

KAMAN Corp
Form 10-Q
April 29, 2015

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 April 3, 2015

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
(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 17, 2015, there were 27,227,679 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 3, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 10,067	\$ 12,411
Accounts receivable, net	218,899	234,648
Inventories	366,704	359,741
Deferred income taxes	26,156	25,888
Other current assets	31,793	29,568
Total current assets	653,619	662,256
Property, plant and equipment, net of accumulated depreciation of \$188,862 and \$183,829, respectively	146,136	147,825
Goodwill	242,209	238,581
Other intangible assets, net	94,678	94,491
Deferred income taxes	33,870	34,784
Other assets	23,141	23,268
Total assets	\$ 1,193,653	\$ 1,201,205
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of long-term debt	\$ 10,000	\$ 10,000
Accounts payable – trade	128,102	116,787
Accrued salaries and wages	31,781	42,214
Advances on contracts	2,690	2,406
Other accruals and payables	48,970	47,583
Income taxes payable	8,062	2,734
Total current liabilities	229,605	221,724
Long-term debt, excluding current portion	259,645	271,232
Deferred income taxes	2,646	3,391
Underfunded pension	130,925	141,546
Other long-term liabilities	47,265	45,647
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; 27,597,605 and 27,518,226 shares issued, respectively	27,598	27,518
Additional paid-in capital	148,282	145,845
Retained earnings	487,838	479,984
Accumulated other comprehensive income (loss)	(130,058)	(126,261)
Less 403,307 and 385,942 shares of common stock, respectively, held in treasury, at cost	(10,093)	(9,421)
Total shareholders' equity	523,567	517,665
Total liabilities and shareholders' equity	\$ 1,193,653	\$ 1,201,205

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 3, 2015	March 28, 2014	
Net sales	\$442,782	\$407,958	
Cost of sales	314,871	293,958	
Gross profit	127,911	114,000	
Selling, general and administrative expenses	105,554	92,302	
Net loss on sale of assets	27	114	
Operating income	22,330	21,584	
Interest expense, net	3,327	3,131	
Other expense (income), net	(64	) 80
Earnings from continuing operations before income taxes	19,067	18,373	
Income tax expense	6,318	6,429	
Earnings from continuing operations	12,749	11,944	
Earnings from discontinued operations, net of taxes	—	(487)
Net earnings	\$12,749	\$11,457	
Earnings per share:			
Basic earnings per share from continuing operations	\$0.47	\$0.45	
Basic earnings per share from discontinued operations	—	(0.02)
Basic earnings per share	\$0.47	\$0.43	
Diluted earnings per share from continuing operations	\$0.46	\$0.44	
Diluted earnings per share from discontinued operations	—	(0.02)
Diluted earnings per share	\$0.46	\$0.42	
Average shares outstanding:			
Basic	27,188	26,923	
Diluted	27,878	27,591	
Dividends declared per share	\$0.18	\$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	
	April 3, 2015	March 28, 2014
Net earnings	\$12,749	\$11,457
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	(5,460	) (295
Unrealized gain on derivative instruments, net of tax expense of \$45 and \$9, respectively	75	69
Change in pension and post-retirement benefit plan liabilities, net of tax expense of \$961 and \$402, respectively	1,588	664
Other comprehensive income (loss)	(3,797	) 438
Comprehensive income	\$8,952	\$11,895

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	
	April 3, 2015	March 28, 2014
Cash flows from operating activities:		
Earnings from continuing operations	\$12,749	\$11,944
Adjustments to reconcile earnings from continuing operations to net cash provided by (used in) operating activities of continuing operations:		
Depreciation and amortization	9,370	8,136
Accretion of convertible notes discount	499	473
Provision for doubtful accounts	628	13
Net loss on sale of assets	27	114
Net loss on derivative instruments	136	87
Stock compensation expense	1,605	1,314
Excess tax benefit from share-based compensation arrangements	(168)	(522)
Deferred income taxes	(973)	1,844
Changes in assets and liabilities, excluding effects of acquisitions/divestitures:		
Accounts receivable	16,854	(22,564)
Inventories	(7,109)	11,829
Income tax refunds receivable	—	2,297
Other current assets	(2,217)	(3,135)
Accounts payable - trade	10,754	(7,565)
Accrued contract losses	(111)	(738)
Advances on contracts	284	(7,139)
Other accruals and payables	(7,329)	(3,107)
Income taxes payable	5,319	699
Pension liabilities	(8,075)	(9,309)
Other long-term liabilities	464	3,774
Net cash provided by (used in) operating activities of continuing operations	32,707	(11,555)
Net cash provided by (used in) operating activities of discontinued operations	—	(415)
Net cash provided by (used in) operating activities	32,707	(11,970)
Cash flows from investing activities:		
Proceeds from sale of assets	25	3
Expenditures for property, plant & equipment	(7,195)	(11,660)
Acquisition of businesses (net of cash acquired)	(10,956)	(160)
Other, net	(575)	(655)
Cash used in investing activities of continuing operations	(18,701)	(12,472)
Cash provided by investing activities of discontinued operations	—	3
Cash used in investing activities	(18,701)	(12,469)
Cash flows from financing activities:		
Net borrowings under revolving credit agreements	(8,509)	15,995
Debt repayment	(2,500)	—
Net change in book overdraft	(913)	8,389
Proceeds from exercise of employee stock awards	911	2,120
Purchase of treasury shares	(671)	(687)
Dividends paid	(4,341)	(4,298)
Other	—	—
Windfall tax benefit	168	522

