

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 September 30, 2011

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

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

Large accelerated filer ☐ 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 October 28, 2011, there were 26,209,307 shares of Common Stock outstanding.

**Item 1. Financial Statements****CONDENSED CONSOLIDATED BALANCE SHEETS****KAMAN CORPORATION AND SUBSIDIARIES**

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

|  | <b>September 30,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|--|-------------------------------|------------------------------|
| <b>Assets</b>  |                               |                              |
| Current assets:  |                               |                              |
| Cash and cash equivalents  | \$ 15,220                     | \$ 32,232                    |
| Accounts receivable, net   | 193,442                       | 173,620                      |
| Inventories  | 327,564                       | 316,899                      |
| Deferred income taxes  | 25,310                        | 26,357                       |
| Income tax receivable  | —                             | 2,420                        |
| Other current assets   | 26,740                        | 33,425                       |
| Total current assets   | <u>588,276</u>                | <u>584,953</u>               |
| Property, plant and equipment, net of accumulated depreciation of \$139,844 and \$130,685, respectively                  | 97,152                        | 89,719                       |
| Goodwill   | 124,384                       | 114,818                      |
| Other intangibles assets, net  | 50,400                        | 49,428                       |
| Deferred income taxes  | 27,291                        | 33,740                       |
| Other assets   | 18,692                        | 23,099                       |
| Total assets   | <u>\$ 906,195</u>             | <u>\$ 895,757</u>            |
| <b>Liabilities and Shareholders' Equity</b>  |                               |                              |
| Current liabilities:   |                               |                              |
| Notes payable  | \$ 1,410                      | \$ 2,980                     |
| Current portion of long-term debt  | 5,000                         | 5,000                        |
| Accounts payable – trade   | 109,240                       | 95,416                       |
| Accrued salaries and wages   | 34,943                        | 31,730                       |
| Current portion of amount due to Commonwealth of Australia   | 6,116                         | 24,399                       |
| Other accruals and payables  | 58,130                        | 61,676                       |
| Income taxes payable   | 1,511                         | 644                          |
| Total current liabilities  | <u>216,350</u>                | <u>221,845</u>               |
| Long-term debt, excluding current portion  | 143,323                       | 140,443                      |
| Deferred income taxes  | 6,997                         | 7,556                        |
| Underfunded pension  | 83,589                        | 98,624                       |
| Due to Commonwealth of Australia, excluding current portion  | 6,191                         | 13,102                       |
| Other long-term liabilities  | 50,333                        | 51,517                       |
| Commitments and contingencies  |                               |                              |
| Shareholders' equity:  |                               |                              |
| Preferred stock, \$1 par value, 200,000 shares authorized; none outstanding  | —                             | —                            |
| Common stock, \$1 par value, 50,000,000 shares authorized, voting, 26,457,300 and 26,091,067 shares issued, respectively | 26,457                        | 26,091                       |
| Additional paid-in capital   | 107,616                       | 97,903                       |
| Retained earnings  | 353,656                       | 325,844                      |
| Accumulated other comprehensive income (loss)  | (84,077)                      | (86,300)                     |
| Less 181,279 and 64,949 shares of common stock, respectively, held in treasury, at cost                                  | (4,240)                       | (868)                        |
| Total shareholders' equity   | <u>399,412</u>                | <u>362,670</u>               |
| Total liabilities and shareholders' equity   | <u>\$ 906,195</u>             | <u>\$ 895,757</u>            |

*See accompanying notes to the 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 |                    | For the Nine Months Ended |                    |
|--|----------------------------|--------------------|---------------------------|--------------------|
|  | September 30,<br>2011      | October 1,<br>2010 | September 30,<br>2011     | October 1,<br>2010 |
| Net sales                                    | \$ 356,520                 | \$ 359,545         | \$ 1,119,429              | \$ 953,404         |
| Cost of sales                                | 255,219                    | 265,782            | 807,681                   | 703,626            |
| Gross profit                                 | 101,301                    | 93,763             | 311,748                   | 249,778            |
| Selling, general and administrative expenses | 80,945                     | 74,166             | 244,672                   | 215,018            |
| Net (gain)/loss on sale of assets            | 14                         | 5                  | 50                        | (515)              |
| Operating income                             | 20,342                     | 19,592             | 67,026                    | 35,275             |
| Interest expense (income), net               | 2,733                      | (3,529)            | 8,624                     | 862                |
| Other (income) expense, net                  | (176)                      | (24)               | (590)                     | (691)              |
| Earnings before income taxes                 | 17,785                     | 23,145             | 58,992                    | 35,104             |
| Income tax expense                           | 5,426                      | 7,320              | 19,626                    | 11,476             |
| Net earnings                                 | <u>\$ 12,359</u>           | <u>\$ 15,825</u>   | <u>\$ 39,366</u>          | <u>\$ 23,628</u>   |
| Net earnings per share:                      |                            |                    |                           |                    |
| Basic net earnings per share                 | \$ 0.47                    | \$ 0.61            | \$ 1.50                   | \$ 0.91            |
| Diluted net earnings per share               | \$ 0.47                    | \$ 0.61            | \$ 1.48                   | \$ 0.91            |
| Average shares outstanding:                  |                            |                    |                           |                    |
| Basic  | 26,339                     | 25,956             | 26,250                    | 25,904             |
| Diluted                                      | <u>26,561</u>              | <u>26,104</u>      | <u>26,530</u>             | <u>26,071</u>      |
| Dividends declared per share                 | <u>\$ 0.16</u>             | <u>\$ 0.14</u>     | <u>\$ 0.44</u>            | <u>\$ 0.42</u>     |

*See accompanying notes to the condensed consolidated financial statements.*

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

|  | <b>For the Nine Months Ended</b> |                            |
|--|----------------------------------|----------------------------|
|  | <b>September 30,<br/>2011</b>    | <b>October 1,<br/>2010</b> |
| <b>Cash flows from operating activities:</b>   |                                  |                            |
| Net earnings   | \$ 39,366                        | \$ 23,628                  |
| Adjustments to reconcile net earnings to<br>net cash provided by (used in) operating activities:   |                                  |                            |
| Depreciation and amortization  | 16,562                           | 15,267                     |
| Change in allowance for doubtful accounts  | 98                               | 501                        |
| Accretion of convertible notes discount  | 1,230                            | —                          |
| Net (gain) loss on sale of assets  | 50                               | (515)                      |
| (Gain) on amount due to Commonwealth of Australia, net of gain (loss) on derivative<br>instruments | (123)                            | (690)                      |
| Stock compensation expense   | 5,720                            | 3,567                      |
| Excess tax (benefit) from share-based compensation arrangements                                    | (742)                            | (214)                      |
| Deferred income taxes  | 4,634                            | 2,247                      |
| Changes in assets and liabilities, excluding effects of acquisitions/divestitures:                 |                                  |                            |
| Accounts receivable  | (18,342)                         | (24,111)                   |
| Inventories  | (9,563)                          | (10,690)                   |
| Income tax receivable  | (2,420)                          | (1,401)                    |
| Other current assets   | 13,353                           | 649                        |
| Accounts payable - trade   | 3,880                            | 11,659                     |
| Accrued contract losses  | (31)                             | 3,400                      |
| Advances on contracts  | 453                              | 1,042                      |
| Accrued expenses and payables  | (22,176)                         | 9,898                      |
| Income taxes payable   | 854                              | (4,948)                    |
| Pension liabilities  | (12,890)                         | (3,121)                    |
| Other long-term liabilities  | (4,416)                          | 952                        |
| Net cash provided by (used in) operating activities  | 15,497                           | 27,120                     |
| <b>Cash flows from investing activities:</b>   |                                  |                            |
| Proceeds from sale of assets   | 242                              | 1,087                      |
| Expenditures for property, plant & equipment   | (19,416)                         | (14,505)                   |
| Acquisition of businesses including earn out adjustments, net of cash received                     | (12,965)                         | (52,073)                   |
| Other, net   | 252                              | 286                        |
| Cash provided by (used in) investing activities  | (31,887)                         | (65,205)                   |
| <b>Cash flows from financing activities:</b>   |                                  |                            |
| Net borrowings (repayments) under revolving credit agreements                                      | 4,490                            | 45,629                     |
| Debt repayment   | (3,750)                          | (3,750)                    |
| Net change in book overdraft   | 9,239                            | 3,013                      |
| Proceeds from exercise of employee stock options and employee purchases of stock                   | 4,537                            | 1,817                      |
| Purchase of treasury stock   | (3,372)                          | —                          |
| Dividends paid   | (10,998)                         | (10,864)                   |
| Debt issuance costs  | (715)                            | (2,321)                    |
| Windfall tax benefit   | 742                              | 214                        |
| Other  | (636)                            | (362)                      |
| Cash provided by (used in) financing activities  | (463)                            | 33,376                     |
| Net increase (decrease) in cash and cash equivalents   | (16,853)                         | (4,709)                    |
| Effect of exchange rate changes on cash and cash equivalents                                       | (159)                            | (1,352)                    |
| Cash and cash equivalents at beginning of period   | 32,232                           | 18,007                     |
| Cash and cash equivalents at end of period   | \$ 15,220                        | \$ 11,946                  |

See accompanying notes to the condensed consolidated financial statements.



**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**For the three months and nine months ended September 30, 2011 and October 1, 2010**  
(Unaudited)

**1. BASIS OF PRESENTATION**

The December 31, 2010 condensed consolidated balance sheet amounts have been derived from the previously audited consolidated balance sheet of Kaman Corporation and subsidiaries (collectively, the “Company”). 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 Form 10-K for the year ended December 31, 2010. 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 third quarter for 2011 and 2010 ended on September 30, 2011 and October 1, 2010, respectively.

**2. RECENT ACCOUNTING STANDARDS**

In September 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-08, “Intangibles - Goodwill and Other (ASC Topic 350) - Testing Goodwill for Impairment.” ASU No. 2011-08 intends to simplify goodwill impairment testing by permitting assessment of qualitative factors to determine whether events and circumstances lead to the conclusion that it is necessary to perform the two-step goodwill impairment test currently required under ASC 350, Intangibles - Goodwill and Other. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date after September 15, 2011, if an entity's financial statements for the most recent annual or interim period have not yet been issued. The Company plans to adopt this guidance early and apply its provisions for its annual impairment test for 2011. The Company does not expect that the adoption of this guidance will have a significant impact on its Consolidated Financial Statements.

In June 2011, the FASB issued ASU No. 2011-05, “Comprehensive Income (ASC Topic 220) - Presentation of Comprehensive Income.” ASU No. 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of equity and requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The amendments are effective retrospectively for fiscal years, and interim periods within those years, beginning after December 15, 2011. The guidance requires changes in presentation only and will have no significant impact on the Company's Consolidated Financial Statements.

In May 2011, the FASB issued ASU No. 2011-04, “Fair Value Measurement (ASC Topic 820) - Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS.” ASU No. 2011-04 amends current fair value measurement and disclosure guidance to include increased transparency around valuation inputs and investment categorization. The changes are effective prospectively for interim and annual periods beginning after December 15, 2011. The Company does not expect that the adoption of this guidance will have a significant impact on its Consolidated Financial Statements.

**3. ADDITIONAL CASH FLOW INFORMATION**

Cash payments for interest were \$6.8 million and \$5.9 million for the nine months ended September 30, 2011, and October 1, 2010, respectively. Cash payments for income taxes, net of refunds, for the same periods were \$10.9 million and \$14.0 million, respectively.

#### **4. ACQUISITIONS**

On September 2, 2011, the Company acquired Target Electronic Supply (“Target”) for \$14.2 million, inclusive of working capital adjustments and contingent consideration. Target, founded in 1978, has become part of the Company's Industrial Distribution segment. Target is a leading motion control distributor in the New England area with locations in Massachusetts, Connecticut and New Hampshire.

