

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

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2010

Commission File No. 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)

Registrant's telephone number, including area code: (860) 243-7100

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock (\$1 par value)	The NASDAQ Stock Market, Inc.

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes x No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No

Indicate by checkmark 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 (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated herein by reference in Part III of this Form 10-K or any amendment to this Form 10-K x

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 definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer x 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 o No x

The aggregate market value on July 2, 2010 (the last business day of the Company's most recently completed second quarter) of the voting common stock held by non-affiliates of the registrant, computed by reference to the closing price of the stock, was approximately \$562,978,267.

At January 31, 2011, there were 26,084,417 shares of Common Stock outstanding.

Documents Incorporated Herein By Reference

Portions of our definitive proxy statement for our 2011 Annual Meeting of Shareholders are incorporated by reference into Part III of this Report.

Kaman Corporation
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PART I

ITEM 1. BUSINESS

GENERAL

Kaman Corporation, headquartered in Bloomfield, Connecticut, was incorporated in 1945. We are a diversified company that conducts business in the aerospace and industrial distribution markets. We report information for ourselves and our subsidiaries (collectively, “we,” “us,” “our,” and “the company”) in two business segments, Industrial Distribution and Aerospace. A discussion of 2010 developments is included in Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations, in this Form 10-K.

Industrial Distribution Segment

Kaman Industrial Technologies Corporation (“KIT”) brings our commitment to technological leadership and value-added services to the Industrial Distribution business. The Industrial Distribution segment is the third largest power transmission/motion control industrial distributor in North America. We provide products including bearings, mechanical and electrical power transmission, fluid power, motion control and materials handling components to a broad spectrum of industrial markets throughout North America. Locations consist of over 200 branches, distribution centers and call centers across the United States (including Puerto Rico) and in Canada and Mexico. We offer approximately four million items, as well as value-added services, to a base of approximately 50,000 customers representing a highly diversified cross section of North American industry. Subsidiaries of KIT include Kaman Industrial Technologies, Ltd., Minarik Corporation, Delamac de Mexico, S.A. de C.V. and Industrial Rubber and Mechanics, Inc.

Aerospace Segment

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

Principal customers include the U.S. military, Sikorsky Aircraft Corporation, The Boeing Company, Bell Helicopter, Airbus, Lockheed Martin and Raytheon. The SH-2G aircraft is currently in service with the Egyptian Air Force and the New Zealand and Polish navies. Operations are conducted at Kaman Aerospace Corporation’s Aerostructures Division facilities in Jacksonville, FL and Chihuahua, Mexico, Helicopters Division facilities in Bloomfield, CT and Precision Products Division facilities in Middletown, CT and Tucson, AZ (collectively “KAC”), Kaman Composites Wichita Inc. in Wichita, KS (“Composites Wichita”), Kaman Composites Holdings Ltd., formerly Brookhouse Holdings Ltd., facilities in Darwen, Lancashire, United Kingdom and Hyde, Greater Manchester, United Kingdom (“U.K. Composites”), Kaman Precision Products, Inc. in Orlando, FL (“KPP Orlando”), Kamatics Corporation in Bloomfield, CT, RWG Frankenjura-Industrie Flugwerklager GmbH in Dachsbach, Germany (“RWG”) and Global Aerosystems LLC in Everett, WA.

FINANCIAL INFORMATION ABOUT OUR SEGMENTS

Financial information about our segments is included in Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations, and Note 21, Segment and Geographic Information, of the Notes to Consolidated Financial Statements, included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.

WORKING CAPITAL

A discussion of our working capital is included in Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources, in this Form 10-K.

Our Industrial Distribution segment requires substantial working capital related to accounts receivable and inventories. Significant amounts of inventory are carried to meet our customers’ delivery requirements. Sales returns do not have a material effect on our working capital requirements.

Our Aerospace segment’s working capital requirements are dependent on the nature and life cycle of the programs for which work is performed. A new program may initially require higher working capital requirements related to the purchase of inventory and equipment necessary to perform the work. However, as these programs mature and efficiencies are gained in the production process, working capital requirements are generally reduced.