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Cash provided by (used in) financing activities of continuing operations	(15,855) 22,041	
Cash provided by (used in) financing activities of discontinued operations	—	—	
Cash provided by (used in) financing activities	(15,855	) 22,041	
Net increase (decrease) in cash and cash equivalents	(1,849	) (2,398)
Effect of exchange rate changes on cash and cash equivalents	(495	) 1	
Cash and cash equivalents at beginning of period	12,411	10,384	
Cash and cash equivalents at end of period	\$10,067	\$7,987	

See accompanying notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three-month fiscal periods ended April 3, 2015 and March 28, 2014

(Unaudited)

1. BASIS OF PRESENTATION

The December 31, 2014, 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. 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, 2014. 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 2015 and 2014 ended on April 3, 2015, and March 28, 2014, respectively.

2. RECENT ACCOUNTING STANDARDS

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 amendments 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 is not expected to have a material impact on the Company's 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 is not expected to have a material impact on the Company's financial statements.

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 is not expected to have a material impact on the Company's financial statements.

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 around 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, 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 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 Company does not expect these changes to have a material impact on its consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
 For the three-month fiscal periods ended April 3, 2015 and March 28, 2014
 (Unaudited)

2. RECENT ACCOUNTING STANDARDS (CONTINUED)

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 International Financial Reporting Standards ("IFRS"). The standard intends to improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. On April 1, 2015, the FASB proposed a one-year deferral of this standard. If finalized, the provisions of this ASU will be effective for interim and annual periods beginning after December 15, 2017, with early adoption permitted for periods beginning after December 15, 2016. The Company is currently assessing the potential impact of this ASU on its consolidated financial statements.

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.

3. DISCONTINUED OPERATIONS

On December 19, 2014, the Company sold the Distribution segment's Mexican business unit, Delamac de Mexico, S.A. de C.V. ("Delamac"). 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. For the three-month fiscal period ended April 3, 2015, there was no earnings or loss from discontinued operations. For the three-month fiscal period ended March 28, 2014, the Company recorded \$6.0 million in net sales from discontinued operations, \$0.7 million of losses and a related tax benefit of \$0.2 million, resulting in \$0.5 million of net loss from discontinued operations.

4. ACQUISITIONS

On January 30, 2015, the Company acquired substantially all of the operating assets of G.C. Fabrication, Inc. ("GCF") for a purchase price of \$9.5 million. Located in Northvale, New Jersey, GCF is a premier Schneider Electric/Square D distributor and carries a variety of electrical power, automation, process controls, specialized HVAC, water and wastewater systems, communication and networking devices from a premier set of global manufacturers. The acquisition of GCF has expanded the Company's automation, control & energy product offerings into the New York metro market. This acquisition is immaterial to the Company's results of operations and financial position.

5. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net consists of the following:

	April 3, 2015	December 31, 2014
In thousands		
Trade receivables	\$ 155,208	\$ 141,481
U.S. Government contracts:		
Billed	16,302	21,909

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Costs and accrued profit – not billed	2,621	1,581
Commercial and other government contracts:		
Billed	42,163	51,166
Costs and accrued profit – not billed	6,253	21,719
Less allowance for doubtful accounts	(3,648) (3,208)
Accounts receivable, net	\$218,899	\$234,648

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
 For the three-month fiscal periods ended April 3, 2015 and March 28, 2014
 (Unaudited)

5. ACCOUNTS RECEIVABLE, NET (CONTINUED)

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

	April 3, 2015	December 31, 2014
In thousands		
Contract changes, negotiated settlements and claims for unanticipated contract costs	\$900	\$4,561
Total	\$900	\$4,561

The decrease in the above balance primarily relates to receipt of payment from a customer for claims related to a composite aerostructures program.

6. 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:

	April 3, 2015		December 31, 2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
In thousands				
Long-term debt:				
Level 1	\$109,523	\$149,722	\$109,024	\$145,188
Level 2	160,122	152,681	172,208	164,204
Total	\$269,645	\$302,403	\$281,232	\$309,392

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 transactions occurred.

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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three-month fiscal periods ended April 3, 2015 and March 28, 2014
(Unaudited)

6. FAIR VALUE MEASUREMENTS (CONTINUED)

Recurring Fair Value Measurements

The Company holds derivative instruments for 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 and other assets on the Consolidated Balance Sheet at April 3, 2015, and December 31, 2014. Based on the Company's continued ability to trade and enter into forward contracts and interest rate swaps, we consider the markets for our fair value instruments to be active. These contracts are not material to the Company's Condensed Consolidated Financial Statements for the three-month fiscal periods ended April 3, 2015, and March 28, 2014.

The Company evaluated the credit risk associated with the counterparties to these derivative instruments and determined that as of April 3, 2015, such credit risks have not had an adverse impact on the fair value of these instruments.