The acquisition was accounted for as a purchase transaction. The value of the assets acquired and liabilities assumed were recorded based on their fair value at the date of acquisition. The fair value of assets acquired and liability assumed are as follows (in thousands):

|                               |    |        |
|-------------------------------|----|--------|
| Cash                          | \$ | 20     |
| Accounts receivable           |    | 1,583  |
| Inventories                   |    | 1,822  |
| Property, plant and equipment |    | 88     |
| Other tangible assets         |    | 20     |
| Goodwill                      |    | 8,451  |
| Other intangible assets       |    | 2,980  |
| Other liabilities             |    | (710)  |
| Total of net assets acquired  |    | 14,254 |
| Less cash received            |    | (20)   |
| Plus debt assumed             |    | —      |
| Total consideration           | \$ | 14,234 |

The Company has paid \$10.6 million of the total consideration of \$14.2 million through September 30, 2011. The remaining \$3.6 million represents the contingent consideration and working capital adjustment holdback. The Company recorded a \$3.4 million contingent consideration liability, which is based on the attainment of certain gross profit targets by the acquired business through 2014. The total possible undiscounted payments could range from zero to \$4.0 million. The goodwill is tax deductible (excluding the portion relating to the contingent consideration liability, which is not deductible until paid). The goodwill is the result of expected synergies from combining the operations of the acquired business with the Company's operations and intangible assets that do not qualify for separate recognition, such as an assembled workforce. There is \$1.1 million of revenue from this acquisition included in the Condensed Consolidated Statement of Operations for the three months and nine months ended September 30, 2011.

The fair value of the identifiable intangible assets of \$3.0 million, consisting of trade names and customer relationships, was determined using the income approach. Specifically, the relief-from-royalty method was utilized for the trade names and the discounted cash flows method was utilized for the customer relationships. The trade names, \$0.1 million, are being amortized over a period of 3 years, and the customer relationships, \$2.9 million, are being amortized over a period of 8 years, the estimated lives of the assets.

During the second quarter, the Company acquired a distribution business comprised of two locations for a purchase price of \$0.9 million that has been merged into our existing distribution operations.

## 5. ACCOUNTS RECEIVABLE, NET

Accounts receivable consist of the following (in thousands):

|  | September 30,<br>2011 | December 31,<br>2010 |
|--|-----------------------|----------------------|
| Trade receivables                          | \$ 120,147            | \$ 102,679           |
| U.S. Government contracts:                 |                       |                      |
| Billed                                     | 28,524                | 37,278               |
| Costs and accrued profit – not billed      | 3,085                 | 7,521                |
| Commercial and other government contracts: |                       |                      |
| Billed                                     | 45,233                | 29,973               |
| Costs and accrued profit – not billed      | 375                   | —                    |
| Less allowance for doubtful accounts       | (3,922)               | (3,831)              |
| Accounts receivable, net                   | \$ 193,442            | \$ 173,620           |

Accounts receivable, net includes amounts for matters such as contract changes, negotiated settlements and claims for unanticipated contract costs, which totaled \$0.2 million and \$0.5 million at September 30, 2011 and December 31, 2010, respectively. The Company records revenue associated with these matters only when recovery can be estimated reliably and realization is probable.

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

|                          | Carrying<br>Value at<br>September 30,<br>2011 | Quoted prices in<br>active markets<br>(Level 1) | Significant other<br>observable<br>inputs<br>(Level 2) | Significant<br>unobservable<br>inputs<br>(Level 3) |
|--------------------------|---|---|--|--|
| Derivative instruments   | \$ 2,971                                      | \$ —  | \$ 2,971   | \$ —   |
| Total Assets             | \$ 2,971                                      | \$ —  | \$ 2,971   | \$ —   |
| Derivative instruments   | \$ 203  | \$ —  | \$ 203   | \$ —   |
| Contingent consideration | 3,355   | —   | —  | 3,355  |
| Total Liabilities        | \$ 3,558                                      | \$ —  | \$ 203   | \$ 3,355   |

**6. FAIR VALUE MEASUREMENTS (CONTINUED)**

|                        | <b>Total Carrying<br/>Value at<br/>December 31,<br/>2010</b> | <b>Quoted prices in<br/>active markets<br/>(Level 1)</b> | <b>Significant other<br/>observable<br/>inputs<br/>(Level 2)</b> | <b>Significant<br/>unobservable<br/>inputs<br/>(Level 3)</b> |
|------------------------|--|--|--|--|
| Derivative instruments | \$ 12,623  | \$ —   | \$ 12,623  | \$ —   |
| Total Assets           | \$ 12,623  | \$ —   | \$ 12,623  | \$ —   |
| Derivative instruments | \$ 806   | \$ —   | \$ 806   | \$ —   |
| Total Liabilities      | \$ 806   | \$ —   | \$ 806   | \$ —   |

The Company's derivative instruments are limited to foreign exchange contracts and interest rate swaps that are measured at fair value using observable market inputs such as forward rates and our counterparties' credit risks. Based on these inputs, the derivative instruments are classified within Level 2 of the valuation hierarchy and have been included in other current assets, other assets and other long-term liabilities on the Condensed Consolidated Balance Sheets at September 30, 2011 and December 31, 2010. Based on the continued ability to trade and enter into forward contracts and interest rate swaps, we consider the markets for our derivative instruments to be active.

The Company evaluated the credit risk associated with the counterparties to these derivative instruments and determined that, as of September 30, 2011, such credit risks have not had an adverse impact on the fair value of these instruments.

The Company's contingent consideration liability of \$3.4 million is associated with the acquisition of Target. This liability was measured at fair value based on the potential payments of the liability associated with the unobservable input of the estimated post-acquisition financial results of Target through 2014 and, therefore, is a Level 3 liability. See Note 4, *Acquisitions*, for further discussion of this acquisition. There was no change in the estimated fair value from the acquisition date through September 30, 2011.

**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 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.

**Derivatives Designated as Cash Flow Hedges**

The Company's Term Loan Credit Agreement ("Term Loan") contains floating rate obligations and is subject to interest rate fluctuations. During 2009, the Company entered into interest rate swap agreements for the purposes of hedging the eight quarterly variable-rate interest payments on its Term Loan due in 2010 and 2011. These interest rate swap agreements are designated as cash flow hedges. They are intended to manage interest rate risk associated with the Company's variable-rate borrowings and minimize the impact of interest rate fluctuations on the Company's earnings and cash flows attributable to changes in LIBOR rates. The Company will include in earnings amounts currently included in accumulated other comprehensive income upon payment of its last remaining quarterly variable-rate interest payment.

The Company holds foreign exchange contracts designed to hedge forecasted transactions denominated in foreign currencies and to minimize the impact of foreign currency fluctuations on the Company's earnings and cash flows. Some of these contracts were designated as cash flow hedges. The Company will include in earnings amounts currently included in accumulated other comprehensive income upon recognition of cost of sales related to the underlying transactions.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**For the three months and nine months ended September 30, 2011 and October 1, 2010**  
(Unaudited)

**7. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)**

**Derivatives Designated as Cash Flow Hedges – Continued**

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

|                              |                        | Fair Value         |                   |                 |
|------------------------------|------------------------|--------------------|-------------------|-----------------|
|                              | Balance Sheet Location | September 30, 2011 | December 31, 2010 | Notional Amount |
| Derivative Liabilities       |                        |                    |                   |                 |
| Interest rate swap contracts | Other liabilities      | \$ 203             | \$ 806            | \$ 40,000       |
| Total                        |                        | \$ 203             | \$ 806            |                 |

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

|                              | <b>For the three months ended</b> |                        | <b>For the nine months ended</b> |                        |
|------------------------------|-----------------------------------|------------------------|----------------------------------|------------------------|
|                              | <b>September 30, 2011</b>         | <b>October 1, 2010</b> | <b>September 30, 2011</b>        | <b>October 1, 2010</b> |
| Interest rate swap contracts | \$ (3)                            | \$ (181)               | \$ (51)                          | \$ (774)               |
| Total                        | <u>\$ (3)</u>                     | <u>\$ (181)</u>        | <u>\$ (51)</u>                   | <u>\$ (774)</u>        |

During the three months and nine months ended September 30, 2011, the loss reclassified to earnings from other comprehensive income for derivative instruments designated as cash flow hedges was \$0.2 million and \$0.7 million, respectively. During the three months and nine months ended October 1, 2010, the loss reclassified to earnings from other comprehensive income for derivative instruments designated as cash flow hedges was \$0.1 million and \$0.4 million, respectively. Over the next twelve months, the Company expects to reclassify \$0.1 million to earnings from other comprehensive income for derivative instruments designated as cash flow hedges.

During the three months and nine months ended September 30, 2011 and October 1, 2010, no amounts were recorded for the ineffective portion of derivative instruments designated as cash flow hedges.

**Derivatives Not Designated as Hedging Instruments**

The following table shows the fair value of derivative instruments not designated as hedging instruments (in thousands):

|                            | Balance Sheet Location              | Fair Value         |                   | Notional Amount                   |
|----------------------------|-------------------------------------|--------------------|-------------------|-----------------------------------|
|                            |                                     | September 30, 2011 | December 31, 2010 |                                   |
| Derivative Assets          |                                     |                    |                   |                                   |
| Foreign exchange contracts | Other current assets                | \$ —               | \$ 10             | 0 / 350 Euro                      |
| Foreign exchange contracts | Other current assets / Other assets | 2,899              | 12,613            | 9,816 / 36,516 Australian Dollars |
| Foreign exchange contracts | Other current assets / Other assets | 72                 | —                 | \$5,418 / \$0                     |
| Total                      |                                     | \$ 2,971           | \$ 12,623         |                                   |

On February 12, 2009, the Company dedesignated the forward contract it had entered into to hedge \$36.5 million (AUD) of its \$39.5 million (AUD) future minimum required payments to the Commonwealth of Australia. Payments of \$26.8 million (AUD), of the \$36.5 million (AUD) hedged liability, were made through September 30, 2011. At September 30, 2011, the U.S. dollar value of the remaining \$9.8 million (AUD) hedged liability was \$9.5 million.

## 7. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

### Derivatives Not Designated as Hedging Instruments – Continued

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

| Statement of<br>Operations<br>Location |                    | For the three months ended |                    | For the nine months ended |                    |
|--|--------------------|----------------------------|--------------------|---------------------------|--------------------|
|  |                    | September 30,<br>2011      | October 1,<br>2010 | September 30,<br>2011     | October 1,<br>2010 |
| Derivative Assets                      |                    |                            |                    |                           |                    |
| Foreign exchange contracts             | Other expense, net | \$ —                       | \$ —               | \$ —                      | \$ 5               |
| Foreign exchange contracts (a)         | Other expense, net | (835)                      | 4,698              | (110)                     | 3,415              |
| Foreign exchange contracts             | Other expense, net | —                          | —                  | —                         | (55)               |
| Foreign exchange contracts             | Other expense, net | —                          | 16                 | —                         | 16                 |
| Foreign exchange contracts             | Other expense, net | 71                         | —                  | 71                        | —                  |
| Total                                  |                    | <u>\$ (764)</u>            | <u>\$ 4,714</u>    | <u>\$ —</u>               | <u>\$ 3,381</u>    |
|  |                    |                            |                    |                           |                    |
| Derivative Liabilities                 |                    |                            |                    |                           |                    |
| Foreign exchange contracts             | Other expense, net | \$ —                       | \$ —               | \$ (2)                    | \$ (61)            |
| Total                                  |                    | <u>\$ —</u>                | <u>\$ —</u>        | <u>\$ (2)</u>             | <u>\$ (61)</u>     |

- (a) For the three months and nine months ended September 30, 2011, the Company recorded income of \$1.1 million and \$0.8 million, respectively, in other (income) expense, net related to the change in the value of the previously hedged \$36.5 million (AUD) payable. For the three months and nine months ended October 1, 2010, the Company recorded expense of \$4.7 million and \$2.7 million, respectively, in other (income) expense, net related to the change in the value of the previously hedged \$36.5 million (AUD) payable.

### Hedges of a Net Investment in Foreign Operations

The Company did not reclassify any amounts related to hedges of a net investment in foreign operations from other comprehensive income to earnings during the three months and nine months ended September 30, 2011 or October 1, 2010. Over the next twelve months, the Company does not expect to reclassify any amounts related to the Euro note from other comprehensive income to earnings.