Our revolving credit facility is available for additional working capital requirements and investment opportunities.

PRINCIPAL PRODUCTS AND SERVICES

The following is information for the three preceding years concerning the percentage contribution of each business segment's products and services to consolidated net sales from continuing operations:

	Years Ended December 31,		
	2010	2009	2008
Industrial Distribution	63.1%	56.3%	62.0%
Aerospace	36.9%	43.7%	38.0%
Total	100.0%	100.0%	100.0%

AVAILABILITY OF RAW MATERIALS

While we believe we have sufficient sources for the materials, components, services and supplies used in our manufacturing, we are highly dependent on the availability of essential materials, parts and subassemblies from our suppliers and subcontractors. The most important raw materials required for our aerospace products are aluminum (sheet, plate, forgings and extrusions), titanium, nickel, copper and composites. Many major components and product equipment items are procured from or subcontracted on a sole-source basis with a number of domestic and non-U.S. companies. Although alternative sources generally exist for these raw materials, qualification of the sources could take a year or more. We are dependent upon the ability of a large number of suppliers and subcontractors to meet performance specifications, quality standards and delivery schedules at anticipated costs. While we maintain an extensive qualification system to control risk associated with such reliance on third parties, failure of suppliers or subcontractors to meet commitments could adversely affect production schedules and contract profitability, while jeopardizing our ability to fulfill commitments to our customers. Although high prices for some raw materials important to some of our products (steel, copper, aluminum, titanium and nickel) may cause margin and cost pressures, we do not foresee any near term unavailability of materials, components or supplies that would have an adverse effect on our business, or on either of our business segments. For further discussion of the possible effects of changes in the cost or availability of raw materials on our business, see Item 1A, Risk Factors, in this Form 10-K.

PATENTS AND TRADEMARKS

We hold patents and trademarks reflecting functional, design and technical accomplishments in a wide range of areas covering both basic production of certain aerospace products as well as highly specialized devices and advanced technology products in defense related and commercial fields.

Although the company's patents and trademarks enhance our competitive position, we believe that none of such patents or trademarks is singularly or as a group essential to our business as a whole. We hold or have applied for U.S. and foreign patents with expiration dates that range through the year 2027.

Registered trademarks of Kaman Corporation include KAFlex®, KAron®, and K-MAX®. In all, we maintain 22 U.S. and foreign trademarks.

BACKLOG

Our entire backlog is attributable to the Aerospace segment. We anticipate that approximately 69.8% of our backlog at the end of 2010 will be performed in 2011. Approximately 74.7% of the backlog at the end of 2010 is related to U.S. Government contracts or subcontracts, which include government orders that are firm but not yet funded and certain contracts that have been awarded but not yet signed.

Total backlog at the end of December 31, 2010, 2009 and 2008, and the portion of the backlog we expect to complete in 2011 is as follows:

<i>In thousands</i>	Total Backlog at December 31, 2010	2010 Backlog to be completed in 2011	Total Backlog at December 31, 2009	Total Backlog at December 31, 2008
Aerospace	\$ 532,630	\$ 371,776	\$ 430,885	\$ 550,736

REGULATORY MATTERS

Government Contracts

The U.S. government, and other governments, may terminate any of our government contracts at their convenience as well as for default based on our failure to meet specified performance measurements. If any of our government contracts were to be terminated for convenience, we generally would be entitled to receive payment for work completed and allowable termination or cancellation costs. If any of our government contracts were to be terminated for default, generally the U.S. government would pay only for the work that has been accepted and can require us to pay the difference between the original contract price and the cost to re-procure the contract items, net of the work accepted from the original contract. The U.S. government can also hold us liable for damages resulting from the default.