7. DERIVATIVE FINANCIAL INSTRUMENTS

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 are 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.

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. These agreements are not material to the Company's condensed consolidated financial statements for the three-month fiscal periods ended April 3, 2015, and March 28, 2014.

During the second quarter of 2014, the Company entered into 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. These contracts were entered into as a result of forecasted foreign currency transactions associated with the New Zealand contract to deliver ten SH-2G(I) aircraft and were designated as cash

flow hedges. During the third quarter of 2014, the Company dedesignated these forward contracts, due to a change in the timing of payments. These contracts are not material to the Company's condensed consolidated financial statements for the three-month fiscal periods ended April 3, 2015, and March 28, 2014.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
 For the three-month fiscal periods ended April 3, 2015 and March 28, 2014
 (Unaudited)

8. INVENTORIES

Inventories consist of the following:

	April 3, 2015	December 31, 2014
In thousands		
Merchandise for resale	\$153,713	\$149,837
Raw materials	19,830	19,954
Contracts and other work in process	182,123	179,002
Finished goods (including certain general stock materials)	11,038	10,948
Total	\$366,704	\$359,741

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

	April 3, 2015	December 31, 2014
In thousands		
Contract changes, negotiated settlements and claims for unanticipated contract costs	\$13,770	\$13,337
Total	\$13,770	\$13,337

K-MAX® inventory of \$18.4 million and \$17.2 million as of April 3, 2015, and December 31, 2014, 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 April 3, 2016, based upon the anticipation of supporting the fleet for the foreseeable future.

At April 3, 2015, and December 31, 2014, \$19.5 million and \$23.5 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 \$6.2 million of the SH-2G(I) inventory will be sold after April 3, 2016.

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. For the three-month fiscal period ended April 3, 2015, there was a \$1.8 million increase in the Company's operating income attributable to changes in contract estimates.

This increase was primarily a result of improved performance on the Joint Programmable Fuze ("JPF") program. For the three-month fiscal period ended March 28, 2014, there was a \$0.8 million increase in the Company's operating income from changes in contract estimates. This increase was primarily a result of improved performance on the JPF program and material and labor hour improvements on one of our commercial aerostructures programs.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
 For the three-month fiscal periods ended April 3, 2015 and March 28, 2014
 (Unaudited)

9. 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:

	Distribution	Aerospace	Total
In thousands			
Gross balance at December 31, 2014	\$ 141,612	\$ 113,221	\$ 254,833
Accumulated impairment	—	(16,252	) (16,252
Net balance at December 31, 2014	141,612	96,969	238,581
Additions	5,559	—	5,559
Impairments	—	—	—
Foreign currency translation	—	(1,931	) (1,931
Ending balance at April 3, 2015	\$ 147,171	\$ 95,038	\$ 242,209

Additions to goodwill for the Company's Distribution segment relate to the acquisition completed during 2015, as discussed in Note 4, Acquisitions.

Other intangible assets consisted of:

	Amortization Period	At April 3, 2015		At December 31, 2014	
		Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
In thousands					
Customer lists / relationships	6-21 years	\$ 125,549	\$ (33,917	) \$ 123,005	\$ (31,868
Trademarks / trade names	3-8 years	3,636	(2,217	) 3,546	(2,080
Non-compete agreements and other	1-9 years	6,742	(5,230	) 6,719	(4,948
Patents	17 years	523	(408	) 523	(406
Total		\$ 136,450	\$ (41,772	) \$ 133,793	\$ (39,302

The changes in other intangible assets are attributable to changes in foreign currency exchange rates and the acquisition completed during 2015.

10. 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	
	April 3, 2015	March 28, 2014	April 3, 2015	March 28, 2014
In thousands				
Service cost for benefits earned during the year	\$ 3,533	\$ 2,940	\$ 52	\$ 64
Interest cost on projected benefit obligation	6,878	7,209	79	85
Expected return on plan assets	(11,032) (10,262) —	—

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Amortization of prior service cost	14	25	—	—
Amortization of net loss	2,480	1,019	55	22
Net pension cost	\$1,873	\$931	\$186	\$171

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
 For the three-month fiscal periods ended April 3, 2015 and March 28, 2014
 (Unaudited)

10. PENSION PLANS (CONTINUED)

The following tables show the amounts of contributions made to the Qualified Pension Plan and SERP during each period and the additional contributions the Company expects to make during the remainder of 2015:

Year-to-date contributions:

	Qualified Pension Plan		SERP	
	As of April 3, 2015	As of December 31, 2014	As of April 3, 2015	As of December 31, 2014
In thousands				
Year-to-date contributions	\$10,000	\$10,000	\$134	\$819

Expected additional contributions in 2015:

	Qualified Pension Plan	SERP
In thousands		
Expected additional contributions	\$—	\$397

11. COMMITMENTS AND CONTINGENCIES

AH-1Z

The Company is currently engaged in discussions with its customer to resolve the technical and design issues experienced on the AH-1Z attack helicopter program that caused production and delivery delays. As a result of these technical issues and schedule delays the Company has incurred additional costs outside the scope of work for its original contract and, under the provisions of the contract, has filed claims with its customer requesting additional consideration for work performed.