## 8. INVENTORIES

Inventories consist of the following (in thousands):

|                                     | September 30,<br>2011 | December 31,<br>2010 |
|-------------------------------------|-----------------------|----------------------|
| Merchandise for resale              | \$ 115,691            | \$ 113,841           |
| Contracts and other work in process | 199,070               | 184,210              |
| Finished goods                      | 12,803                | 18,848               |
| Total                               | <u>\$ 327,564</u>     | <u>\$ 316,899</u>    |

Inventories include amounts associated with matters such as contract changes, negotiated settlements and claims for unanticipated contract costs, which totaled \$9.9 million and \$10.4 million at September 30, 2011 and December 31, 2010, respectively. Of the inventory associated with claims, \$3.2 million relates to the FMU-143 matter. See Note 11, *Commitments and Contingencies*, for further discussion of this matter. The Company records costs associated with these matters in inventory only when recovery can be estimated reliably and realization is probable.

K-MAX® inventory of \$19.7 million and \$23.7 million as of September 30, 2011 and December 31, 2010, respectively, is included in other work in process and finished goods. The decrease in this balance reflects inventory being used on our contract for K-MAX® unmanned aircraft systems. Management believes that a significant portion of this K-MAX inventory will be sold after September 30, 2012, based upon the anticipation of supporting the fleet for the foreseeable future.

## 8. INVENTORIES (CONTINUED)

SH-2G(I), formerly SH-2G(A), inventory of \$52.7 million and \$53.7 million at September 30, 2011 and December 31, 2010, respectively, is included in contracts and other work in process inventory. Management believes that a significant portion of this inventory will be sold after September 30, 2012, based upon the time needed to market the aircraft and prepare them for sale.

## 9. ENVIRONMENTAL COSTS

The following table displays the activity and balances associated with accruals related to environmental costs included in other accruals and payables and other long-term liabilities (in thousands):

|                               |    |               |
|-------------------------------|----|---------------|
| Balance at December 31, 2010  | \$ | 15,012        |
| Additions to accrual          |    | 540           |
| Payments                      |    | (1,116)       |
| Changes in foreign currency   |    | 11            |
| Balance at September 30, 2011 | \$ | <u>14,447</u> |

For further discussion of these matters see Note 11, Commitments and Contingencies.

## 10. PENSION PLANS

Components of net pension cost for the Qualified Pension Plan and Supplemental Employees' Retirement Plan (SERP) are as follows (in thousands):

|                                  | Qualified Pension Plan     |                    | SERP                       |                    |
|----------------------------------|----------------------------|--------------------|----------------------------|--------------------|
|                                  | For the three months ended |                    | For the three months ended |                    |
|                                  | September 30,<br>2011      | October 1,<br>2010 | September 30,<br>2011      | October 1,<br>2010 |
| Service cost for benefits earned | \$ 3,021                   | \$ 2,752           | \$ 90                      | \$ 98              |
| Interest cost on projected       |                            |                    |                            |                    |
| benefit obligation               | 7,082                      | 7,185              | 129                        | 188                |
| Expected return on plan assets   | (8,581)                    | (7,987)            | —                          | —                  |
| Effect of curtailment            | —                          | —                  | —                          | 737                |
| Net amortization and deferral    | 1,695                      | 554                | 38                         | 105                |
| Net pension cost                 | <u>\$ 3,217</u>            | <u>\$ 2,504</u>    | <u>\$ 257</u>              | <u>\$ 1,128</u>    |
|                                  | Qualified Pension Plan     |                    | SERP                       |                    |
|                                  | For the nine months ended  |                    | For the nine months ended  |                    |
|                                  | September 30,<br>2011      | October 1,<br>2010 | September 30,<br>2011      | October 1,<br>2010 |
| Service cost for benefits earned | \$ 9,061                   | \$ 8,774           | \$ 270                     | \$ 278             |
| Interest cost on projected       |                            |                    |                            |                    |
| benefit obligation               | 21,244                     | 21,920             | 387                        | 592                |
| Expected return on plan assets   | (25,741)                   | (24,038)           | —                          | —                  |
| Effect of curtailment            | —                          | 221                | 560                        | 737                |
| Net amortization and deferral    | 5,086                      | 2,109              | 114                        | 232                |
| Net pension cost                 | <u>\$ 9,650</u>            | <u>\$ 8,986</u>    | <u>\$ 1,331</u>            | <u>\$ 1,839</u>    |

The Company has contributed \$19.6 million to the Qualified Pension Plan for the 2011 plan year, \$13.8 million of which was voluntary. The Company does not expect to make any further contributions to the Qualified Pension Plan during 2011. The Company expects to contribute \$4.4 million to the SERP for the 2011 plan year, \$4.3 million of which was contributed during the first nine months of 2011. For the 2010 plan year, the Company made contributions of \$35.7 million to the qualified plan and \$3.4 million to the SERP.

## **11. COMMITMENTS AND CONTINGENCIES**

### **Legal Matters**

#### FMU-143

As reported previously, the Company is involved in various litigation concerning its prior FMU-143 program at the Aerospace segment's Orlando facility ("Orlando Facility"). The suits involve (a) a civil action brought by the U.S. Government ("USG") under the False Claims Act in federal district court in Orlando alleging that the Company knowingly substituted the wrong version of the bellows motor into some FMU-143 lots, for which the current damages claim is approximately \$6 million and (b) various claims and counterclaims before the Armed Services Board of Contract Appeals (the "Board") concerning performance under the program, with the USG alleging that the Company owes the USG over \$15 million and the Company claiming that the USG owes it over \$8 million. During the third quarter, the parties began substantive settlement discussions to resolve these suits and those discussions continue. If a settlement is reached upon terms satisfactory to both parties, the Company could pay the USG up to \$5.0 million. In addition, there would be no admission of liability in either matter, which is consistent with management's view of its legal liability. Although a settlement is reasonably possible, no amount has been accrued for these matters as of September 30, 2011 due to the substantive nature of the non-financial settlement terms under discussion, including the USG approval process that must be followed for both the False Claim Act and Board matter. In the meantime, the trial originally scheduled for October 2011 in the False Claims Act matter has been postponed and the Board proceedings have been stayed.

If the settlement were to occur, the Company has net assets of \$2.2 million, primarily inventory, related to the counterclaim against the USG that would be at risk. Should the settlement terms be resolved to the satisfaction of both parties, the Company will evaluate the recoverability of these assets and record an impairment charge, if necessary.

#### Wichita Subpoena Matter

A grand jury subpoena has been issued out of the U.S. District Court for the District of Kansas to Kaman Composites-Wichita, in connection with a government investigation relating to record keeping associated with the manufacture of certain composite parts. Management is cooperating with the government's investigation and believes that it has fully complied with all legal obligations in connection with the manufacture of the parts in question. At September 30, 2011, 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 resolution of this matter at this time. The Company believes that the likelihood of an adverse outcome to this matter is remote.

### **Other Matters**

#### Revenue Sharing Agreement with the Commonwealth of Australia

Pursuant to the terms of its revenue sharing agreement with the Commonwealth of Australia, the Company will share all proceeds from the resale of the SH-2G(I), formerly SH-2G(A), aircraft, spare parts, and equipment with the Commonwealth on a predetermined basis, and a minimum of at least \$39.5 million (AUD) must be paid to the Commonwealth regardless of sales. Cumulative payments of \$26.8 million (AUD) have been made through September 30, 2011. Additional payments of \$6.4 million (AUD) each must be paid in March of 2012 and 2013 to the extent that cumulative payments have not yet reached \$33.1 million (AUD) and \$39.5 million (AUD) as of such dates, respectively.

To secure these payments, the Company has provided the Commonwealth with a \$12.7 million (AUD) unconditional letter of credit as of September 30, 2011, which is being reduced as such payments are made. As of September 30, 2011, the U.S. dollar value of the remaining \$12.7 million (AUD) required payment was \$12.3 million, of which \$6.1 million is due no later than March 2012. In late 2008, the Company entered into foreign currency exchange contracts that limit the foreign currency risks associated with these required payments. These contracts will enable the Company to purchase \$9.8 million (AUD) for \$6.3 million. See Note 7, *Derivative Financial Instruments*, for further discussion of these instruments.

## **11. COMMITMENTS AND CONTINGENCIES (CONTINUED)**

### **Other Matters - Continued**

#### 40 mm

The Orlando facility is one of five defendants in a *qui tam* suit under the False Claims Act brought by John D. King, a former employee of one of the other defendants. The case, United States ex rel. King v. DSE, Inc., et al., No. 9:08-cv-02416 (M.D. Fla.), is currently pending in the U.S. District Court for the Middle District of Florida. The United States Department of Justice has declined to intervene in the suit, and the case is being brought by Mr. King. The suit alleges that the Orlando facility knowingly submitted false claims or made false statements in connection with its work on 40 mm grenade programs. Management believes that it has fully complied with its legal obligations in connection with this program. At September 30, 2011, 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 resolution of this matter at this time. The Company believes that the likelihood of an adverse outcome to this matter is remote.

#### Moosup

The Connecticut Department of Environmental Protection (“CTDEP”) has given the Company approval for reclassification of groundwater in the vicinity of the Moosup, CT facility consistent with the character of the area. This facility is currently being held for disposal. The Company has completed the process of connecting neighboring properties to public drinking water in accordance with such approval and in coordination with the CTDEP and local authorities. Site characterization of the environmental condition of the property, which began in 2008, is continuing and is anticipated to be completed by the end of 2011.

The total anticipated cost of the environmental remediation activities associated with the Moosup property is \$4.2 million, all of which has been accrued. The total amount paid to date in connection with these environmental remediation activities is \$2.0 million. A portion (\$0.4 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.

#### New Hartford

In connection with the sale of the 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 leased space. The environmental assessment process, which began in 2008, is still in process.

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 previously reported estimates, 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 (\$0.5 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.

## **11. COMMITMENTS AND CONTINGENCIES (CONTINUED)**

### **Other Matters - Continued**

#### Bloomfield

In connection with the 2008 purchase of the portion of the Bloomfield campus that Kaman Aerospace Corporation had leased from 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 CTDEP. The assumed environmental liability of \$10.3 million 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 \$3.7 million. A portion (\$2.4 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. 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.

#### United Kingdom

In connection with the purchase of Kaman U.K. Composites ("U.K. Composites"), the Company accrued, at the time of acquisition, £1.6 million for environmental compliance at the facilities. The remaining balance of the accrual at September 30, 2011 was £0.9 million, with £0.5 million having been paid to date in connection with these environmental remediation activities and £0.2 million released to income. The U.S. dollar equivalent of the remaining environmental compliance liability as of September 30, 2011, is \$2.5 million, which is included in other accruals and payables. The Company continues to assess the work that may be required, which may result in a change to this accrual. 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.

## **12. DEBT**

### **Revolving Credit and Term Loan Agreements**

In June 2011, the Company amended its \$275.0 million Amended and Restated Revolving Credit Agreement and its Second Amended and Restated Term Loan Credit Agreement. These amendments allowed the Company to reduce the interest rate for these facilities to LIBOR plus 137.5 basis points compared to an interest rate of LIBOR plus 200.0 basis points prior to the amendments. In addition, the Company amended the required quarterly commitment fees on the unused revolving loan commitment amount from 0.35% to 0.50% per annum to 0.225% to 0.35% per annum, and the fees for outstanding letters of credit from 2.00% to 3.00% to 1.375% to 2.25%, based on the leverage ratio as defined in the agreements. These amendments did not result in any other changes to these facilities.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**For the three months and nine months ended September 30, 2011 and October 1, 2010**  
(Unaudited)

**13. 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 includes the common stock equivalency of convertible debt and dilutive option awards granted to employees under the Stock Incentive Plan.

|   | <b>For the three months ended</b>        |                            | <b>For the nine months ended</b> |                            |
|---|--|----------------------------|----------------------------------|----------------------------|
|   | <b>September 30,<br/>2011</b>            | <b>October 1,<br/>2010</b> | <b>September 30,<br/>2011</b>    | <b>October 1,<br/>2010</b> |
|   | (in thousands, except per share amounts) |                            |                                  |                            |
| Net earnings  | \$ 12,359                                | \$ 15,825                  | \$ 39,366                        | \$ 23,628                  |
| <b>Basic:</b>   |  |                            |                                  |                            |
| Weighted average shares outstanding                                       | 26,339                                   | 25,956                     | 26,250                           | 25,904                     |
| Basic earnings per share  | <u>\$ 0.47</u>                           | <u>\$ 0.61</u>             | <u>\$ 1.50</u>                   | <u>\$ 0.91</u>             |
| <b>Diluted:</b>   |  |                            |                                  |                            |
| Weighted average shares outstanding                                       | 26,339                                   | 25,956                     | 26,250                           | 25,904                     |
| Weighted average shares issuable on exercise of<br>dilutive stock options | 222                                      | 148                        | 238                              | 167                        |
| Weighted average shares issuable on exercise of<br>convertible notes      | —  | —                          | 42                               | —                          |
| Weighted average diluted shares outstanding                               | <u>26,561</u>                            | <u>26,104</u>              | <u>26,530</u>                    | <u>26,071</u>              |
| Diluted earnings per share  | <u>\$ 0.47</u>                           | <u>\$ 0.61</u>             | <u>\$ 1.48</u>                   | <u>\$ 0.91</u>             |

Excluded from the diluted earnings per share calculation for the three months and nine months ended September 30, 2011, respectively, are 165,482 and 233,965 anti-dilutive option awards granted to employees. Excluded from the diluted earnings per share calculation for the three months and nine months ended October 1, 2010, respectively, are 519,625 and 519,903 anti-dilutive option awards granted to employees.