During 2010, approximately 95.0% of the work performed by the Company directly or indirectly for the U.S. government was performed on a fixed-price basis and the balance was performed on a cost-reimbursement basis. Under a fixed-price contract, the price paid to the contractor is negotiated at the outset of the contract and is not generally subject to adjustment to reflect the actual costs incurred by the contractor in the performance of the contract. Cost reimbursement contracts provide for the reimbursement of allowable costs and an additional negotiated fee.

Compliance with Environmental Protection Laws

Our operations are subject to and affected by a variety of federal, state, local and non-U.S. environmental laws and regulations relating to the discharge, treatment, storage, disposal, investigation and remediation of certain materials, substances and wastes. We continually assess our compliance status and management of environmental matters in an effort to ensure our operations are in substantial compliance with all applicable environmental laws and regulations.

Operating and maintenance costs associated with environmental compliance and management of sites are a normal, recurring part of our operations. These costs often are allowable costs under our contracts with the U.S. government. It is reasonably possible that continued environmental compliance could have a material impact on our results of operations, financial condition or cash flows if more stringent clean-up standards are imposed, additional contamination is discovered and/or clean-up costs are higher than estimated.

See Note 18, Commitments and Contingencies, in the Notes to Consolidated Financial Statements, included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on this Form 10-K for further discussion of our environmental matters.

With respect to all other matters that may currently be pending, in the opinion of management, based on our analysis of relevant facts and circumstances, compliance with relevant environmental protection laws is not likely to have a material adverse effect upon our capital expenditures, earnings or competitive position. In arriving at this conclusion, we have taken into consideration site-specific information available regarding total costs of any work to be performed, and the extent of work previously performed. If we are identified as a “potentially responsible party” (PRP) by environmental authorities at a particular site, we, using information available to us, will also review and consider a number of other factors, including: (i) the financial resources of other PRPs involved in each site, and their proportionate share of the total volume of waste at the site; (ii) the existence of insurance, if any, and the financial viability of the insurers; and (iii) the success others have had in receiving reimbursement for similar costs under similar insurance policies issued during the periods applicable to each site.

International

Our international sales are subject to U.S. and non-U.S. governmental regulations and procurement policies and practices, including regulations relating to import-export control, investment, exchange controls and repatriation of earnings. International sales are also subject to varying currency, political and economic risks.

COMPETITION

The Industrial Distribution segment competes for business with several other national distributors, two of which are substantially larger, and with many regional and local organizations. Competitive forces have intensified due to the increasing importance of large national accounts, the use of integrated suppliers and the increasing consolidation in supplier relationships. We compete for business on the basis of price, performance and value added services that we are able to provide as one of the largest national distributors in North America.

The Aerospace segment operates in a highly competitive environment with many other organizations, some of which are substantially larger and have greater financial and other resources. We compete for aerostructures subcontract, helicopter structures, bearings and components business on the basis of price and quality; product endurance and special performance characteristics; proprietary knowledge; the quality of our products and services; the availability of facilities, equipment and personnel to perform contracts; and the reputation of our business. Competitors for our business also include small machine shops and offshore manufacturing facilities. We compete for engineering design services business primarily on the basis of technical competence, the reputation of our business, the availability of our personnel and, to some extent, price. We compete for advanced technology fuzing business primarily on the basis of technical competence, product quality, and to some extent, price; and also on the basis of our experience as a developer and manufacturer of fuzes for particular weapon types and the availability of our facilities, equipment and personnel. We are also affected by the political and economic circumstances of our potential foreign customers.

RESEARCH AND DEVELOPMENT EXPENDITURES

Government sponsored research expenditures (which are included in cost of sales) were \$7.5 million in 2010, \$7.7 million in 2009, and \$6.3 million in 2008. Independent research and development expenditures (which are included in selling, general and administrative expenses) were \$4.2 million in 2010, \$4.1 million in 2009, and \$4.2 million in 2008.

EMPLOYEES

As of December 31, 2010, we employed 4,269 individuals.

FINANCIAL INFORMATION ABOUT GEOGRAPHIC AREAS

Financial information about geographic areas is included in Note 21, Segment and Geographic Information, of the Notes to Consolidated Financial Statements, included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.

