate for continuing operations was 55.9% for the second quarter of 2008 as compared to 35.4% for the second quarter of 2007. The effective rate was abnormally high due to the $7,810 non-deductible impairment charge that was recorded during the second quarter of 2008. This matter is described more fully in Note 2.

2. Goodwill Impairment

During the second quarter of 2008, our Aerostructures Wichita, KS facility continued to experience production and quality issues, which resulted in the separate termination of two long-term contracts , which were significant to the facility, with Spirit AeroSystems and Shenyang Aircraft Corporation, which are both currently loss contracts. In accordance with Statement of Financial Accounting Standards No. 142, “Goodwill and Other Intangible Assets” (“SFAS 142”), we test goodwill for potential impairment annually as of December 31 and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Due to the loss of the two major contracts as well as the continuing production and quality issues, management performed a goodwill impairment analysis for this reporting unit as of June 27, 2008.

We evaluated goodwill for impairment using the two-step process prescribed in SFAS 142. The first step is to identify potential impairment by comparing the fair value of a reporting unit to its book value, including goodwill. If the fair value of a reporting unit exceeds its book value, goodwill is not considered impaired. If the book value exceeds the fair value, the second step of the process is performed to measure the amount of impairment. The process of evaluating goodwill for impairment involves the determination of the fair value of the company’s reporting units and is based on several valuation methods including the market approach and income approach. Inherent in such fair value determinations are certain judgments and estimates relating to future cash flows, including our interpretation of current economic indicators and market valuations, and assumptions about our strategic plans with regard to the operations of our reporting units.

Although we believe that we will work through the production issues at our Aerostructures Wichita facility, our carrying value has increased significantly since the last quarterly report. This, combined with our loss of two long-term contracts and the quality and production issues at the facility, has created a situation in which the estimated fair value of this reporting unit (the legal entity Plastic Fabricating Company, Inc.) is less than its carrying value. The total non-cash goodwill impairment charge was $7,810, which represents the entire goodwill balance for this reporting unit. This charge is not deductible for tax purposes and represents a discrete item in our second quarter 2008 effective tax rate.

3. Acquisitions

On March 31, 2008, our Industrial Distribution segment acquired the stock of Industrial Supply Corp (ISC), a distributor of power transmission, fluid power, material handling and industrial MRO supply products to such diverse markets as ship building, printing, machinery, transportation, electronics, pharmaceutical, rubber, chemicals and food processing. In addition to its Richmond facility, ISC has five other branches located in Norfolk, Roanoke and Waynesboro, Virginia, and in Wilson and High Point, North Carolina. The purchase price for this entity was $18,243.

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On June 12, 2008, we acquired the stock of Brookhouse Holdings, Limited, a leader in the design and manufacture of composite aerostructures, aerospace tooling, and repair and overhaul services based in Darwen, Lancashire, England. The purchase price was 43,000 pounds sterling ($85,086 based on an exchange rate of 1.98) in cash. The acquisition further diversifies our platform positions in both the military and commercial markets, and significantly enhances our position in the higher-growth markets for composite structures. Brookhouse will become part of our Aerostructures segment.

The preliminary allocation of purchase price for each of these acquisitions is summarized below:

	ISC	Brookhouse
Tangible assets	$ 12,637	$ 38,025
Intangible assets	3,500	36,962
Goodwill	9,011	41,939
Liabilities assumed	(6,564)	(30,178)
Total purchase price	18,584	86,748
Acquisition costs	(341)	(1,662)
Total consideration paid	$ 18,243	$ 85,086

Both acquisitions were accounted for as purchase transactions. Accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based on estimates of fair value. The excess of the purchase price over the fair value of the net assets acquired has been allocated to goodwill. The purchase accounting for these acquisitions is preliminary, primarily with respect to the identification and valuation of intangibles. The operating results for Brookhouse and ISC have been included in our consolidated financial statements from the date of acquisition.

4. Accounts Receivable, net

Accounts receivable consist of the following:

	June 27, 2008	December 31, 2007
Trade receivables	$ 90,250	$ 74,057
U.S. Government contracts:		
Billed	40,656	20,852
Costs and accrued profit – not billed	6,654	6,190
Commercial and other government contracts:		
Billed	34,804	17,740
Costs and accrued profit – not billed	41,089	41,407
Less allowance for doubtful accounts	(1,876)	(1,811)
Total	$ 211,577	$ 158,435

On March 19, 2008, the company and the Commonwealth of Australia reached an agreement relative to the conclusion of the SH-2G(A) Super Seasprite Program. The unbilled receivables associated with the SH-2G(A) program were $40,750 and $40,789 as of June 27, 2008 and December 31, 2007, respectively, and the balance of amounts received as advances on this contract were $8,107 and $7,511 as of June 27, 2008, and December 31, 2007, respectively. These balances, totaling a net $32,643, as of June 27, 2008, will be eliminated in connection with the transfer of the Australian program inventory and equipment to the company, which transfer is subject to approval by the U.S. Government. Additional detail relative to this agreement is provided in Note 14, Commitments and Contingencies.

