

KAMAN CORP
Form 10-Q
April 29, 2013

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

FORM 10-Q

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

For the quarterly period ended March 29, 2013

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: 0-1093

KAMAN CORPORATION

(Exact name of registrant as specified in its charter)

Connecticut
(State or other jurisdiction of incorporation or organization)

06-0613548
(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 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 No

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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 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

At April 19, 2013, there were 27,033,306 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 29, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	\$15,109	\$16,593
Accounts receivable, net	207,889	180,798
Inventories	381,514	367,385
Deferred income taxes	27,618	25,835
Other current assets	27,582	27,434
Total current assets	659,712	618,045
Property, plant and equipment, net of accumulated depreciation of \$153,593 and \$149,696, respectively	132,852	128,669
Goodwill	189,785	192,046
Other intangible assets, net	89,562	92,913
Deferred income taxes	42,092	42,905
Other assets	22,063	22,415
Total assets	\$1,136,066	\$1,096,993
Liabilities and Shareholders' Equity		
Current liabilities:		
Notes payable	\$—	\$21
Current portion of long-term debt	10,000	10,000
Accounts payable – trade	111,981	113,143
Accrued salaries and wages	32,349	35,869
Current portion of amount due to Commonwealth of Australia	6,670	6,659
Other accruals and payables	58,334	55,368
Income taxes payable	2,116	2,892
Total current liabilities	221,450	223,952
Long-term debt, excluding current portion	294,247	249,585
Deferred income taxes	4,725	5,150
Underfunded pension	143,402	148,703
Other long-term liabilities	50,258	49,410
Commitments and contingencies (Note 11)		
Shareholders' equity:		
Preferred stock, \$1 par value, 200,000 shares authorized; none outstanding	—	—
Common stock, \$1 par value, 50,000,000 shares authorized; voting; 26,996,293 and 26,881,257 shares issued, respectively	26,996	26,881
Additional paid-in capital	125,082	122,522
Retained earnings	402,358	399,473
Accumulated other comprehensive income (loss)	(124,740	) (121,590
Less 301,067 and 277,473 shares of common stock, respectively, held in treasury, at cost	(7,712	) (7,093
Total shareholders' equity	421,984	420,193
Total liabilities and shareholders' equity	\$1,136,066	\$1,096,993
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	
	March 29, 2013	March 30, 2012
Net sales	\$388,075	\$383,719
Cost of sales	277,809	279,119
Gross profit	110,266	104,600
Selling, general and administrative expenses	96,420	87,910
Net loss/(gain) on sale of assets	79	(24)
Operating income	13,767	16,714
Interest expense, net	3,068	2,873
Other expense (income), net	331	(303)
Earnings from continuing operations before income taxes	10,368	14,144
Income tax expense	3,214	5,052
Earnings from continuing operations	7,154	9,092
Earnings from discontinued operations, net of taxes	—	311
Net earnings	\$7,154	\$9,403
Earnings per share:		
Basic earnings per share from continuing operations	\$0.27	\$0.35
Basic earnings per share from discontinued operations	—	0.01
Basic earnings per share	\$0.27	\$0.36
Diluted earnings per share from continuing operations	\$0.26	\$0.35
Diluted earnings per share from discontinued operations	—	0.01
Diluted earnings per share	\$0.26	\$0.36
Average shares outstanding:		
Basic	26,658	26,294
Diluted	27,054	26,463
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 29, 2013	March 30, 2012
Net earnings	\$7,154	\$9,403
Other comprehensive income, net of tax:		
Foreign currency translation adjustments	(4,514	) 3,697
Change in unrealized loss on derivative instruments, net of tax benefit of \$68 and \$0, respectively	(111) —
Pension plan adjustments, net of tax expense of \$904 and \$834, respectively	1,475	1,361
Other comprehensive income	(3,150	) 5,058
Comprehensive income	\$4,004	\$14,461