AVAILABLE INFORMATION

We are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and its rules and regulations. The Exchange Act requires us to file reports, proxy statements and other information with the U.S. Securities and Exchange Commission ("SEC"). Copies of these reports, proxy statements and other information can be read and copied at:

SEC Public Reference Room
100 F Street NE
Washington, D.C. 20549

Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-732-0330.

The SEC maintains a website that contains reports, proxy statements and other information regarding issuers that file electronically with the SEC. These materials may be obtained electronically by accessing the SEC's website at <http://www.sec.gov>.

We make available, free of charge on our website, our annual reports on Form 10-K, quarterly reports on Form 10-Q, proxy statements, and current reports on Form 8-K as well as amendments to those reports filed or furnished pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, together with Section 16 insider beneficial stock ownership reports, as soon as reasonably practicable after we electronically file these documents with, or furnish them to, the SEC. These documents are posted on our website at www.kaman.com — select the "Investors & Media" link and then the "SEC Documents" link.

We also make available, free of charge on our website, the Certificate of Incorporation, By-Laws, Governance Principles and all Board of Directors' standing Committee Charters (including Audit, Corporate Governance, Personnel & Compensation and Finance). These documents are posted on our website at www.kaman.com — select the "Corporate Governance" link.

The information contained in our website is not intended to be incorporated into this Form 10-K.

EXECUTIVE OFFICERS OF THE REGISTRANT

The company's executive officers as of the date of this report are as follows:

Candace A. Clark	Ms. Clark, 56, has been Senior Vice President, Chief Legal Officer and Secretary since 1996. Ms. Clark has held various positions with the company since 1985.
William C. Denninger	Mr. Denninger, 60, joined the company as Senior Vice President – Finance on November 17, 2008 and was elected Senior Vice President and Chief Financial Officer effective December 1, 2008. Prior to joining the company, Mr. Denninger served for eight years as Senior Vice President and Chief Financial Officer of Barnes Group, Inc., a \$1.0 billion global industrial products manufacturer and distributor. He also served on that company's board of directors.
Ronald M. Galla	Mr. Galla, 59, has been Senior Vice President and Chief Information Officer since 1995. Mr. Galla has been director of the company's Management Information Systems since 1984.
Neal J. Keating	Mr. Keating, 55, was elected President and Chief Operating Officer as well as a Director of the company effective September 17, 2007. Effective January 1, 2008, he was elected to the offices of President and Chief Executive Officer and effective March 1, 2008 he was appointed to the additional position of Chairman. Prior to joining the company, Mr. Keating served as Chief Operating Officer at Hughes Supply, a \$5.4 billion industrial distributor that was acquired by Home Depot in 2006. Prior to that, he held senior positions at GKN Aerospace, an aerospace subsidiary of GKN, plc, and Rockwell Collins Commercial Systems, as well as serving as a board member of GKN plc and Agusta-Westland.
Steven J. Smidler	Mr. Smidler, 51, assumed the role of President of Kaman Industrial Technologies on September 1, 2010, after joining the company in December 2009 as Senior Vice President and Chief Operating Officer of Kaman Industrial Technologies. Mr. Smidler joined the company from Lenze Americas Corporation where he served as Executive Vice President, with responsibility for marketing, sales, finance, business systems and product technology for the Americas. Mr. Smidler was also a member of the management committee of the Lenze Group, Germany, and held the position of President and Treasurer for Lenze Americas and served as Treasurer and a Board member for the Lenze ACTech production company. Prior to that, he served as Vice President, Americas Sales Operations at Eaton Corporation, with responsibility for product, service and system sales for critical power applications and at Rockwell Automation, Inc., serving in a number of progressively responsible positions, and departing as Vice President, Marketing of the Global Manufacturing Group.
Gregory L. Steiner	Mr. Steiner, 53, joined the company as President of Kaman Aerospace Group, Inc., with overall responsibility for the company's Aerospace segment, effective July 7, 2008. Since 2005, Mr. Steiner was employed at GE Aviation-Systems, serving first as Vice President and General Manager, Military Mission Systems and then as Vice President, Systems for GE Aviation-Systems, responsible for systems integration. Prior to that, he served as Group Vice President at Curtiss-Wright Controls, Inc., with responsibility for four aerospace and industrial electronics businesses located in the U.S. and United Kingdom and at Rockwell Collins, Inc., serving in a number of progressively responsible positions, and departing as Vice President and General Manager of Passenger Systems.
John J. Tedone	Mr. Tedone, 46, has been Vice President, Finance and Chief Accounting Officer of the Company since April 2007. From April 2006 to April 2007, he served as Vice President, Internal Audit and prior to that as Assistant Vice President, Internal Audit.