5. Inventories

Inventories consist of the following:

	June 27, 2008	December 31, 2007
Merchandise for resale	$ 99,017	$ 93,949
Contracts and other work in process	121,921	103,004
Finished goods (including certain general stock materials)	18,415	13,388
Total	$ 239,353	$ 210,341

We continue to support K-MAX helicopters that are operating with customers. As of June 27, 2008, we maintained $24,288 of K-MAX inventory, which now includes a repurchased K-MAX aircraft as well as spare parts. Total K-MAX inventory as of December 31, 2007 was $19,568.

6. Shareholders' Equity

Changes in shareholders' equity for the six months ended June 27, 2008 were as follows:

Balance, January 1, 2008	$ 394,526
Net earnings	15,281
Change in pension & post-retirement benefit plans, net	831
Foreign currency translation adjustment	1,496
Comprehensive income	17,608
Dividends declared	(7,094)
Employee stock plans and related tax benefit	4,466
Balance, June 27, 2008	$ 409,506

Comprehensive income was $17,608 and $22,670 for the six months ended June 27, 2008 and June 29, 2007, respectively. The changes to net earnings used to determine comprehensive income are comprised of foreign currency translation adjustments and net changes in pension & post-retirement benefit plans.

Shareholders' equity consists of the following:

	June 27, 2008	December 31, 2007
Common stock	$ 25,422	$ 25,182
Additional paid-in capital	83,033	78,783
Retained earnings	270,604	262,417
Treasury stock	(435)	(411)

Other shareholders' equity		30,882		28,555
Total	$	409,506	$	394,526

7. Earnings Per Share

The following table presents a reconciliation of the numerators and denominators of basic and diluted earnings per share:

(In thousands except per share amounts)	For the Three Months Ended				For the Six Months Ended			
	June 27, 2008		June 29, 2007		June 27, 2008		June 29, 2007	
Basic:								
Net earnings from continuing operations	$	6,090	$	9,007	$	14,958	$	18,080
Net earnings from discontinued operations, net of tax		323		1,052		323		2,054
Net earnings	$	6,413	$	10,059	$	15,281	$	20,134
Weighted average number of shares outstanding		25,232		24,285		25,166		24,213
Net earnings per share from continuing operations	$	0.24	$	0.37	$	0.60	$	0.74
Net earnings per share from discontinued operations		-		0.04		-		0.09
Net earnings per share from disposal of discontinued operations		0.01		-		0.01		-
Net earnings per share	$	0.25	$	0.41	$	0.61	$	0.83
Diluted:								
Net earnings from continuing operations	$	6,090	$	9,007	$	14,958	$	18,080
Elimination of interest expense on 6% subordinated convertible debentures (net after taxes)		-		139		-		291
Net earnings from continuing operations (as adjusted)		6,090		9,146		14,958		18,371
Net earnings from discontinued operations, net of tax		323		1,052		323		2,054
Net earnings (as adjusted)	$	6,413	$	10,198	$	15,281	$	20,425
Weighted average number of shares outstanding		25,232		24,285		25,166		24,213
Weighted averages shares issuable on conversion of 6% subordinated convertible debentures		-		627		-		657
Weighted average shares issuable on exercise of dilutive stock options		265		298		278		287

Total		25,497		25,210		25,444		25,157
Net earnings per share from continuing operations - diluted	$	0.24	$	0.36	$	0.59	$	0.73
Net earnings per share from discontinued operations - diluted		-		0.04		-		0.08
Net earnings per share from disposal of discontinued operations - diluted		0.01		-		0.01		-
Net earnings per share -diluted	$	0.25	$	0.40	$	0.60	$	0.81

Excluded from the net earnings per share – diluted calculation for the six months ended June 27, 2008 are 9,000 anti-dilutive shares granted to employees, based on average stock price. There were no anti-dilutive shares for the six months ended June 29, 2007.

8. Exit Activity

The following table displays the activity and balances of various exit activities as of and for the six months ended June 27, 2008:

Balance at January 1, 2008	$	4,705
Additions to accrual		-
Cash payments		(123)
Release to income		-
Balance at June 27, 2008	$	4,582

Our exit activity accrual consists of estimated ongoing environmental remediation costs for our Moosup, CT facility and environmental remediation costs that we expect to incur at the former Music segment's New Hartford, Connecticut facility, which arose in connection with the 2007 sale of our Music segment.