In November 2010, the Company issued Convertible Notes due on November 15, 2017 in the aggregate principal amount of \$115.0 million. No shares were issuable under the Convertible Notes as the exercise price for the Convertible Notes was greater than the average share price for the three-month period. Shares issuable under the Convertible Notes that were dilutive during the nine-month period have been included in the calculation of earnings per share for the nine months ended September 30, 2011. Excluded from the diluted earnings per share calculation for the three months and nine months ended September 30, 2011 are 3,386,739 shares issuable under the warrants with a strike price of \$44.40 sold in connection with the Company's convertible note offering as they would be anti-dilutive.

#### 14. SHARE-BASED ARRANGEMENTS

##### Stock Plan Activity

The following table summarizes share-based compensation expense recorded during each period presented (in thousands):

|                                | For the three months ended |                 | For the nine months ended |                 |
|--------------------------------|----------------------------|-----------------|---------------------------|-----------------|
|                                | September 30, 2011         | October 1, 2010 | September 30, 2011        | October 1, 2010 |
| Stock options                  | \$ 351                     | \$ 280          | \$ 1,385                  | \$ 1,136        |
| Restricted stock awards        | 627                        | 491             | 3,912                     | 2,181           |
| Stock appreciation rights      | —                          | 72              | 179                       | 46              |
| Employee stock purchase plan   | 87                         | 70              | 244                       | 204             |
| Total share-based compensation | <u>\$ 1,065</u>            | <u>\$ 913</u>   | <u>\$ 5,720</u>           | <u>\$ 3,567</u> |

Stock option activity was as follows:

|  | For the three months ended<br>September 30, 2011 |                                 | For the nine months ended<br>September 30, 2011 |                                 |
|--|--|---------------------------------|---|---------------------------------|
|  | Stock Options                                    | Weighted-average exercise price | Stock Options                                   | Weighted-average exercise price |
| Stock options outstanding at beginning of period | 1,001,005  | \$ 23.29                        | 985,079   | \$ 20.81                        |
| Granted  | —  | —                               | 183,815   | 31.78                           |
| Exercised  | (2,026)  | 18.33                           | (159,151)                                       | 17.96                           |
| Forfeited or expired                             | —  | —                               | (10,764)  | 19.61                           |
| Stock options outstanding at September 30, 2011  | <u>998,979</u>                                   | <u>\$ 23.30</u>                 | <u>998,979</u>                                  | <u>\$ 23.30</u>                 |

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 |                 | For the nine months ended |                 |
|---|----------------------------|-----------------|---------------------------|-----------------|
|   | September 30, 2011         | October 1, 2010 | September 30, 2011        | October 1, 2010 |
| Expected option term                    | —                          | —               | 6.5 years                 | 6.5 years       |
| Expected volatility                     | —%                         | —%              | 43.9%                     | 46.1%           |
| Risk-free interest rate                 | —%                         | —%              | 2.9%                      | 3.2%            |
| Expected dividend yield                 | —%                         | —%              | 2.2%                      | 3.3%            |
| Per share fair value of options granted | \$ —                       | \$ —            | \$ 12.05                  | \$ 9.28         |

There were no stock options granted during the three months ended September 30, 2011 and October 1, 2010.

#### 14. SHARE-BASED ARRANGEMENTS (CONTINUED)

##### Stock Plan Activity - Continued

Restricted Stock activity was as follows:

|   | For the three months ended<br>September 30, 2011 |   | For the nine months ended<br>September 30, 2011 |   |
|---|--|---|---|---|
|   | Restricted Stock<br>Awards                       | Weighted-<br>average grant<br>date fair value | Restricted Stock<br>Awards                      | Weighted-<br>average grant<br>date fair value |
| Restricted Stock outstanding at beginning of period | 337,919  | \$ 25.73                                      | 287,761   | \$ 22.84                                      |
| Granted   | —  | —   | 170,934   | 31.94   |
| Vested  | (11,100)   | 30.27   | (130,494)                                       | 27.89   |
| Forfeited or expired                                | —  | —   | (1,382)   | 24.56   |
| Restricted Stock outstanding at September 30, 2011  | 326,819  | \$ 25.58                                      | 326,819   | \$ 25.58                                      |

Stock Appreciation Rights (“SARs”) activity was as follows:

|   | For the three months ended<br>September 30, 2011 |  | For the nine months ended<br>September 30, 2011 |  |
|---|--|--|---|--|
|   | Stock<br>Appreciation<br>Rights (SARs)           | Weighted-<br>average exercise<br>price | Stock<br>Appreciation<br>Rights (SARs)          | Weighted-<br>average exercise<br>price |
| SARs outstanding at beginning of period | —  | \$ —                                   | 21,700  | \$ 10.66                               |
| Granted                                 | —  | —                                      | —   | —                                      |
| Exercised                               | —  | —                                      | (21,700)  | 10.66                                  |
| Forfeited or expired                    | —  | —                                      | —   | —                                      |
| SARs outstanding at September 30, 2011  | —  | \$ —                                   | —   | \$ —                                   |

The Company made payments of \$0.6 million to settle stock appreciation rights (at intrinsic value) during the nine months ended September 30, 2011. No cash was paid to settle stock appreciation rights during the three months ended September 30, 2011. No cash was paid to settle stock appreciation rights during the three months and nine months ended October 1, 2010.

#### 15. GOODWILL AND OTHER INTANGIBLE ASSETS, NET

##### Goodwill

The following table sets forth the change in the carrying amount of goodwill for each segment and for the Company:

|                                    | Industrial<br>Distribution | Aerospace | Total      |
|------------------------------------|----------------------------|-----------|------------|
| <i>In thousands</i>                |                            |           |            |
| Gross balance at December 31, 2010 | \$ 39,868                  | \$ 89,131 | \$ 128,999 |
| Accumulated impairment             | —                          | (14,181)  | (14,181)   |
| Net balance at December 31, 2010   | 39,868                     | 74,950    | 114,818    |
| Additions                          | 8,974                      | 637       | 9,611      |
| Exchange rate changes              | (87)                       | 42        | (45)       |
| Net balance at September 30, 2011  | \$ 48,755                  | \$ 75,629 | \$ 124,384 |

**15. GOODWILL AND OTHER INTANGIBLE ASSETS, NET (CONTINUED)**

**Goodwill - Continued**

The additions to the goodwill balance relate to the Industrial Distribution segment's two acquisitions during 2011 and earn out payments made to the former owners of one of the Aerospace segment's earlier acquisitions. The two Industrial Distribution acquisitions were the acquisition of Target, discussed in Note 4, *Acquisitions*, and a distribution business comprised of two locations for a purchase price of \$0.9 million. Both have been merged into the Company's existing distribution operations.

**Other Intangible Assets**

Other intangible assets consisted of:

|                                  | Amortization<br>Period | At September 30, 2011 |                             | At December 31, 2010 |                             |
|----------------------------------|------------------------|-----------------------|-----------------------------|----------------------|-----------------------------|
|                                  |                        | Gross<br>Amount       | Accumulated<br>Amortization | Gross<br>Amount      | Accumulated<br>Amortization |
| <i>In thousands</i>              |                        |                       |                             |                      |                             |
| Customer lists / relationships   | 8-21 years             | \$ 55,262             | \$ (7,853)                  | \$ 50,798            | \$ (5,135)                  |
| Trademarks / trade names         | 3-7 years              | 1,474                 | (625)                       | 1,396                | (403)                       |
| Patents                          | 17 years               | 636                   | (463)                       | 657                  | (442)                       |
| Non-compete agreements and other | 1-9 years              | 3,980                 | (2,011)                     | 3,902                | (1,345)                     |
| Total                            |                        | \$ 61,352             | \$ (10,952)                 | \$ 56,753            | \$ (7,325)                  |

The increase in the intangible asset balance relates primarily to the Industrial Distribution acquisitions mentioned above, payments made by the Company's Aerospace segment in accordance with an exclusive teaming arrangement and fluctuations in foreign currency exchange rates.

In order to determine the useful life of the customer lists/relationships acquired in 2011, the Company considered numerous factors, most importantly the industry considerations associated with the acquired entity. The Company determined the amortization period for the customer lists/relationships intangible assets for its Industrial Distribution acquisitions in 2011 based primarily on an analysis of their historical customer sales attrition information.

## 16. SEGMENT 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.

| <i>In thousands</i>               | For the three months ended |                    | For the nine months ended |                    |
|-----------------------------------|----------------------------|--------------------|---------------------------|--------------------|
|                                   | September 30,<br>2011      | October 1,<br>2010 | September 30,<br>2011     | October 1,<br>2010 |
| <b>Net sales:</b>                 |                            |                    |                           |                    |
| Industrial Distribution           | \$ 239,132                 | \$ 223,127         | \$ 717,309                | \$ 613,310         |
| Aerospace                         | 117,388                    | 136,418            | 402,120                   | 340,094            |
| Net sales                         | \$ 356,520                 | \$ 359,545         | \$ 1,119,429              | \$ 953,404         |
| <b>Operating income:</b>          |                            |                    |                           |                    |
| Industrial Distribution           | \$ 11,869                  | \$ 8,494           | \$ 35,853                 | \$ 21,019          |
| Aerospace                         | 18,694                     | 19,017             | 61,515                    | 40,764             |
| Net gain (loss) on sale of assets | (14)                       | (5)                | (50)                      | 515                |
| Corporate expense                 | (10,207)                   | (7,914)            | (30,292)                  | (27,023)           |
| Operating income                  | 20,342                     | 19,592             | 67,026                    | 35,275             |
| Interest expense, net             | 2,733                      | (3,529)            | 8,624                     | 862                |
| Other income, net                 | (176)                      | (24)               | (590)                     | (691)              |
| Earnings before income taxes      | 17,785                     | 23,145             | 58,992                    | 35,104             |
| Income tax expense                | 5,426                      | 7,320              | 19,626                    | 11,476             |
| Net earnings                      | \$ 12,359                  | \$ 15,825          | \$ 39,366                 | \$ 23,628          |

Included in Corporate expense for the three months and nine months ended September 30, 2011 is \$0.3 million and \$0.4 million, respectively of costs incurred in connection with acquisitions. Included in Corporate expense for the nine months ended October 1, 2010 is \$1.1 million of costs incurred in connection with acquisitions.