Each executive officer holds office for a term of one year and until his or her successor is duly appointed and qualified, in accordance with the company's By-Laws.

Item 1A. RISK FACTORS

Our business, financial condition, operating results and cash flows can be impacted by a number of factors, including, but not limited to, those set forth below, any one of which could cause our actual results to vary materially from recent results or from our anticipated future results.

Our future operating results may be impacted by changes in economic conditions.

The Company's future operating results and liquidity may be impacted by economic downturns in several ways, including:

- the inability to obtain further bank financing, which may limit our ability to fully execute our strategy in the short term;
- higher interest rates on future borrowings, which would limit our cash flow;
- a deterioration in the funded status of our pension plan resulting from pension plan investment performance and the change in the associated discount rate and the resulting impact on required contributions and plan expense;
- changes in the relationships between the U.S. Dollar and the Euro, the British Pound, the Australian Dollar, the Mexican Peso and the Canadian Dollar, which could positively or negatively impact our financial results;
- changes in the level of activity relative to capital projects and planned expansions;
- changes in bad debt reserves or slower payments from customers;
- changes in order activity from our customers, particularly in the Industrial Distribution segment, which could result in lower operating profits as well as less absorption of fixed costs due to a decreased business base; and
- the ability of our suppliers to meet our demand requirements, maintain the pricing of their products, or continue operations, which may require us to find and qualify new suppliers.

To mitigate these risks, we evaluate opportunities for future financing, monitor current borrowing rates, review our receivables to maximize collectability and monitor the stability of our supply chain. We issued \$115.0 million in convertible notes in November 2010 and executed a \$275.0 million revolving credit agreement in the third quarter of 2010, as more fully described in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in this Form 10-K.

Our financial performance is significantly influenced by the conditions of the aerospace industry.

The Aerospace segment's results are directly tied to economic conditions in the commercial aviation and defense industries. As a result, changes in economic conditions may cause customers to request that firm orders be rescheduled or canceled, which could put a portion of our backlog at risk. Additionally, a significant amount of work that we perform under contract tends to be for a few large customers.

The commercial aviation industry tends to be cyclical, and capital spending by airlines and aircraft manufacturers may be influenced by a variety of factors including current and future traffic levels, aircraft fuel pricing, labor issues, competition, the retirement of older aircraft, regulatory changes, terrorism and related safety concerns, general economic conditions, worldwide airline profits and backlog levels.

The defense industry is also affected by a changing global political environment, continued pressure on U.S. and global defense spending, U.S. foreign policy and the level of activity in military flight operations.

Changes to the defense industry could have a material impact on several of our current aerospace programs, which could adversely affect our operating results. To mitigate these risks, we have worked to expand our customer and product bases to include both commercial and military markets.

Furthermore, because of the lengthy research and development cycle involved in bringing new products to market, we cannot predict the economic conditions that will exist when a new product is introduced. A reduction in capital spending in the aviation or defense industries could have a significant effect on the demand for our products, which could have an adverse effect on our financial performance or results of operations.

Our U.S. Government programs are subject to unique risks.