On April 23, 2015, the Company received a warranty claim from its customer for \$24.0 million for costs incurred due to rework performed on delivered cabins. The Company is in the process of evaluating this claim; however, based on its preliminary understanding it does not believe there is a legitimate basis for the claim. The Company is working with its customer to reach a mutually acceptable outcome. If a mutually acceptable resolution cannot be agreed upon, the Company intends to vigorously defend itself in this matter. As of April 3, 2015, no amounts have been accrued for this matter.

The Company is also in discussions with its customer regarding the acceleration of the delivery of aircraft to the U.S. Marines, which could result in a scope change to the current contract. Based on the outcome of these discussions and the matters described above, the Company may be required to accrue amounts associated with its customer's claim or write-off a portion of the amounts currently recorded in inventory. However, the resolution of these matters cannot be determined at this time. Total program inventory is \$45.1 million and there are currently sales orders of \$13.2 million in backlog associated with this program.

New Hartford

In connection with the sale of the Company's Music segment in 2007, the Company assumed responsibility for meeting certain requirements of the Connecticut Transfer Act (the "Transfer Act") that applied to the transfer of the New Hartford, Connecticut, facility leased by that segment for guitar manufacturing purposes ("Ovation"). Under the

Transfer Act, those responsibilities essentially consist of assessing the site's environmental conditions and remediating environmental impairments, if any, caused by Ovation's operations prior to the sale. The site is a multi-tenant industrial park, in which Ovation and other unrelated entities lease space. The environmental assessment process, which began in 2008, has been completed.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three-month fiscal periods ended April 3, 2015 and March 28, 2014
(Unaudited)

11. COMMITMENTS AND CONTINGENCIES (CONTINUED)

New Hartford - continued

The Company's estimate of its portion of the cost to assess the environmental conditions and remediate this site is \$2.2 million, unchanged from the previously reported estimate, all of which has been accrued. The total amount paid to date in connection with these environmental remediation activities is \$0.5 million. A portion (\$0.7 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.

Bloomfield

In connection with the Company's 2008 purchase of the portion of the Bloomfield campus that a Company subsidiary had leased from the Naval Air Systems Command (NAVAIR), the Company assumed responsibility for environmental remediation at the facility as may be required under the Transfer Act and continues the effort to define the scope of the remediation that will be required by the Connecticut Department of Energy & Environmental Protection. The assumed environmental liability of \$10.3 million, all of which has been accrued, was determined by taking the undiscounted estimated remediation liability of \$20.8 million and discounting it at a rate of 8%. This remediation process will take many years to complete. The total amount paid to date in connection with these environmental remediation activities is \$9.6 million. At April 3, 2015, the Company has \$5.0 million accrued for this environmental matter. A portion (\$1.7 million) of the accrual related to this property is included in other accruals and payables, and the balance (\$3.3 million) is included in other long-term liabilities. 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.

Other Environmental Matters

The Company has been notified by the Environmental Protection Agency that it is a potentially responsible party ("PRP") at a Superfund Site. At April 3, 2015, the Company had no amount accrued for this matter, as it is unable to estimate the amount of costs, if any, that might be incurred in connection with the remediation of this site. In making this determination, the Company considered all available information related to the site; specifically, the continued identification of PRPs and the inability to determine the proportion of total responsibility attributable to each PRP at this time. As more information is received, the Company will reassess its ability to estimate its portion of the cost for remediation, taking into consideration the financial resources of other PRPs involved in the site, their proportionate share of the total responsibility for waste at the site, the existence of insurance and the financial viability of the insurer.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
 For the three-month fiscal periods ended April 3, 2015 and March 28, 2014
 (Unaudited)

12. COMPUTATION OF EARNINGS PER SHARE

The computation of basic earnings per share is based on net earnings divided by the weighted average number of shares of common stock outstanding for each period. The computation of diluted earnings per share reflects the common stock equivalency of dilutive options granted to employees under the Company's stock incentive plan and shares issuable on redemption of its Convertible Notes.

	For the Three Months Ended	
	April 3, 2015	March 28, 2014
In thousands, except per share amounts		
Earnings from continuing operations	\$ 12,749	\$ 11,944
Earnings from discontinued operations, net of tax	—	(487)
Net earnings	\$ 12,749	\$ 11,457
Basic:		
Weighted average number of shares outstanding	27,188	26,923
Earnings per share from continuing operations	\$0.47	\$0.45
Earnings per share from discontinued operations	—	(0.02)
Basic earnings per share	\$0.47	\$0.43
Diluted:		
Weighted average number of shares outstanding	27,188	26,923
Weighted average shares issuable on exercise of dilutive stock options	137	159
Weighted average shares issuable on redemption of convertible notes	553	509
Total	27,878	27,591
Earnings per share from continuing operations	\$0.46	\$0.44
Earnings per share from discontinued operations	—	(0.02)
Diluted earnings per share	\$0.46	\$0.42

Equity awards

For the three-month fiscal periods ended April 3, 2015, and March 28, 2014, respectively, 501,263 and 442,219 shares issuable under equity awards granted to employees were excluded from the calculation of diluted earnings per share as they were anti-dilutive based on the average stock price during the period.