These exit activity accruals are included in other current liabilities and other long-term liabilities on the condensed consolidated balance sheets for the periods presented. Ongoing maintenance costs of $228, and $205 for the six months ended June 27, 2008 and June 29, 2007, respectively, related to the idle Moosup facility are included in selling, general and administrative expenses.

9. Product Warranty Costs

The following table presents the activity and balances of accrued product warranty costs included in other accruals and payables on the condensed consolidated balance sheets as of June 27, 2008:

Balance at January 1, 2008	$	1,087
Product warranty accrual		52
Warranty costs incurred		(79)
Release to income		(4)
Balance at June 27, 2008	$	1,056

The company has been working to resolve two warranty-related matters at the Precision Products (formally Dayron) Orlando facility. The first issue involves a supplier's recall of a switch embedded in certain bomb fuzes. The second warranty issue involves bomb fuzes manufactured for the U. S. Army utilizing systems which originated before this entity was acquired by the company that have since been found to contain an incorrect part. The net reserve as of June 27, 2008 related to these two matters is $1,032. This matter is more fully discussed in Note 14, Commitments and Contingencies.

The remaining accrual as of June 27, 2008 relates to routine warranty rework at our various segments.

10. Accrued Contract Losses

The following is a summary of activity and balances associated with accrued contract losses as of and for the quarter ended June 27, 2008:

Balance at January 1, 2008	$	9,513
Additions to loss accrual		4,462
Costs incurred		(2,851)
Release to income		(344)
Balance at June 27, 2008	$	10,780

Additions to our contract loss accrual relate primarily to cost growth in connection with certain programs in the Aerostructures and Precision Products segments, the majority of which was recorded during the first quarter of 2008. The remaining balance of the contract loss accrual relates primarily to the SH-2G(A) program for Australia. We are in the process of assessing what portion of those expenses will still be incurred if the program is concluded as contemplated by the settlement agreement with the Commonwealth of Australia. When title to the inventory is transferred to the company, effectively concluding the program, we will adjust the accrued contract loss as necessary.

11. Pension Cost

Components of net pension cost for the qualified pension plan and Supplemental Employees' Retirement Plan (SERP) are as follows:

	Qualified Pension Plan			
	For the Three Months Ended		For the Six Months Ended	
	June 27, 2008	June 29, 2007	June 27, 2008	June 29, 2007
Service cost for benefits earned	$ 3,069	$ 3,330	$ 6,138	$ 6,659
Interest cost on projected benefit obligation	7,338	6,930	14,676	13,861
Expected return on plan assets	(8,681)	(8,074)	(17,362)	(16,148)
Net amortization and deferral	16	226	31	451
Net pension cost	$ 1,742	$ 2,412	$ 3,483	$ 4,823

	SERP			
	For the Three Months Ended		For the Six Months Ended	
	June 27, 2008	June 29, 2007	June 27, 2008	June 29, 2007
Service cost for benefits earned	$ 185	$ 116	$ 369	$ 232
Interest cost on projected benefit obligation	405	505	789	1,010
Expected return on plan assets	-	-	-	-
Effect of settlement/curtailment	-	-	1,006	-
Net amortization and deferral	298	882	706	1,765
Net pension cost	$ 888	$ 1,503	$ 2,870	$ 3,007

For the 2008 plan year, the company expects to contribute $6,966 to the qualified pension plan. We expect to make payments of $13,971 for the SERP during 2008, $4,982 of which was made in the first half, most of which was a lump sum payment to the former CEO. The remaining payment to the former CEO will be made in August 2008. The total of the payout represented a portion of the SERP's projected benefit obligation sufficient to constitute a plan settlement per SFAS 88, "Employer's Accounting for Settlements and Curtailments of Defined Benefit Pension Plans." Because the retirement occurred after the company's pension measurement date of December 31, and in accordance with SFAS 88 settlement accounting, liabilities related to the supplemental plan were remeasured as of February 28, 2008 with the related deferred actuarial losses being recognized in the first half of 2008.

12. Business Segments

Summarized financial information by business segment is as follows:

	For the Three Months Ended		For the Six Months Ended	
	June 27, 2008	June 29, 2007	June 27, 2008	June 29, 2007
Net sales:				
Aerostructures	$ 30,944	$ 23,322	$ 59,737	$ 48,501
Precision Products	27,236	23,962	51,366	42,462
Helicopters	18,105	19,025	32,719	36,483
Specialty Bearings	36,667	31,471	72,746	63,450
Subtotal Aerospace Segments	112,952	97,780	216,568	190,896
Industrial Distribution	203,333	174,602	385,498	348,016
Net sales from continuing operations	$ 316,285	$ 272,382	$ 602,066	$ 538,912