The Company has several significant long-term contracts either directly with the U.S. government or where the U.S. government is the ultimate customer, including the Sikorsky BLACK HAWK cockpit program, the Joint Programmable Fuze (“JPF”) program, and the Boeing C-17 and A-10 programs. These contracts are subject to unique risks, some of which are beyond our control. Examples of such risks include:

- The U.S. Government may modify, curtail or terminate its contracts and subcontracts at its convenience without prior notice, upon payment for work done and commitments made at the time of termination. Modification, curtailment or termination of our major programs or contracts could have a material adverse effect on our business, results of operations and financial condition.
- Our U.S. Government business is subject to specific procurement regulations and other requirements. These requirements, although customary in U.S. Government contracts, increase our performance and compliance costs. These costs might increase in the future, reducing our margins, which could have a negative effect on our financial condition. Although we have procedures to comply with these regulations and requirements, failure to do so under certain circumstances could lead to suspension or debarment, for cause, from U.S. Government contracting or subcontracting for a period of time and could have a negative effect on our reputation and ability to receive other U.S. Government contract awards in the future.
- The costs we incur on our U.S. Government contracts, including allocated indirect costs, may be audited by U.S. Government representatives. Any costs found to be improperly allocated to a specific contract would not be reimbursed, and such costs already reimbursed would have to be refunded. We normally negotiate with those U.S. Government representatives before they settle on final adjustments to our contract costs. We have recorded contract revenues based upon results we expect to realize upon final audit. However, we do not know the outcome of any future audits and adjustments, and we may be required to reduce our revenues or profits upon completion and final negotiation of these audits. Although we have instituted controls intended to assure our compliance, if any audit reveals the existence of improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines and suspension or prohibition from doing business with the U.S. Government.
- We are from time to time subject to certain routine U.S. Government inquiries and investigations of our business practices due to our participation in government contracts. Any adverse finding associated with such an inquiry or investigation could have a material adverse effect on our business, results of operations and financial condition.

Competition from domestic and foreign manufacturers may result in the loss of potential contracts and opportunities.

The aerospace markets in which we participate are highly competitive, and we often compete for work not only with large Original Equipment Manufacturers (“OEMs”) but also sometimes with our own customers and suppliers. Many of our large customers may choose not to outsource production due to, among other things, their own direct labor and overhead considerations and capacity utilization at their own facilities. This could result in these customers supplying their own products or services and competing directly with us for sales of these products or services, all of which could significantly reduce our revenues.

Our competitors may have more extensive or more specialized engineering, manufacturing and marketing capabilities than we do in some areas and we may not have the technology, cost structure, or available resources to effectively compete with them. We believe that developing and maintaining a competitive advantage will require continued investment in product development, engineering, supply chain management and sales and marketing, and we may not have enough resources to make the necessary investments to do so.

Further, our significant customers have in the past used, and may attempt in the future to use, their position to negotiate a reduction in price of a particular product regardless of the terms of an existing contract.

We believe our strategies for our Aerospace segment will allow us to continue to effectively compete for key contracts and customers; however, there is potential that we may not be able to compete successfully in this market or against such competitors.

We could be negatively impacted by the loss of key suppliers, lack of product availability, or changes in supplier programs that could adversely affect our operating results.

Our business depends on maintaining sufficient supply of various products to meet our customers' demands. We have several long-standing relationships with key suppliers but these relationships are non-exclusive and could be terminated by either party. If we lost a key supplier, or were unable to obtain the same levels of deliveries from these suppliers and were unable to supplement those purchases with products obtained from other suppliers, it could have a material adverse effect on our business. Additionally, we rely on foreign and domestic suppliers and commodity markets to secure raw materials used in many of the products we manufacture within the Aerospace segment or sell within our Industrial Distribution segment. This exposes us to volatility in the price and availability of raw materials. In some instances, we depend upon a single source of supply. Supply interruptions could arise from shortages of raw materials, labor disputes or weather conditions affecting suppliers' production, transportation disruptions, or other reasons beyond our control. Even if we continue with our current supplier relationships, high demand for certain products may result in us being unable to meet our customers' demands, which could put us at a competitive disadvantage. Additionally, our key suppliers could also increase pricing of their products, which would negatively affect our operating results if we were not able to pass these price increases through to our customers. We base our supply management process on an appropriate balancing of the foreseeable risks and the costs of alternative practices. To protect ourselves against such risks, we engage in strategic inventory purchases during the year, negotiate long-term vendor supply agreements and monitor our inventory levels to ensure that we have the appropriate inventory on hand to meet our customers' requirements.