Convertible Notes

In November 2010, the Company issued Convertible Notes due on November 15, 2017, in the aggregate principal amount of \$115.0 million. The Convertible Notes will mature on November 15, 2017, unless earlier redeemed, repurchased by the Company or converted. Upon conversion, the Convertible Notes require net share settlement, where the aggregate principal amount of the notes will be paid in cash and remaining amounts due, if any, will be settled in cash, shares of the Company's common stock or a combination of cash and shares of common stock, at the Company's election.

For the three-month fiscal periods ended April 3, 2015, and March 28, 2014, respectively, shares issuable under the Convertible Notes that were dilutive during the period were included in the calculation of earnings per share as the

conversion price for the Convertible Notes was less than the average share price of the Company's stock.

Warrants

Excluded from the diluted earnings per share calculation for the three-month fiscal periods ended April 3, 2015, and March 28, 2014, respectively, are 3,417,392 and 3,409,074, respectively, shares issuable under the warrants sold in connection with the Company's convertible note offering as they would be anti-dilutive.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
 For the three-month fiscal periods ended April 3, 2015 and March 28, 2014
 (Unaudited)

13. SHARE-BASED ARRANGEMENTS

General

The Company accounts for stock options, restricted stock awards, restricted stock units and performance shares as equity awards and measures the cost of all share-based payments, including stock options, at fair value on the grant date and recognizes this cost in the statement of operations. The Company also has an employee stock purchase plan which is accounted for as a liability award.

Compensation expense for stock options, restricted stock awards and restricted stock units is recognized on a straight-line basis over the vesting period of the awards. Share-based compensation expense recorded for the three-month fiscal periods ended April 3, 2015 and March 28, 2014, was \$1.6 million and \$1.3 million, respectively.

During the first quarter of 2015, the Company issued additional stock awards with market and performance based conditions, bringing the total of these shares to 8,238, assuming a 100% achievement level. The Company measured the cost of these awards based on their fair value at the date of grant to the extent of the probable number of shares to be earned upon vesting. Amortization of this cost will be recorded on a straight-line basis over the requisite service period. Throughout the course of the requisite service period, the Company will monitor the level of achievement compared to the target and adjust the number of shares expected to be earned, and the related compensation expense recorded thereafter, to reflect the updated most probable outcome. Compensation expense for these awards for the three-month fiscal periods ended April 3, 2015, and March 28, 2014, was not material.

Stock option activity was as follows:

	For the Three Months Ended April 3, 2015	
	Options	Weighted - average exercise price
Options outstanding at beginning of period	904,091	\$31.26
Granted	202,345	\$39.54
Exercised	(3,803)	) \$23.22
Forfeited or expired	(3,458)	) \$37.98
Options outstanding at April 3, 2015	1,099,175	\$32.79

The fair value of each option award is estimated on the date of grant using the Black-Scholes option valuation model. The following table indicates the weighted-average assumptions used in estimating fair value:

	For the Three Months Ended		
	April 3, 2015	March 28, 2014	
Expected option term (years)	5.1	5.1	
Expected volatility	29.0	% 37.5	%
Risk-free interest rate	1.6	% 1.5	%
Expected dividend yield	1.6	% 1.7	%
Per share fair value of options granted	\$9.28	\$11.60	

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
 For the three-month fiscal periods ended April 3, 2015 and March 28, 2014
 (Unaudited)

13. SHARE-BASED ARRANGEMENTS (CONTINUED)

Restricted Stock Award and Restricted Stock Unit activity was as follows:

	For the Three Months Ended April 3, 2015	
	Restricted Stock	Weighted- average grant date fair value
Restricted Stock outstanding at beginning of period	196,553	\$36.29
Granted	56,240	\$39.49
Vested	(61,144	) \$33.95
Forfeited or expired	(1,099	) \$37.84
Restricted Stock outstanding at April 3, 2015	190,550	\$37.97

14. SEGMENT AND GEOGRAPHIC INFORMATION

The Company is organized based upon the nature of its products and services, and is composed of two operating segments each overseen by a segment manager. These segments are reflective of how the Company's Chief Executive Officer, who is its Chief Operating Decision Maker ("CODM"), reviews operating results for the purposes of allocating resources and assessing performance. The Company has not aggregated operating segments for purposes of identifying reportable segments.

The Distribution segment is a leading power transmission, motion control, and fluid power industrial distributor with operations throughout the United States. Distribution conducts business in the mechanical power transmission and bearings, electrical, automation and control, and fluid power product platforms and provides total solutions from system design and integration to machine parts and value-added services to the manufacturing industry.

The Aerospace segment produces and/or markets widely used proprietary aircraft bearings and components; complex metallic and composite aerostructures for commercial, military and general aviation fixed and rotary wing aircraft; safe and arm solutions for missile and bomb systems for the U.S. and allied militaries; subcontract helicopter work; support for the Company's SH-2G Super Seasprite maritime helicopters and K-MAX® medium-to-heavy lift helicopters; and engineering services.