## 17. SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME

Changes in shareholders' equity for the nine months ended September 30, 2011, were as follows (in thousands):

|   |                   |
|---|-------------------|
| Balance at December 31, 2010                                      | \$ 362,670        |
| Net earnings  | 39,366            |
| Change in pension & post-retirement benefit plan liabilities, net | 3,231             |
| Foreign currency translation adjustment, net                      | (1,386)           |
| Unrealized gain (loss) on derivative instruments, net             | 378               |
| Dividends declared  | (11,555)          |
| Employee stock plans and related tax benefit                      | 4,539             |
| Purchase of treasury shares                                       | (3,372)           |
| Share-based compensation activity                                 | 5,541             |
| Balance at September 30, 2011                                     | <u>\$ 399,412</u> |

**17. SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME (CONTINUED)**

Comprehensive income (loss) is shown below (in thousands):

|  | <b>For the three months ended</b> |                            |
|--|-----------------------------------|----------------------------|
|  | <b>September 30,<br/>2011</b>     | <b>October 1,<br/>2010</b> |
| Net earnings   | \$ 12,359                         | \$ 15,825                  |
| Change in pension and post-retirement benefit plan liabilities,<br>net of tax of expense of \$660 and \$250, respectively      | 1,077                             | 408                        |
| Foreign currency translation adjustment  | (6,088)                           | 5,286                      |
| Unrealized gain (loss) on derivative instruments,<br>net of tax expense of \$81 and tax benefit of \$14, respectively          | 135                               | (23)                       |
| Comprehensive income   | <u>\$ 7,483</u>                   | <u>\$ 21,496</u>           |
|  |                                   |                            |
|  | <b>For the nine months ended</b>  |                            |
|  | <b>September 30,<br/>2011</b>     | <b>October 1,<br/>2010</b> |
| Net earnings   | \$ 39,366                         | \$ 23,628                  |
| Change in pension and post-retirement benefit plan liabilities,<br>net of tax of expense of \$1,980 and \$15,872, respectively | 3,231                             | 25,897                     |
| Foreign currency translation adjustment  | (1,386)                           | (2,917)                    |
| Unrealized gain (loss) on derivative instruments,<br>net of tax expense of \$231 and tax benefit of \$136, respectively        | 378                               | (222)                      |
| Comprehensive income   | <u>\$ 41,589</u>                  | <u>\$ 46,386</u>           |

Expenses reclassified from other comprehensive income into net earnings associated with pension and post-retirement benefit plans were \$1.7 million and \$5.2 million for the three months and nine months ended September 30, 2011, respectively. Expenses reclassified from other comprehensive income into net earnings associated with pension and post-retirement benefit plans were \$0.6 million and \$2.3 million for the three months and nine months ended October 1, 2010, respectively.

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

|   | <b>As of</b>                  |                              |
|---|-------------------------------|------------------------------|
|   | <b>September 30,<br/>2011</b> | <b>December 31,<br/>2010</b> |
| Changes in pension and post-retirement benefit plan liabilities | \$ (63,217)                   | \$ (66,448)                  |
| Foreign currency translation adjustment                         | (20,267)                      | (18,881)                     |
| Unrealized gain (loss) on derivative instruments                | (593)                         | (971)                        |
| Accumulated other comprehensive income (loss)                   | <u>\$ (84,077)</u>            | <u>\$ (86,300)</u>           |

## **18. SUBSEQUENT EVENTS**

The Company has evaluated subsequent events through the issuance date of these financial statements. The following material subsequent events were identified that required disclosure:

### *Acquisitions*

On November 2, 2011, the Company entered into an agreement to acquire Vermont Composites, for \$40.0 million. Vermont Composites, located in Bennington, VT, designs and manufactures composite aerostructures and advanced composite medical equipment. Annual sales for 2011 are expected to be approximately \$32.0 million. This acquisition supports the Company's strategy of adding scale in aerospace, particularly in higher growth composite markets, through acquisitions. The Company will include this acquisition in its Aerospace segment and expects to close this transaction in early November.

### *Other Matters*

As a result of the recent weather impacting the northeast, the Company's Bloomfield, CT facilities are experiencing prolonged power outages. The Company is assessing the impact, if any, that these power outages might have on its financial performance in the fourth quarter.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to provide readers of our consolidated financial statements with the perspectives of management. The MD&A presents in narrative form information regarding our financial condition, results of operations, liquidity and certain other factors that may affect our future results. This will allow our shareholders to obtain a comprehensive understanding of our businesses, strategies, current trends and future prospects. Our MD&A should be read in conjunction with the Consolidated Financial Statements and related Notes included in our 2010 Form 10-K.

### OVERVIEW OF BUSINESS

Kaman Corporation is composed of two business segments:

- Industrial Distribution, the third largest power transmission/motion control industrial distributor in North America.
- Aerospace, a manufacturer and subcontractor in the commercial and military aerospace markets.

The following is a summary of our financial performance and a recap of key events:

#### *Financial Performance*

- Net sales decreased 0.8% for the three months ended September 30, 2011, compared to the comparable period in the prior year. Net sales increased 17.4% for the nine months ended September 30, 2011, compared to the comparable period in the prior year.
- Net earnings were \$12.4 million for the three months ended September 30, 2011, a decrease of \$3.5 million compared to the comparable period in the prior year. Net earnings were \$39.4 million for the nine months ended September 30, 2011, an increase of \$15.7 million compared to the comparable period in the prior year.
- Global Aerosystems, acquired in December 2010, was accretive to net earnings for the three months and nine months ended September 30, 2011.
- Diluted earnings per share was \$0.47 for the three months ended September 30, 2011, a decrease of \$0.14 compared to the comparable period in the prior year. Diluted net earnings per share was \$1.48 for the nine months ended September 30, 2011, an increase of \$0.57 compared to the comparable period in the prior year.
- Cash flows provided by operating activities were \$15.5 million for the nine months ended September 30, 2011, a decrease of \$11.6 million when compared to the comparable period in the prior year.
- Results for the three months and nine months ended October 1, 2010 include the receipt of \$6.6 million related to a claim for look-back interest we filed with the Internal Revenue Service in connection with the Australian SH-2G(A) Super Seasprite Helicopter program. This was recorded as interest income in the prior year.

#### *Key Events*

- On September 29, 2011, the U.S. Navy and U.S. Marine Corps selected the Lockheed Martin/Kaman Unmanned K-MAX for deployment to Afghanistan. The decision followed the successful completion of a five-day Quick Reaction Assessment for the U.S. Navy's Cargo Unmanned Aircraft Systems (UAS) program.
- During the third quarter of 2011 we experienced an issue during acceptance testing of fuzes produced for our Joint Programmable Fuze ("JPF") program that caused us to halt production. The acceptance testing failures resulted from issues with test equipment and testing procedures, as well as an isolated component failure. In cooperation with our customer, we analyzed, tested and verified the root cause of the recent acceptance testing failures and developed a plan to remediate the issue. As a result, we expect to return to acceptance testing in early November.
- The recent JPF competitive source selection by the U.S. Government has transitioned into a sole source negotiation between us and the United States Air Force ("USAF"). Based on the time needed for the U.S. Government to audit our proposal, and for contract negotiations to be completed, contract award is not expected until mid 2012.
- On September 2, 2011, the Company acquired Target Electronic Supply ("Target") for \$14.2 million, inclusive of working capital adjustments and contingent consideration. Target has become part of the Company's Industrial Distribution segment.
- Through September 30, 2011, we have made cumulative payments of \$26.8 million (AUD) to the Commonwealth of Australia in accordance with our settlement agreement related to the SH-2G(A) Helicopters. Of this amount, \$23.9 million (AUD) was paid in the first nine months of 2011, of which \$23.8 million (AUD) was paid on March 14, 2011. At the exchange rate in effect on that date, the U.S. dollar value of the payment was \$24.1 million; however, through the use of the Australian dollar foreign currency exchange contracts entered into in 2008 we were able to acquire the \$23.8 million (AUD) for \$15.5 million.
- During the second quarter, we amended our Revolving Credit Facility and Term Loan Agreement. The amendments, among other things, allowed us to reduce the interest rates on these facilities to LIBOR plus 137.5 basis points compared to an interest rate of LIBOR plus 200.0 basis points prior to the amendments.

- During the first quarter, we were awarded a \$23.8 million order from the USAF under Option 8 of our JPF program. During the second quarter, we were awarded an additional \$23.7 million order from the USAF under Option 8 of our JPF program and a commercial JPF foreign military order of \$3.1 million.

On November 2, 2011 our Aerospace segment entered into an agreement to acquire Vermont Composites, for \$40.0 million. Vermont Composites, located in Bennington, VT, designs and manufactures composite aerostructures and advanced composite medical equipment. Annual sales for 2011 are expected to be approximately \$32.0 million. This acquisition supports our strategy of adding scale in aerospace, particularly in higher growth composite markets, through acquisitions. We expect to close this transaction in early November.

### Outlook

For 2011, we are updating our guidance as follows:

- Industrial Distribution:
  - Sales of approximately \$950 million up 14% over 2010
  - Operating margin between 4.8% and 5.0%
- Aerospace:
  - Sales of approximately \$560 million up 15% over 2010
  - Operating margin between 15.3% and 15.5%
- Corporate expenses of approximately \$43.0 million to \$44.0 million for the year <sup>(1)</sup>
- Interest expense of approximately \$12.0 million
- Estimated tax rate of 34.0%
- Free cash flow in the range of \$15.0 to \$20.0 million

<sup>(1)</sup> The outlook for corporate expenses excludes the non-recurring benefit of \$2.4 million recognized in the first quarter of 2011, resulting from the death of a former executive.

## CONSOLIDATED RESULTS OF OPERATIONS

### Net Sales

|           | For the three months ended |                    | For the nine months ended |                    |
|-----------|----------------------------|--------------------|---------------------------|--------------------|
|           | September 30,<br>2011      | October 1,<br>2010 | September 30,<br>2011     | October 1,<br>2010 |
|           | (in thousands)             |                    |                           |                    |
| Net Sales | \$ 356,520                 | \$ 359,545         | \$ 1,119,429              | \$ 953,404         |
| \$ change | (3,025)                    | 69,644             | 166,025                   | 76,245             |
| % change  | (0.8)%                     | 24.0%              | 17.4%                     | 8.7%               |

The decrease in net sales for the three months ended September 30, 2011 versus the comparable period in 2010 was attributable to a decrease in sales at our Aerospace segment, offset in part by an increase in sales at our Industrial Distribution segment. Foreign currency exchange rates had a favorable impact of \$1.2 million on sales during the three months ended September 30, 2011. See segment discussion below for additional information.

The increase in net sales for the nine months ended September 30, 2011 versus the comparable period in 2010 was attributable to an increase in sales at both our segments. Foreign currency exchange rates had a \$4.3 million favorable impact on sales during the nine months ended September 30, 2011. See segment discussion below for additional information.

## Gross Profit

|                | For the three months ended |                    | For the nine months ended |                    |
|----------------|----------------------------|--------------------|---------------------------|--------------------|
|                | September 30,<br>2011      | October 1,<br>2010 | September 30,<br>2011     | October 1,<br>2010 |
|                | (in thousands)             |                    |                           |                    |
| Gross Profit   | \$ 101,301                 | \$ 93,763          | \$ 311,748                | \$ 249,778         |
| \$ change      | 7,538                      | 17,071             | 61,970                    | 16,920             |
| % change       | 8.0%                       | 22.3%              | 24.8%                     | 7.3%               |
| % of net sales | 28.4%                      | 26.1%              | 27.8%                     | 26.2%              |

Gross profit increased for the three months and nine months ended September 30, 2011 versus the comparable periods in 2010. The increase for the three-month period was primarily due to organic increases in gross profit at our Industrial Distribution segment and the contribution of gross profit from our 2010 and 2011 acquisitions. These increases were partially offset by a decrease in gross profit at our Aerospace segment. The organic increase in gross profit in our Industrial Distribution segment was primarily a result of higher sales volume compared to the prior year and higher gross margin rates despite increased competitive price pressures. The organic decrease in gross profit in our Aerospace segment was due to decreased gross profit resulting from fewer shipments under our JPF fuze program to the USG, lower volume in our helicopter aftermarket programs and a reduction in C-17 program volume. These decreases were partially offset by increased sales volume related to our bearing product lines for the commercial and regional / business jet markets and the absence of program related losses at our Aerospace Wichita facility, including the \$2.0 million charge resulting from the resolution of the Sikorsky Canadian MH-92 contract negotiations in the third quarter of 2010.

The increase for the nine-month period was primarily due to organic increases in gross profit at both our segments and the contribution of gross profit from our 2010 and 2011 acquisitions. The organic increase in gross profit in our Aerospace segment was due to increased sales volume related to our bearing product lines for the commercial and regional / business jet markets and the absence of program related losses at our Aerospace Wichita facility, including the \$2.0 million charge resulting from the resolution of the Sikorsky Canadian MH-92 contract negotiations in 2010 and commercial sales to foreign militaries of the JPF fuze. These increases were partially offset by decreased gross profit resulting from fewer shipments under our JPF fuze program to the USG, lower volume in our helicopter aftermarket programs and a reduction in C-17 program volume. The organic increase in gross profit in our Industrial Distribution segment was primarily a result of higher sales volume compared to the prior year and higher gross margin rates despite increased competitive price pressures.