Estimates of future costs for long-term contracts impact our current and future operating results and profits.

For long-term contracts, we generally recognize sales and gross margin based on the percentage-of-completion method of accounting. This method allows for revenue recognition as our work progresses on a contract.

The percentage-of-completion method requires that we estimate future revenues and costs over the life of a contract. Revenues are estimated based upon the original contract price, with consideration being given to exercised contract options, change orders and, in some cases, projected customer requirements. Contract costs may be incurred over a period of several years, and the estimation of these costs requires significant judgment based upon the acquired knowledge and experience of program managers, engineers, and financial professionals.

Estimated costs are based primarily on anticipated purchase contract terms, historical performance trends, business base and other economic projections. The complexity of certain programs as well as technical risks and the availability of materials and labor resources could affect the Company's ability to estimate future contract costs. Additional factors that could affect recognition of revenue under the percentage-of-completion method include:

- Fixed price contracts;
- Accounting for initial program costs;
- The effect of nonrecurring work;
- Delayed contract start-up;
- Transition of work from the customer or other vendors;
- Claims or unapproved change orders;
- Product warranty issues;
- Delayed completion of certain programs for which inventory has been built up;
- Our ability to estimate or control scrap level; and
- Accrual of contract losses.

Because of the significance of the judgments and estimation processes, it is likely that materially different sales and profit amounts could be recorded if we used different assumptions or if the underlying circumstances were to change. Changes in underlying assumptions, circumstances or estimates may adversely affect future financial performance. We perform quarterly reviews of our long-term contracts to address and lessen the effects of these risks.

The Company's information technology systems, processes, and sites may suffer interruptions or failures which may affect the Company's ability to conduct its business.

The Company's information technology systems provide critical data connectivity, information and services for internal and external users. These interactions include, but are not limited to, ordering and managing materials from suppliers, inventory management, shipping products to customers, processing transactions, summarizing and reporting results of operations, complying with regulatory, legal or tax requirements, and other processes necessary to manage the business. The Company has put in place business continuity plans for its critical systems. However, if the Company's information technology systems are damaged, or cease to function properly due to any number of causes, such as catastrophic events, power outages or security breaches, and the Company's business continuity plans do not effectively compensate on a timely basis, the Company may suffer interruptions in its operations, which may adversely impact the Company's revenues and operating results.

We may make acquisitions or investments in new businesses, products or technologies that involve additional risks, which could disrupt our business or harm our financial condition or results of operations.

As part of our business strategy, we have made, and expect to continue to make, acquisitions of businesses or investments in companies that offer complementary products, services and technologies. Such acquisitions or investments involve a number of risks, including:

- Assimilating operations and products may be unexpectedly difficult;
- Management's attention may be diverted from other business concerns;
- We may enter markets in which we have limited or no direct experience;
- We may lose key employees, customers or vendors of an acquired business;
- The synergies or cost savings we expected to achieve may not be realized;
- We may not realize the value of the acquired assets relative to the price paid; and
- Despite our diligent efforts, we may not succeed at quality control or other customer issues.

These factors could have a material adverse effect on our business, financial condition and operating results. Consideration paid for any future acquisitions could include our stock or require that we incur additional debt and contingent liabilities. As a result, future acquisitions could cause dilution of existing equity interests and earnings per share. Before we enter into any acquisition, we perform significant due diligence to determine if the potential acquisition fits with our strategic objectives. In addition, we believe we have adequate resources and appropriate integration procedures to transition a newly acquired company efficiently.