Summarized financial information by business segment is as follows:

In thousands	For the Three Months Ended		
	April 3, 2015	March 28, 2014	
Net sales:			
Distribution	\$311,471	\$258,896	
Aerospace	131,311	149,062	
Net sales	\$442,782	\$407,958	
Operating income:			
Distribution	\$12,964	\$11,733	
Aerospace	21,821	22,021	
Net loss on sale of assets	(27) (114)
Corporate expense	(12,428) (12,056)
Operating income from continuing operations	22,330	21,584	

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Interest expense, net	3,327	3,131
Other expense (income), net	(64) 80
Earnings before income taxes from continuing operations	19,067	18,373
Income tax expense	6,318	6,429
Earnings from continuing operations	\$12,749	\$11,944

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
 For the three-month fiscal periods ended April 3, 2015 and March 28, 2014
 (Unaudited)

15. SHAREHOLDERS' EQUITY AND ACCUMULATED OTHER COMPREHENSIVE INCOME

Changes in shareholders' equity for the three-month fiscal periods ended April 3, 2015, and March 28, 2014, respectively, were as follows:

In thousands	For the Three Months Ended	
	April 3, 2015	March 28, 2014
Beginning balance	\$517,665	\$511,292
Comprehensive income	8,952	11,895
Dividends declared	(4,895	) (4,319
Employee stock plans and related tax benefit	911	2,120
Purchase of treasury shares	(671	) (687
Share-based compensation expense	1,605	1,314
Ending balance	\$523,567	\$521,615

The components of accumulated other comprehensive income (loss) are shown below:

In thousands	For the Three Months Ended	
	April 3, 2015	March 28, 2014
Foreign currency translation:		
Beginning balance	\$(20,676	) \$(14,219
Net gain/(loss) on foreign currency translation	(5,460	) (295
Reclassification to net income	—	—
Other comprehensive income/(loss), net of tax	(5,460	) (295
Ending balance	\$(26,136	) \$(14,514
Pension and other post-retirement benefits ^(a) :		
Beginning balance	(105,264	) (66,317
Reclassifications to net income:		
Amortization of prior service cost, net of tax expense of \$5 and \$10, respectively	9	15
Amortization of net loss, net of tax expense of \$956 and \$392, respectively	1,579	649
Other comprehensive income/(loss), net of tax	1,588	664
Ending balance	\$(103,676	) \$(65,653
Derivative instruments ^(b) :		
Beginning balance	(321	) (585
Net loss on derivative instruments, net of tax expense (benefit) of (\$28) and \$44, respectively	(45	) (41
Reclassification to net income, net of tax expense (benefit) of \$73 and (\$35), respectively	120	110
Other comprehensive income/(loss), net of tax	75	69
Ending balance	\$(246	) \$(516
Total accumulated other comprehensive income (loss)	\$(130,058	) \$(80,683

(a) These accumulated other comprehensive income components are included in the computation of net periodic pension cost.

(See Note 10, Pension Plans for additional information.)

(b) See Note 7, Derivative Financial Instruments, for additional information regarding our derivative instruments.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
 For the three-month fiscal periods ended April 3, 2015 and March 28, 2014
 (Unaudited)

16. INCOME TAXES

	For the Three Months Ended	
	April 3, 2015	March 28, 2014
Effective Income Tax Rate	33.1	% 35.0

The effective income tax rate represents the combined federal, state and foreign tax effects attributable to pretax earnings for the year. The decrease in the effective tax rate for the three-month fiscal period ended April 3, 2015, as compared to the rate for the same period in the prior year is primarily due to favorable adjustments related to amended returns, as well as additional deductions for domestic production activities.

17. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through the issuance date of these financial statements. No material subsequent events were identified that required disclosure.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to provide readers of our condensed consolidated financial statements with the perspectives of management. It presents, in narrative form, information regarding our financial condition, results of operations, liquidity and certain other factors that may affect our future results, and is designed to enable the readers of this report to obtain an understanding of our businesses, strategies, current trends and future prospects. It should be read in conjunction with our 2014 Annual Report on Form 10-K and the Condensed Consolidated Financial Statements included in Item 1 of this Form 10-Q.

OVERVIEW OF BUSINESS

Kaman Corporation (the "Company") is comprised of two business segments:

The Distribution segment is a leading power transmission, motion control, electrical and automation, and fluid power industrial distributor with operations throughout the United States. We provide products including bearings, mechanical and electrical power transmission, fluid power, motion control, automation, material handling components, electrical control and power distribution, and MRO supplies to a broad spectrum of industrial markets throughout the United States.

The Aerospace segment produces and/or markets proprietary aircraft bearings and components; complex metallic and composite aerostructures for commercial, military and general aviation fixed and rotary wing aircraft; safe and arming solutions for missile and bomb systems for the U.S. and allied militaries; subcontract helicopter work; support for our SH-2G Super Seasprite maritime helicopters and K-MAX® manned and unmanned medium-to-heavy lift helicopters; and engineering design, analysis and certification services.

Financial performance

Net sales from continuing operations increased 8.5% for the three-month fiscal period ended April 3, 2015, compared to the comparable fiscal period in the prior year.

Earnings from continuing operations increased 6.7% for the three-month fiscal period ended April 3, 2015, compared to the comparable fiscal period in the prior year.