## Selling, General & Administrative Expenses (S,G&A)

|                | For the three months ended |                    | For the nine months ended |                    |
|----------------|----------------------------|--------------------|---------------------------|--------------------|
|                | September 30,<br>2011      | October 1,<br>2010 | September 30,<br>2011     | October 1,<br>2010 |
|                | (in thousands)             |                    |                           |                    |
| S,G and A      | \$ 80,945                  | \$ 74,166          | \$ 244,672                | \$ 215,018         |
| \$ change      | 6,779                      | 12,143             | 29,654                    | 22,359             |
| % change       | 9.1%                       | 19.6%              | 13.8%                     | 11.6%              |
| % of net sales | 22.7%                      | 20.6%              | 21.9%                     | 22.6%              |

S,G&A increased for the three months and nine months ended September 30, 2011 versus the comparable periods in 2010 due to increased expenses at both our segments, including \$1.3 million and \$12.8 million of expense related to our 2010 and 2011 acquisitions for the three-month and nine-month periods, respectively, and an increase in our Corporate expenses.

The higher expense at our Industrial Distribution segment was attributable to acquisitions and an increase in variable costs such as sales commissions and other employee related costs resulting from the higher sales volume. The increase in expense at our Aerospace segment for the three-month period was primarily due to the additional expenses resulting from the 2010 acquisition of Global Aerosystems and higher employee related costs. The increase in expense at our Aerospace segment for the nine-month period was primarily due to the additional expenses resulting from the 2010 acquisition of Global Aerosystems, higher employee related costs and an increase in legal fees associated with the FMU-143 program litigation.

The increase in our Corporate expenses was primarily due to increased incentive compensation expense and higher group health insurance expense. For the nine-month period these increases were offset by lower acquisition related costs and a non-recurring benefit of \$2.4 million associated with the death of a former executive.

#### *Operating Income*

|                  | <b>For the three months ended</b> |                            | <b>For the nine months ended</b> |                            |
|------------------|-----------------------------------|----------------------------|----------------------------------|----------------------------|
|                  | <b>September 30,<br/>2011</b>     | <b>October 1,<br/>2010</b> | <b>September 30,<br/>2011</b>    | <b>October 1,<br/>2010</b> |
|                  | (in thousands)                    |                            |                                  |                            |
| Operating Income | \$ 20,342                         | \$ 19,592                  | \$ 67,026                        | \$ 35,275                  |
| \$ change        | 750                               | 4,926                      | 31,751                           | (4,961)                    |
| % change         | 3.8%                              | 33.6%                      | 90.0%                            | (12.3)%                    |
| % of net sales   | 5.7%                              | 5.4%                       | 6.0%                             | 3.7 %                      |

The increase in operating income for the three months ended September 30, 2011 versus the same period in 2010 was driven by an increase in operating income in our Industrial Distribution segment, which was partially offset by a decrease in operating income in our Aerospace segment and higher Corporate expenses. The increase in operating income for the nine months ended September 30, 2011 versus the same period in 2010 was driven by increases in operating income at both our segments. See segment discussion below for additional information.

#### *Interest Expense, Net*

|                       | <b>For the three months ended</b> |                            | <b>For the nine months ended</b> |                            |
|-----------------------|-----------------------------------|----------------------------|----------------------------------|----------------------------|
|                       | <b>September 30,<br/>2011</b>     | <b>October 1,<br/>2010</b> | <b>September 30,<br/>2011</b>    | <b>October 1,<br/>2010</b> |
|                       | (in thousands)                    |                            |                                  |                            |
| Interest Expense, net | \$ 2,733                          | \$ (3,529)                 | \$ 8,624                         | \$ 862                     |

Net interest expense generally consists of interest charged on the revolving credit facility and other borrowings and the amortization of debt issuance costs, offset by interest income. The increases in net interest expense for the three months and nine months ended September 30, 2011 versus the comparable periods in 2010 were primarily due to the absence of the \$6.6 million of look-back interest received in the prior year, interest expense on our convertible notes and higher amortization of capitalized fees, partly offset by lower average borrowings during each period.

#### *Effective Income Tax Rate*

|                           | <b>For the three months ended</b> |                            | <b>For the nine months ended</b> |                            |
|---------------------------|-----------------------------------|----------------------------|----------------------------------|----------------------------|
|                           | <b>September 30,<br/>2011</b>     | <b>October 1,<br/>2010</b> | <b>September 30,<br/>2011</b>    | <b>October 1,<br/>2010</b> |
|                           | (in thousands)                    |                            |                                  |                            |
| Effective Income Tax Rate | 30.5%                             | 31.6%                      | 33.3%                            | 32.7%                      |

The effective tax rate represents the combined federal, state and foreign tax effects attributable to pretax earnings for the year. We anticipate the effective tax rate in 2011 will be approximately 34.0%. The tax rate for the three months ended September 30, 2011 was favorably impacted by discrete quarterly adjustments, including a tax rate decrease enacted in the U.K.

#### *Other Matters*

Information regarding our various environmental remediation activities and associated accruals can be found in Note 11, Commitments and Contingencies, in the Notes to Condensed Consolidated Financial Statements.

## SEGMENT RESULTS OF OPERATIONS AND FINANCIAL CONDITION

### Industrial Distribution Segment

#### *Results of Operations*

|                                 | For the three months ended |                    | For the nine months ended |                    |
|---------------------------------|----------------------------|--------------------|---------------------------|--------------------|
|                                 | September 30,<br>2011      | October 1,<br>2010 | September 30,<br>2011     | October 1,<br>2010 |
|                                 | (in thousands)             |                    |                           |                    |
| Net sales                       | \$ 239,132                 | \$ 223,127         | \$ 717,309                | \$ 613,310         |
| \$ change                       | 16,005                     | 60,206             | 103,999                   | 117,529            |
| % change                        | 7.2%                       | 37.0%              | 17.0%                     | 23.7%              |
| Acquisition sales               | \$ 1,089                   | \$ —               | \$ 49,042                 | \$ —               |
| Organic sales                   | \$ 238,043                 | \$ 223,127         | \$ 668,267                | \$ 613,310         |
| Sales days                      | 63                         | 63                 | 192                       | 192                |
| Organic sales per sales day (a) | \$ 3,778                   | \$ 3,542           | \$ 3,481                  | \$ 3,194           |
| Operating income                | \$ 11,869                  | \$ 8,494           | \$ 35,853                 | \$ 21,019          |
| \$ change                       | 3,375                      | 5,106              | 14,834                    | 11,787             |
| % change                        | 39.7%                      | 150.7%             | 70.6%                     | 127.7%             |
| % of net sales                  | 5.0%                       | 3.8%               | 5.0%                      | 3.4%               |

(a) Organic sales per sales day is a metric management uses to evaluate performance trends at its Industrial Distribution segment and is calculated by taking total organic sales for the quarter divided by the number of sales days during the quarter. An acquisition is included in organic sales beginning with the thirteenth month following the date of acquisition. See Management's Discussion and Analysis of Financial Condition and Results of Operations - Non-GAAP Financial Measures.

### Net Sales

Net sales for the three months and nine months ended September 30, 2011 increased versus the comparable periods in 2010 due to increases of 6.7% and 9.0%, respectively, in organic sales for each period and the incremental sales associated with the three acquisitions completed in 2010 and the acquisition of Target during the third quarter of 2011. The growth in organic sales is due to increases in sales volume to both Original Equipment Manufacturer ("OEM") and Maintenance, Repair and Operations ("MRO") customers and the impact of favorable foreign currency exchange rates for the three months and nine months ended September 30, 2011 of \$0.5 million and \$1.9 million, respectively.

### Operating Income

Operating income increased for the three months and nine months ended September 30, 2011 versus the comparable periods in 2010 primarily due to the increased sales volume and the resulting impact on our ability to leverage operating costs, higher gross margin and the contribution of operating income by our acquisitions. The increases were partially offset by an increase in variable costs such as sales commissions and other employee related costs resulting from the higher sales volume.

## Aerospace Segment

### *Results of Operations*

|                  | For the three months ended |                    | For the nine months ended |                    |
|------------------|----------------------------|--------------------|---------------------------|--------------------|
|                  | September 30,<br>2011      | October 1,<br>2010 | September 30,<br>2011     | October 1,<br>2010 |
| (in thousands)   |                            |                    |                           |                    |
| Net sales        | \$ 117,388                 | \$ 136,418         | \$ 402,120                | \$ 340,094         |
| \$ change        | (19,030)                   | 9,438              | 62,026                    | (41,284)           |
| % change         | (13.9)%                    | 7.4 %              | 18.2%                     | (10.8)%            |
| Operating income | \$ 18,694                  | \$ 19,017          | \$ 61,515                 | \$ 40,764          |
| \$ change        | (323)                      | (889)              | 20,751                    | (16,039)           |
| % change         | (1.7)%                     | (4.5)%             | 50.9%                     | (28.2)%            |
| % of net sales   | 15.9 %                     | 13.9 %             | 15.3%                     | 12.0 %             |
| Backlog          |                            |                    | \$ 550,355                | \$ 523,889         |

Net sales decreased for the three months ended September 30, 2011 versus the comparable period in 2010 due to:

- reduced shipments to the United States Government ("USG") of the JPF fuze resulting from issues encountered during acceptance testing that caused a halt in production during the quarter;
- reduced volume on our C-17 program; and
- reduced shipments under our Sikorsky BLACKHAWK helicopter cockpit and TRP programs.

These decreases were partially offset by:

- an increase in sales volume on bearings products in the commercial and business / regional jet markets;
- the incremental contribution of sales from the acquisition of Global Aerosystems; and
- work on our portion of the U.S. Naval Air Systems Command contract for K-MAX® unmanned aircraft systems.

Net sales increased for the nine months ended September 30, 2011 versus the comparable period in 2010 due to:

- an increase in sales volume on bearings products in the commercial and business / regional jet markets;
- the incremental contribution of sales from the acquisition of Global Aerosystems;
- work on our portion of the U.S. Naval Air Systems Command contract for K-MAX® unmanned aircraft systems;
- an increase in commercial sales of the JPF fuze to foreign militaries; and
- an increase in sales volume on our legacy fuze programs.

These increases were partially offset by:

- reduced shipments to the USG of the JPF fuze resulting from issues encountered during acceptance testing that caused a halt in production during the quarter;
- reduced shipments under our Sikorsky BLACKHAWK helicopter cockpit program;
- reduced volume on our C-17 program; and
- lower volume on our helicopter after market programs, including the Egypt SH-2G(E) upgrade program and blade erosion coating programs.

Operating income decreased for the three months ended September 30, 2011 versus the comparable period in 2010 due to:

- reduced gross profit on the JPF fuze program resulting from issues encountered during acceptance testing that caused a halt in production during the quarter; and
- reduced shipments under our Sikorsky BLACKHAWK helicopter cockpit program.

These decreases were partially offset by

- higher gross profit generated by our bearings products resulting from the increased sales volume noted above;
- contribution of gross profit from the K-MAX® unmanned aircraft systems;
- the absence of program related losses at our Aerospace Wichita facility; and
- operating income contributed by Global Aerosystems.

Operating income increased for the nine months ended September 30, 2011 versus the comparable period in 2010 due to:

- higher gross profit generated by our bearings products resulting from the increased sales volume noted above;
- contribution of gross profit from the K-MAX® unmanned aircraft systems;
- gross profit generated from the increased sales on our fuze programs;
- the absence of program related losses at our Aerospace Wichita facility; and
- operating income contributed by Global Aerosystems.

These increases were partially offset by decreased gross profit on our helicopter aftermarket programs due to decreased volume.

#### *Major Programs/Product Lines*

Below is a discussion of the significant changes in the Aerospace segment's major programs during the first nine months of 2011. Please see our 2010 Form 10-K for a discussion of our Aerospace segment's programs.

#### Egypt SH-2G(E)

The segment continues work under a program for depot level maintenance and upgrades for nine Kaman SH-2G(E) helicopters originally delivered to the Egyptian government during the 1990s. This program has a total contract value of approximately \$81.0 million and, as of September 30, 2011, is fully funded.