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 29, 2013	March 30, 2012
Cash flows from operating activities:		
Earnings from continuing operations	\$7,154	\$9,092
Adjustments to reconcile earnings from continuing operations to net cash provided by (used in) operating activities of continuing operations:		
Depreciation and amortization	7,635	6,667
Accretion of convertible notes discount	450	426
Provision for doubtful accounts	638	292
Net loss (gain) on sale of assets	79	(24)
Change in amount Due to Commonwealth of Australia, net of gain (loss) on derivative instruments	177	(189)
Stock compensation expense	1,187	1,697
Excess tax (benefit) from share-based compensation arrangements	(248	) (306)
Deferred income taxes	(1,894	) (496)
Changes in assets and liabilities, excluding effects of acquisitions/divestitures:		
Accounts receivable	(28,553	) (16,934)
Inventories	(14,768	) (11,881)
Income tax refunds receivable	—	527
Other current assets	(332	) 5,690
Accounts payable - trade	(4,686	) 183
Accrued contract losses	12	30
Advances on contracts	(421	) (443)
Other accruals and payables	107	(22,252)
Income taxes payable	(745	) 3,300
Pension liabilities	(2,904	) (2,281)
Other long-term liabilities	2,550	2,819
Net cash used in operating activities of continuing operations	(34,562	) (24,083)
Net cash provided by operating activities of discontinued operations	—	312
Net cash used in operating activities	(34,562	) (23,771)
Cash flows from investing activities:		
Proceeds from sale of assets	8	16
Expenditures for property, plant & equipment	(11,841	) (5,287)
Other, net	(131	) 3
Cash used in investing activities of continuing operations	(11,964	) (5,268)
Cash used in investing activities of discontinued operations	—	(3)
Cash used in investing activities	(11,964	) (5,271)
Cash flows from financing activities:		
Net borrowings (repayments) under revolving credit agreements	46,815	33,202
Debt repayment	(2,500	) (1,250)
Net change in book overdraft	4,057	887
Proceeds from exercise of employee stock awards	1,482	1,342
Purchase of treasury shares	(613) (659)
Dividends paid	(4,256) (4,198)
Other	(51) —

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Windfall tax benefit	248	306	
Cash provided by financing activities of continuing operations	45,182	29,630	
Cash used in financing activities of discontinued operations	—	(256)
Cash provided by financing activities	45,182	29,374	
Net increase (decrease) in cash and cash equivalents	(1,344	)	332
Effect of exchange rate changes on cash and cash equivalents	(140	)	279
Cash and cash equivalents at beginning of period	16,593	14,985	
Cash and cash equivalents at end of period	\$15,109	\$15,596	

See accompanying notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 29, 2013 and March 30, 2012

(Unaudited)

1. BASIS OF PRESENTATION

The December 31, 2012, 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 remainder of 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, 2012. 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 2013 and 2012 ended on March 29, 2013 and March 30, 2012, respectively.

2. RECENT ACCOUNTING STANDARDS

In January 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-01, Balance Sheet (ASC Topic 210) - Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. ASU No. 2013-01 applies to derivatives accounted for in accordance with Accounting Standards Codification ("ASC") Topic 815, Derivatives and Hedging, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with ASC Section 210-20-45 or ASC Section 815-10-45 or subject to an enforceable master netting arrangement or similar agreement. The standard became effective on January 1, 2013. The Company has determined these changes will not have an impact on its condensed consolidated financial statements.

In January 2013, the FASB also issued ASU No. 2013-02, Comprehensive Income (ASC Topic 220) - Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. ASU No. 2013-02 requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. The Company adopted this standard beginning January 1, 2013. (See Note 15, Shareholders' Equity and Accumulated Other Comprehensive Income.)

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 about 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 is effective for

financial statement periods beginning after December 15, 2013 with early adoption permitted. The Company will adopt this standard beginning January 1, 2014. The Company does not anticipate these changes to have an impact on its condensed consolidated financial statements.

3. DISCONTINUED OPERATIONS

On December 31, 2012, the Company sold substantially all of the assets and liabilities of the Distribution segment's Canadian operations. As a result, the Company has reported the results of operations and consolidated financial position of this component as discontinued operations within the condensed consolidated financial statements for all periods presented.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
 For the three months ended March 29, 2013 and March 30, 2012
 (Unaudited)

3. DISCONTINUED OPERATIONS (CONTINUED)

The following tables provide information regarding the results of discontinued operations:

	For the Three Months Ended	
	March 29, 2013	March 30, 2012
In thousands		
Net sales of discontinued operations	\$—	\$5,003
Income from discontinued operations	—	466
Other income (expense) from discontinued operations	—	(62
Earnings from discontinued operations before income taxes	—	404
Income tax expense	—	93
Earnings from discontinued operations	\$—	\$311

4. RESTRUCTURING COSTS

During the first quarter of 2013, the Company initiated restructuring activities at its Distribution segment in order to align the cost structure of the organization to its current revenue levels. This includes workforce reductions and the consolidation of field operations where its Distribution segment has multiple facilities in the same location.

The restructuring has resulted in net workforce reductions of 121 employees and the exiting of 5 facilities. As of March 29, 2013, we have communicated the workforce reductions to affected employees. The Company intends to incur all workforce reduction costs and facility related costs during 2013.

The following table summarizes the accrual balances by cost type for the 2013 restructuring actions:

	Severance	Other ^(a)	Total
Restructuring accrual balance at December 31, 2012	\$—	\$—	\$—
Provision	2,790	250	3,040
Cash payments	—	(52	) (52
Restructuring accrual balance at March 29, 2013	\$2,790	\$198	