Diluted earnings per share from continuing operations increased to \$0.46, an increase of \$0.02, or 4.5% for the three-month fiscal period ended April 3, 2015, compared to the comparable fiscal period in the prior year.

Cash flows provided by operating activities of continuing operations for the three-month fiscal period ended April 3, 2015, were \$32.7 million, \$44.3 million more than the comparable fiscal period in the prior year.

For the three-month fiscal period ended April 3, 2015, our Distribution segment achieved record net sales of \$311.5 million.

Key events

On April 29, 2015, the Company announced that the Board of Directors approved a \$100.0 million share repurchase program, which replaces our previous share repurchase program.

On March 27, 2015, the Company announced that its Aerospace segment was awarded a contract modification in the amount of \$58.0 million for the procurement of Joint Programmable Fuzes ("JPF"). The award is the first order under Option 12 of the JPF contract with the U.S. Air Force ("USAF"). Delivery of the fuzes is anticipated to occur in 2016 and 2017.

On March 26, 2015, the Company announced that its Aerospace segment was awarded an extension to its current contract with Bell Helicopter to manufacture skin and skin to core components for the Bell UH-1Y and AH-1Z helicopters. This five-year follow on contract has an expected value in excess of \$25 million.

On February 23, 2015, the Company announced that the Board of Directors approved an increase of 12.5% in the quarterly dividend on the Company's common shares, to 18 cents per share.

On January 30, 2015, the Company acquired substantially all the operating assets of G.C. Fabrication, Inc. ("GCF") of Northvale, New Jersey. GCF is a premier Schneider Electric/Square D distributor and carries a variety of electrical power, automation, process controls, specialized HVAC, water and wastewater systems, communication and networking devices from a premier set of global manufacturers.

Outlook

We are revising our full-year outlook for 2015, as set forth in our 2014 Annual Report on Form 10-K as follows:

Distribution:

Sales of \$1,250 million to \$1,280 million

Operating margins of 4.9% to 5.2%

Aerospace:

Sales of \$625 million to \$645 million

Operating margins of 17.1% to 17.5%

Interest expense of approximately \$13 million

Corporate expenses of \$53 million to \$54 million

Estimated annualized tax rate of approximately 34%

Depreciation and amortization expense of approximately \$40 million

Capital expenditures of \$30 million to \$40 million

Free cash flow in the range of \$75 million to \$90 million

The following table illustrates the calculation of "Free Cash Flow", a Non-GAAP financial measure:
2015 Outlook

In millions

Free Cash Flow^(a):

Net cash provided by operating activities	\$ 105.0	to	\$ 130.0
Expenditures for property, plant and equipment	30.0	to	40.0
Free Cash Flow	\$ 75.0	to	\$ 90.0

^(a) Free Cash Flow, a non-GAAP financial measure, is defined as net cash provided by operating activities less expenditures for property, plant and equipment, both of which are presented on our consolidated statements of cash flows. See Management's Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP Financial Measures.

RESULTS OF OPERATIONS

Consolidated Results

Net Sales

	For the Three Months Ended	
	April 3, 2015	March 28, 2014
	(in thousands)	
Net sales	\$442,782	\$407,958
\$ change	34,824	27,116
% change	8.5	% 7.1

The following table details the components of the increase in net sales as a percentage of consolidated net sales:

	For the Three Months Ended April 3, 2015	
Organic Sales ⁽¹⁾ :		
Distribution	5.5	%
Aerospace	(4.4))%
Total Organic Sales	1.1	%
Sales by Recent Acquisitions:		
Distribution	7.4	%
Aerospace	—	%
Total Acquisition Sales	7.4	%
% change in net sales	8.5	%

⁽¹⁾ Sales contributed by acquisitions are included in organic sales beginning with the thirteenth month following the date of acquisition. See segment discussions below for additional information regarding the changes in net sales.

Gross Profit

	For the Three Months Ended		
	April 3, 2015	March 28, 2014	
	(in thousands)		
Gross profit	\$127,911	\$114,000	
\$ change	13,911	5,197	
% change	12.2	% 4.8	%
% of net sales	28.9	% 27.9	%

Gross profit increased for the three-month fiscal period ended April 3, 2015, as compared to the same period in 2014, due to higher gross profit at our Distribution segment. The increase at Distribution was primarily attributable to the contribution of gross margin from B.W. Rogers, which was acquired during the second quarter of 2014. Additionally, the Distribution segment had higher organic gross profit, which increased 5.0% for the three-month fiscal period ended April 3, 2015, when compared to the corresponding 2014 period.

Selling, General & Administrative Expenses (SG&A)

	For the Three Months Ended		
	April 3, 2015	March 28, 2014	
	(in thousands)		
SG&A	\$105,554	\$92,302	
\$ change	13,252	(2,697))
% change	14.4	% (2.8))%
% of net sales	23.8	% 22.6	%

SG&A increased by 14.4% for the three-month fiscal period ended April 3, 2015, as compared to the corresponding 2014 period. The following table details the components of the change:

	For the Three Months Ended April 3, 2015	
Organic SG&A ⁽¹⁾ :		
Distribution	6.5	%
Aerospace	(0.1))%
Corporate	0.2	%
Total Organic SG&A	6.6	%
Acquisition SG&A:		
Distribution	7.8	%
Aerospace	—	%
Total Acquisition SG&A	7.8	%
% change in SG&A	14.4	%

⁽¹⁾SG&A expense incurred by acquisitions are included in organic SG&A beginning with the thirteenth month following the date of acquisition.