#### FMU-152 – Joint Programmable Fuze (“JPF”)

We manufacture the JPF, an electro-mechanical bomb safe and arming device, which allows the settings of a weapon to be programmed in flight. During 2009, we entered into a contract modification with the USG for the award of Options 6, 7 and 8 under our multi-option JPF contract. During the first quarter, we were awarded a \$23.8 million JPF order from the USAF for fuzes to be delivered in 2012 and 2013 under Option 8 of the program. During the second quarter, we were awarded an additional \$23.7 million order from the USAF under Option 8 of our JPF program and a commercial JPF foreign military order of \$3.1 million. Total JPF backlog at September 30, 2011 is \$137.2 million.

During the third quarter of 2011, we experienced an issue during acceptance testing of fuzes produced for our JPF program that caused us to halt production. The acceptance testing failures resulted from issues with test equipment and testing procedures, as well as an isolated component failure. In cooperation with our customer, we analyzed, tested and verified the root cause of the recent acceptance testing failures and developed a plan to remediate the issue. As a result, we expect to return to acceptance testing in early November.

The recent JPF competitive source selection by the U.S. Government has transitioned into a sole source negotiation between us and the U.S. Air Force. Based on the time needed for the U.S. Government to audit our proposal, and for contract negotiations to be completed, contract award is not expected until mid-2012.

#### A-10

In 2008, the segment signed a five-year requirements contract with Boeing for the production of wing control surfaces (inboard and outboard flaps, slats and deceleron assemblies) for the U.S. Air Force's A-10 fleet. Initial deliveries under this program began in the third quarter of 2010; however, our customer's scheduling has changed and the timing of deliveries has shifted. We expect to deliver 8 ship sets in 2011, and full rate production for this program to begin in the fourth quarter of 2012, with an average of approximately 47 ship sets being delivered per year thereafter.

## *Other Matters*

We continue to work with potential customers for the 11 SH-2G(I) aircraft, spare parts and equipment. Several foreign governments have expressed various levels of interest in the aircraft and we have received small orders for the spare parts and related equipment.

### FMU-143

As reported previously, we are involved in various litigation concerning our prior FMU-143 program at our Aerospace segment's Orlando facility ("Orlando Facility"). The suits involve (a) a civil action brought by the U.S. Government ("USG") under the False Claims Act in federal district court in Orlando alleging that we knowingly substituted the wrong version of the bellows motor into some FMU-143 lots, for which the current damages claim is approximately \$6 million and (b) various claims and counterclaims before the Armed Services Board of Contract Appeals (the "Board") concerning performance under the program, with the USG alleging that we owe the USG over \$15 million and us claiming that the USG owes us over \$8 million. During the third quarter, the parties began substantive settlement discussions to resolve these suits and those discussions continue. If a settlement is reached upon terms satisfactory to both parties, we could pay the USG up to \$5.0 million. In addition, there would be no admission of liability in either matter, which is consistent with our view of our legal liability. Although a settlement is reasonably possible, no amount has been accrued for these matters as of September 30, 2011 due to the substantive nature of the non-financial settlement terms under discussion, including the USG approval process that must be followed for both the False Claim Act and Board matter. In the meantime, the trial originally scheduled for October 2011 in the False Claims Act matter has been postponed and the Board proceedings have been stayed.

If the settlement were to occur, we have net assets of \$2.2 million, primarily inventory, related to the counterclaim against the USG that would be at risk. Should the settlement terms be resolved to the satisfaction of both parties, we will evaluate the recoverability of these assets and record an impairment charge, if necessary.

For a discussion of other matters related to our Aerospace segment see Note 11, Commitments and Contingencies, in the Notes to Condensed Consolidated Financial Statements.

## **LIQUIDITY AND CAPITAL RESOURCES**

### Discussion and Analysis of Cash Flows

We assess liquidity in terms of our ability to generate cash to fund working capital and investing and financing activities. Significant factors affecting liquidity include: cash flows generated from or used by operating activities, capital expenditures, investments in our business segments and their programs, acquisitions, divestitures, dividends, adequacy of available bank lines of credit, and factors that might otherwise affect the company's business and operations generally, as described under the headings "Risk Factors" and "Forward-Looking Statements" in Item 1A of Part I of our 2010 Form 10-K.

We continue to rely upon bank financing as an important source of liquidity for our business activities including acquisitions. We believe this, when combined with cash generated from operating activities, will be sufficient to support our anticipated cash requirements for the foreseeable future. However, we may decide to raise additional debt or equity capital to support other business activities including potential future acquisitions. We anticipate our capital expenditures will be approximately \$25.0 million to \$30.0 million in 2011, primarily related to machinery and equipment, building improvements and information technology infrastructure, including completion of an information technology back-up data center. We anticipate a variety of items, in addition to our working capital requirements, will have an impact on our liquidity during the next 12 months. These may include one or more of the matters described in Note 11, *Commitments and Contingencies*, in the Notes to Condensed Consolidated Financial Statements, including the FMU-143 litigation and continued legal costs associated with that matter, the revenue sharing arrangement with the Commonwealth of Australia, the cost of existing environmental remediation matters, required pension contributions or the extension of payment terms by our customers. However, we do not believe any of these matters will lead to a shortage of capital resources or liquidity that would prevent us from continuing with our business operations as expected.

We regularly monitor credit market conditions to identify potential issues that may adversely affect, or provide opportunities for, the securing and/or pricing of additional financing, if any, that may be necessary to continue with our growth strategy and finance working capital requirements. This is evidenced by the replacement of our Revolving Credit Agreement and amendment of our Term Loan Agreement during the third quarter of 2010, our \$115.0 million issuance of convertible notes in November 2010 and the repricing of the Revolving Credit Agreement and Term Loan Agreement in June 2011.

Management regularly monitors its pension plan asset performance and the assumptions used in the determination of our benefit obligation, comparing them to actual performance. We continue to believe the assumptions selected are valid due to the long-term nature of our benefit obligation.

Pursuant to the terms of the revenue sharing agreement with the Commonwealth of Australia, we will share all proceeds from the resale of the SH-2G(I), formerly SH-2G(A), aircraft, spare parts, and equipment with the Commonwealth on a predetermined basis. Minimum payments of at least \$39.5 million (AUD) must be made to the Commonwealth regardless of sales. Cumulative payments of \$26.8 million (AUD) have been made through September 30, 2011. Additional payments of \$6.4 million (AUD) each must be paid in March of 2012 and 2013 to the extent that cumulative payments have not yet reached \$33.1 million (AUD) and \$39.5 million (AUD) as of such dates, respectively.

To secure these payments, we have provided the Commonwealth with a \$12.7 million (AUD) unconditional letter of credit, which is being reduced as such payments are made. As of September 30, 2011, the U.S. dollar value of the remaining \$12.7 million (AUD) required payment was \$12.3 million, of which \$6.1 million is due no later than March 2012. In late 2008, we entered into foreign currency exchange contracts that limit the foreign currency risks associated with these required payments. These contracts will enable us to purchase \$9.8 million (AUD) for \$6.3 million. See Note 7, *Derivative Financial Instruments*, of the Notes to Condensed Consolidated Financial Statements for further discussion of these instruments.

A summary of our consolidated cash flows is as follows:

|   | For the nine months ended |                    |               |
|---|---------------------------|--------------------|---------------|
|   | September 30,<br>2011     | October 1,<br>2010 | 2011 vs. 2010 |
|   | (in thousands)            |                    |               |
| Total cash provided by (used in):                   |                           |                    |               |
| Operating activities                                | \$ 15,497                 | \$ 27,120          | \$ (11,623)   |
| Investing activities                                | (31,887)                  | (65,205)           | 33,318        |
| Financing activities                                | (463)                     | 33,376             | (33,839)      |
| Increase (decrease) in cash and cash equivalents    | \$ (16,853)               | \$ (4,709)         | \$ (12,144)   |
| Free Cash Flow (a):                                 |                           |                    |               |
| Net cash provided by (used in) operating activities | \$ 15,497                 | \$ 27,120          | \$ (11,623)   |
| Expenditures for property, plant and equipment      | (19,416)                  | (14,505)           | (4,911)       |
| Free cash flow                                      | \$ (3,919)                | \$ 12,615          | \$ (16,534)   |

(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 condensed consolidated statements of cash flows. See Management's Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP Financial Measures.

Net cash provided by operating activities decreased \$11.6 million for the nine months ended September 30, 2011 versus the comparable period in 2010 primarily due to the settlement of our first guaranteed payment to the Commonwealth of Australia, offset by increased net earnings, driven by increased operating income at both our segments, and the receipt of cash from our counterparties upon settlement of our Australian dollar foreign currency exchange contracts.

Net cash used in investing activities decreased \$33.3 million for the nine months ended September 30, 2011 versus the comparable period in 2010, primarily due to a decrease in cash used for acquisitions offset in part by an increase in cash used for the purchase of property, plant and equipment.

Net cash provided by financing activities decreased \$33.8 million for the nine months ended September 30, 2011 versus the comparable period in 2010, primarily due to a reduction in borrowings under the Revolving Credit Agreement and the use of cash to repurchase stock under our stock repurchase program.

## **Financing Arrangements**

We maintain a \$275.0 million revolving credit facility (“Revolving Credit Agreement”) expiring September 20, 2014. The Revolving Credit Agreement includes an “accordion” feature that allows us to increase the aggregate amount available to \$350.0 million, subject to additional commitments from lenders. The Revolving Credit Agreement may be used for working capital, letters of credit and other general corporate purposes, including acquisitions. We also maintain a Term Loan Credit Agreement (“Term Loan Agreement”). The Term Loan Agreement, which is in addition to our current Revolving Credit Agreement, was a \$42.5 million facility with a four-year term. Principal payments, which started in the third quarter of 2010, of \$1.25 million are due quarterly, with \$22.5 million of the initial aggregate principal payable in the final quarter of the Term Loan Agreement. We may increase the term loan by up to an aggregate of \$50 million with additional commitments from the banks or new commitments from acceptable financial institutions.

In June 2011, we amended our Revolving Credit Agreement and Term Loan Agreement. These amendments reduced the interest rate for these facilities to LIBOR plus 137.5 basis points compared to an interest rate of LIBOR plus 200.0 basis points prior to the amendments. In addition, we amended the required quarterly commitment fees on the unused revolving loan commitment amount from 0.35% to 0.50% per annum to 0.225% to 0.35% per annum, and the fees for outstanding letters of credit from 2.00% to 3.00% to 1.375% to 2.25%, based on the leverage ratio as defined in the agreements. These amendments did not result in any other changes to these facilities.

Interest rates on amounts outstanding under the Revolving Credit Agreement and the Term Loan Agreement are variable. At September 30, 2011, the interest rate for the outstanding amounts on both the Revolving Credit Agreement and Term Loan Agreement was 1.61%. At December 31, 2010, the interest rate for the outstanding amounts on both the Revolving Credit Agreement and Term Loan Agreement was 2.39%.

During the first quarter of 2009, we entered into interest rate swap agreements for the purpose of hedging our eight quarterly variable-rate interest payments on the Term Loan Agreement due in 2010 and 2011. These interest rate swap agreements are designated as cash flow hedges. They are intended to manage interest rate risk associated with our variable-rate borrowings and minimize the impact on our earnings and cash flows of interest rate fluctuations attributable to changes in LIBOR rates. During the three months ended September 30, 2011 and October 1, 2010 we recorded \$0.2 million and \$0.1 million of additional interest expense associated with the interest rate swap agreements. During the nine months ended September 30, 2011 and October 1, 2010 we recorded \$0.7 million and \$0.4 million of additional interest expense associated with the interest rate swap agreements.

The financial covenants associated with the Revolving Credit Agreement and Term Loan Agreement include a requirement that (i) the ratio of Consolidated Senior Secured Indebtedness to Consolidated EBITDA, as defined in the Revolving Credit Agreement, cannot be greater than 3.50 to 1.00, (ii) the ratio of Consolidated Total Indebtedness to Consolidated EBITDA, as defined in the Revolving Credit Agreement, cannot be greater than 4.00 to 1.00, and (iii) the ratio of Consolidated EBITDA, as defined in the Revolving Credit Agreement, to the sum of (a) all interest, premium payments, debt discounts, fees, charges and related expenses and (b) the portion of rent expense under capital leases that is treated as interest expense cannot be less than 4.00 to 1.00. We were in compliance with those financial covenants as of and for the quarter ended September 30, 2011, and we do not anticipate noncompliance in the foreseeable future.