The increase in SG&A for the three-month fiscal period ended April 3, 2015, was due to higher expenses at our Distribution segment. This increase in expenses relates to the contribution of SG&A expenses from B.W. Rogers, higher salary and benefit expenses, including pension and medical expenses and costs related to our new ERP system. In addition, we incurred \$1.1 million in costs related to a potential acquisition which we did not complete, compared to \$0.7 million in costs related to the acquisition of B.W. Rogers for the corresponding period in the prior year.

Operating Income

	For the Three Months Ended	
	April 3, 2015	March 28, 2014
	(in thousands)	
Operating income	\$22,330	\$21,584
\$ change	746	7,862
% change	3.5	% 57.3
% of net sales	5.0	% 5.3

Operating income for the three-month fiscal period ended April 3, 2015, remained relatively flat, as compared to the comparable period in 2014. The higher operating income at Distribution and lower corporate expenses were offset by lower operating income at Aerospace. (See segment discussion below for additional information.)

Interest Expense, Net

	For the Three Months Ended	
	April 3, 2015	March 28, 2014
	(in thousands)	
Interest expense, net	\$3,327	\$3,131

Interest expense, net, generally consists of interest charged on our Credit Agreement (see "Liquidity and Capital Resources - Financing Arrangements", below), which includes a revolving credit facility and a term loan facility, and other borrowings and the amortization of debt issuance costs, offset by interest income. The increase in interest expense, net for the three-month fiscal period ended April 3, 2015, was primarily attributable to the higher average borrowings, as compared to the comparable period ended March 28, 2014. Additionally, at April 3, 2015, the interest rate for outstanding amounts under the Credit Agreement was 1.71% compared to 1.69% at March 28, 2014. (See Liquidity and Capital Resources section below for information on our borrowings.)

Effective Income Tax Rate

	For the Three Months Ended		
	April 3, 2015	March 28, 2014	
Effective income tax rate	33.1	% 35.0	%

The effective income tax rate represents the combined federal, state and foreign tax effects attributable to pretax earnings for the year. The decrease in the effective tax rate for the three-month fiscal period ended April 3, 2015, as compared to the rate for the comparable period in the prior year was primarily due to favorable adjustments related to amended returns, as well as additional deductions for domestic production activities.

Distribution Segment

Results of Operations

	For the Three Months Ended		
	April 3, 2015	March 28, 2014	
	(in thousands)		
Net sales	\$311,471	\$258,896	
\$ change	52,575	8,961	
% change	20.3	% 3.6	%
Operating income	\$12,964	\$11,733	
\$ change	1,231	7,145	
% change	10.5	% 155.7	%
% of net sales	4.2	% 4.5	%

Net sales

The increase in net sales for the three-month fiscal period ended April 3, 2015, as compared to the same period in 2014 was driven by an increase in organic sales due to four additional sales days during the period and the contribution of sales from our 2014 and 2015 acquisitions which totaled \$30.0 million for the three-month fiscal period ended April 3, 2015.

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

	For the Three Months Ended		
	April 3, 2015	March 28, 2014	
	(in thousands)		
Current period			
Net sales	\$311,471	\$258,896	
Acquisition sales ⁽¹⁾	29,997	6,866	
Organic sales	\$281,474	\$252,030	
Sales days	66	62	
Organic sales per sales day for the current period	a \$4,265	\$4,065	
Prior period			
Net sales from the prior year	\$258,896	\$249,935	
Sales days from the prior year	62	63	
Organic sales per sales day from the prior year	b \$4,176	\$3,967	
% change in organic sales per sales day	(a-b)÷b 2.1	% 2.5	%

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

Organic sales per sales day for the three-month fiscal period ended April 3, 2015, increased 2.1% as compared to the comparable period in 2014. The increase was primarily driven by increases in sales volume to both our original equipment manufacturer customers and maintenance, repair and operations customers. The Distribution segment experienced higher sales in the machinery manufacturing, paper manufacturing, fabricated metal product manufacturing and food manufacturing markets.

Operating income

The increase in Distribution segment operating income for the three-month fiscal period ended April 3, 2015, as compared to the corresponding period in the prior year was driven by higher organic sales and the contribution of operating income from B.W. Rogers, partially offset by higher operating expenses. These expenses include higher salary and benefit expenses, including pension and medical expenses and costs related to our new ERP system. Other Matters

Enterprise Resource Planning System

In July 2012, we announced our decision to invest in a new enterprise-wide business system for our Distribution segment. The anticipated total investment in the new system is approximately \$45.0 million, which will be incurred over a number of years. Of the total investment, we expect that approximately 75% will be capitalized. From its inception through April 3, 2015, we have spent \$29.5 million on this project, of which \$26.0 million has been capitalized. Depreciation and amortization of the capitalized cost commenced in July 2014 and is expected to increase over the next three to four years. In order to minimize disruptions to our ongoing operations we have developed a project plan that takes a phase