Total average bank borrowings during the quarter ended September 30, 2011 were \$48.3 million compared to \$98.0 million for the year ended December 31, 2010. As of September 30, 2011 and December 31, 2010, there was \$248.2 million and \$228.2 million available for borrowing, respectively, under the Revolving Credit Agreement, net of letters of credit. Letters of credit are generally considered borrowings for purposes of the Revolving Credit Agreement. A total of \$26.8 million and \$43.2 million in letters of credit was outstanding under the Revolving Credit Agreement as of September 30, 2011 and December 31, 2010, respectively. At September 30, 2011 and December 31, 2010, \$12.3 million and \$37.5 million of our letters of credit, respectively, related to the guaranteed minimum payments to Australia in connection with the ownership transfer of the 11 SH-2G(A) helicopters (along with spare parts and associated equipment). The letter of credit balance will continue to be reduced as payments are made to Australia.

## **Other Sources/Uses of Capital**

We have contributed \$19.6 million to the qualified pension plan for the 2011 plan year, \$13.8 million of which was voluntary. We do not expect to make any further contributions to the qualified pension plan during 2011. We expect to contribute \$4.4 million to the SERP for the 2011 plan year, \$4.3 million of which has been contributed as of September 30, 2011. For the 2010 plan year, we contributed \$35.7 million to the qualified pension plan, \$25.0 million of which was voluntary, and \$3.4 million to the SERP.

In November 2000, our Board of Directors approved a replenishment of our stock repurchase program, providing for repurchase of an aggregate of 1.4 million common shares for use in administration of our stock plans and for general corporate purposes. During the third quarter of 2011, 88,700 shares were repurchased at an average price of \$28.33 under this program. There were no shares repurchased during the first six months of 2011 or the first nine months of 2010 under this program. At September 30, 2011, approximately 1.0 million shares remained authorized for repurchase under this program.

On June 26, 2009, we filed a shelf registration statement on Form S-3 with the Securities and Exchange Commission ("SEC"). This shelf registration statement allows us to offer, issue or sell from time to time, together or separately, (i) senior or subordinated debt securities, which may be convertible into shares of our common stock, preferred stock or other securities; (ii) shares of our common stock; (iii) shares of our preferred stock, which we may issue in one or more series; or (iv) warrants to purchase our equity or debt securities or other securities. The total offering price of the securities will not exceed \$200 million in the aggregate. The shelf registration became effective on August 3, 2009. We do not currently have any commitments or intentions to sell securities. Future offerings, if any, will be made only by means of a written prospectus or other permitted documents. At that time, we will file a prospectus supplement with the SEC outlining the type of securities, amounts, prices, use of proceeds and other terms.

## **NON-GAAP FINANCIAL MEASURES**

Management believes that the non-GAAP (Generally Accepted Accounting Principles) measures used in this report on Form 10-Q provide investors with important perspectives into our ongoing business performance. We do not intend for the information to be considered in isolation or as a substitute for the related GAAP measures. Other companies may define the measures differently. We define the non-GAAP measures used in this report as follows:

### *Organic Sales per Sales Day*

Organic sales per sales day is defined as GAAP "Net sales from the Industrial Distribution segment" less sales derived from Industrial Distribution segment acquisitions completed during the preceding twelve months divided by the number of sales days in a given period. Sales days are the number of business days that the Industrial Distribution segment's branch locations were open for business and exclude weekends and holidays. Management believes sales per sales day provides investors with an important perspective on how net sales may be impacted by the number of days the segment is open for business. Management uses sales per sales day as a measurement to compare periods in which the numbers of sales days differ.

### *Free Cash Flow*

Free cash flow is defined as GAAP "Net cash provided by (used in) operating activities" less "Expenditures for property, plant and equipment." Management believes free cash flow provides investors with an important perspective on the cash available for dividends to shareholders, debt repayment, and acquisitions after making capital investments required to support ongoing business operations and long-term value creation. Free cash flow does not represent the residual cash flow available for discretionary expenditures as it excludes certain mandatory expenditures such as repayment of maturing debt. Management uses free cash flow internally to assess both business performance and overall liquidity.

## **CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS**

There have been no material changes outside the ordinary course of business in our contractual obligations or off-balance sheet arrangements during the first nine months of 2011. Please see our 2010 Form 10-K for a discussion of our contractual obligations and off-balance sheet arrangements.

## RECENT ACCOUNTING STANDARDS

A summary of recent accounting standards is included in Note 2, Recent Accounting Standards, of the Notes to Condensed Consolidated Financial Statements, which is included in Item 1, Financial Statements, of this Form 10-Q.

## CRITICAL ACCOUNTING ESTIMATES

Preparation of the company's financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management believes the most complex and sensitive judgments, because of their significance to the consolidated financial statements, result primarily from the need to make estimates about the effects of matters that are inherently uncertain. Management's Discussion and Analysis and the Notes to Consolidated Financial Statements in the Company's 2010 Form 10-K describe the significant accounting estimates and policies used in preparation of the Consolidated Financial Statements. Actual results in these areas could differ from management's estimates. There have been no significant changes in the Company's critical accounting policies and significant estimates in 2011.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no significant changes in the Company's exposure to market risk during the first nine months of 2011. Please see the Company's 2010 Form 10-K for a discussion of the Company's exposure to market risk.

### Item 4. Controls and Procedures

#### *Evaluation of Disclosure Controls and Procedures*

The Company has carried out an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2011. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2011, the disclosure controls and procedures were effective.

In September of 2011, we acquired Target. While we are beginning the process of incorporating our controls and procedures into this business, management has not yet performed documentation, evaluation and testing of internal controls over financial reporting at this business. Target will not be included in our assessment of internal controls over financial reporting as of December 31, 2011.

#### *Changes in Internal Controls*

There were no changes in internal controls over financial reporting at the Company that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

**Kaman Corporation and Subsidiaries**  
**Part II – Other Information**

**Item 1A. Risk Factors**

There have been no significant changes in the Company's risk factors during the first nine months of 2011. Please see the Company's 2010 Form 10-K for a discussion of the Company's risk factors.

**FORWARD-LOOKING STATEMENTS**

*This report contains forward-looking information relating to the Company's business and prospects, including the Aerospace and Industrial Distribution businesses, operating cash flow, and other matters that involve a number of uncertainties that may cause actual results to differ materially from expectations. Those uncertainties include, but are not limited to: 1) the successful conclusion of competitions for government programs and thereafter contract negotiations with government authorities, both foreign and domestic; 2) political conditions in countries where the Company does or intends to do business; 3) standard government contract provisions permitting renegotiation of terms and termination for the convenience of the government; 4) satisfactory conclusion to government inquiries or investigations regarding government programs; 5) domestic and foreign economic and competitive conditions in markets served by the Company, particularly the defense, commercial aviation and industrial production markets; 6) risks associated with successful implementation and ramp up of significant new programs; 7) potential difficulties associated with variable acceptance test results, given sensitive production materials and extreme test parameters; 8) management's success in increasing the volume of profitable work at the Wichita facility; 9) successful resale of the SH-2G(I) aircraft, equipment and spare parts; 10) receipt and successful execution of production orders for the JPF U.S. government contract, including the exercise of all contract options and receipt of orders from allied militaries, as all have been assumed in connection with goodwill impairment evaluations; 11) satisfactory resolution of (i) the Company's litigation relating to the FMU-143 program and (ii) the Wichita subpoena matter; 12) continued support of the existing K-MAX® helicopter fleet, including sale of existing K-MAX® spare parts inventory; 13) cost estimates associated with environmental remediation activities at the Bloomfield, Moosup and New Hartford, CT facilities and our U.K. facilities; 14) profitable integration of acquired businesses into the Company's operations; 15) changes in supplier sales or vendor incentive policies; 16) the effects of price increases or decreases; 17) the effects of pension regulations, pension plan assumptions and future contributions; 18) future levels of indebtedness and capital expenditures; 19) continued availability of raw materials and other commodities in adequate supplies and the effect of increased costs for such items; 20) the effects of currency exchange rates and foreign competition on future operations; 21) changes in laws and regulations, taxes, interest rates, inflation rates and general business conditions; 22) future repurchases and/or issuances of common stock; and 23) other risks and uncertainties set forth in the Company's annual, quarterly and current reports, proxy statements and other filings with the SEC. Any forward-looking information provided in this report should be considered with these factors in mind. The Company assumes no obligation to update any forward-looking statements contained in this report.*

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

*(c) Purchases of Equity Securities*

The following table provides information about purchases of Common Stock by the Company during the three months ended September 30, 2011:

| Period                               | Total Number of<br>Shares Purchased (a) | Average Price<br>Paid per<br>Share | Total Number of Shares<br>Purchased as Part of a<br>Publicly Announced Plan<br>(b) | Maximum Number of Shares<br>That May Yet Be Purchased<br>Under the Plan |
|--------------------------------------|---|------------------------------------|--|---|
| July 2, 2011 – July 29, 2011         | —                                       | \$ —                               | —  | 1,130,389   |
| July 30, 2011 – August 26, 2011      | —                                       | \$ —                               | —  | 1,130,389   |
| August 27, 2011 – September 30, 2011 | 88,700                                  | \$ 28.33                           | 88,700   | 1,041,689   |
| Total                                | <u>88,700</u>                           |                                    | <u>88,700</u>  |   |

(a) There were no shares repurchased in connection with employee tax withholding obligations as permitted by the 2003 Stock Incentive Plan, a 16b-3 qualified plan.

(b) In November 2000, our board of directors approved a replenishment of the Company's stock repurchase program providing for repurchase of an aggregate of 1.4 million shares of Common Stock for use in the administration of our stock plans and for general corporate purposes.

**Item 6. Exhibits**

|            |   |          |
|------------|---|----------|
| 31.1       | Certification of Chief Executive Officer Pursuant to Rule 13a-14 under the Securities Exchange Act of 1934  | attached |
| 31.2       | Certification of Chief Financial Officer Pursuant to Rule 13a-14 under the Securities Exchange Act of 1934  | attached |
| 32.1       | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | attached |
| 32.2       | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | attached |
| 101.INS ** | XBRL Instance Document  |          |
| 101.SCH ** | XBRL Taxonomy Extension Schema Document   |          |
| 101.CAL ** | XBRL Taxonomy Extension Calculation Linkbase Document   |          |
| 101.DEF ** | XBRL Taxonomy Extension Definition Linkbase Document  |          |
| 101.LAB ** | XBRL Taxonomy Extension Label Linkbase Document   |          |
| 101.PRE ** | XBRL Taxonomy Extension Presentation Linkbase Document  |          |

\*\* XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

## Kaman Corporation and Subsidiaries

### Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

KAMAN CORPORATION

Registrant

Date: November 2, 2011

*/s/ Neal J. Keating*

By:

Neal J. Keating  
Chairman, President and  
Chief Executive Officer  
(Duly Authorized Officer)

Date: November 2, 2011

*/s/ William C. Denninger*

By:

William C. Denninger  
Senior Vice President and  
Chief Financial Officer

KAMAN CORPORATION

INDEX TO EXHIBITS

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Certification Pursuant to Rule  
13a-14 under the Securities  
Exchange Act of 1934

I, Neal J. Keating, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kaman Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 2, 2011

By: /s/ Neal J. Keating

Neal J. Keating  
Chairman, President and  
Chief Executive Officer

Certification Pursuant to Rule  
13a-14 under the Securities  
Exchange Act of 1934

I, William C. Denninger, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kaman Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 2, 2011

By: /s/ William C. Denninger

William C. Denninger  
Senior Vice President and  
Chief Financial Officer

- 1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Date: November 2, 2011

Certification Pursuant to  
18 U.S.C. Section 1350,  
As Adopted Pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Kaman Corporation (the "Corporation") on Form 10-Q for the quarter ended September 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William C. Denninger, Senior Vice President and Chief Financial Officer of the Corporation, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- 1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

By: /s/ William C. Denninger  
William C. Denninger  
Senior Vice President and  
Chief Financial Officer

Date: November 2, 2011