Our results of operations could be adversely affected by impairment of our goodwill or other intangible assets.

When we acquire a business, we record goodwill equal to the excess of the amount we pay for the business, including liabilities assumed, over the fair value of the tangible and intangible assets of the business we acquire. Goodwill and other intangible assets that have indefinite useful lives must be tested at least annually for impairment. The specific guidance for testing goodwill and other non-amortized intangible assets for impairment requires management to make certain estimates and assumptions when allocating goodwill to reporting units and determining the fair value of reporting unit net assets and liabilities, including, among other things, an assessment of market conditions, projected cash flows, investment rates, cost of capital and growth rates, which could significantly impact the reported value of goodwill and other intangible assets. Fair value is generally determined using a combination of the discounted cash flow, market multiple and market capitalization valuation approaches. Absent any impairment indicators, we generally perform our impairment tests annually in the fourth quarter, using available forecast information.

If at any time we determine an impairment has occurred, we are required to reflect the reduction in value as an expense within operating income, resulting in a reduction of earnings in the period such impairment is identified and a corresponding reduction in our net asset value.

During 2010, our Aerospace U.K. Composites reporting unit recorded a \$6.4 million non-cash non-tax deductible goodwill impairment charge. See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Note 9, Goodwill and Intangible Assets, Net, in the Notes to Consolidated Financial Statements in this Annual Report on Form 10-K for further discussion of this charge.

We rely on the experience and expertise of our skilled employees, and must continue to attract and retain qualified technical, marketing and managerial personnel in order to succeed.

Our future success will depend largely upon our ability to attract and retain highly skilled technical, operational and financial managers and marketing personnel. There is significant competition for such personnel in the aerospace and industrial distribution industries. We try to ensure that we offer competitive compensation and benefits as well as opportunities for continued development. There can be no assurance that we will continue to be successful in attracting and retaining the personnel we require to develop new and enhanced products and to continue to grow and operate profitably. We continually strive to recruit and train required personnel as well as retain key employees.

We are subject to litigation that could adversely affect our operating results.

Our financial results may be affected by the outcome of legal proceedings and other contingencies that cannot be predicted. In accordance with generally accepted accounting principles, if a liability is deemed probable and reasonably estimable in light of the facts and circumstances known to us at a particular point in time, we will make an estimate of material loss contingencies and establish reserves based on our assessment.

Subsequent developments in legal proceedings may affect our assessment. The accrual of a loss contingency adversely affects our results of operations in the period in which a liability is recognized. This could also have an adverse impact on our cash flows in the period during which damages are paid.

Currently, we have two matters outstanding relating to the FMU-143 program at the Aerospace segment's Orlando facility. While we believe that the U.S. Government's allegations against us in these matters are unfounded and we continue to defend ourselves vigorously, we cannot guarantee that we will have no liability with respect to these matters. For a discussion of these matters, please refer to Note 18, Commitments and Contingencies, in the Notes to Consolidated Financial Statements in this Annual Report on Form 10-K.

Our acceptance of the return of the 11 Australian SH-2G(A) Super Seasprite helicopters, including related inventory and equipment, from the Commonwealth of Australia is subject to a variety of risks and uncertainties.

On February 12, 2009, we completed the transfer of title to the 11 Australian SH-2G(A) Super Seasprite helicopters, including related inventory and equipment, from the Commonwealth of Australia. For more information, please refer to Note 18, Commitments and Contingencies, of the Notes to Consolidated Financial Statements in this Annual Report on Form 10-K.

Our acceptance of the return of the aircraft and other inventory is subject to a variety of risks and uncertainties including but not limited to:

- The potential absence of a market for the aircraft and spare parts;
- Risk of the inventory becoming obsolete over time, resulting in the Company recording a lower of cost or market adjustment;
- The additional costs that may be necessary to store, maintain and track the inventory; and
- The obligation to make payments to the Commonwealth of Australia in the future, regardless of aircraft sales.

We believe there is a market for these aircraft, and we are actively marketing them to interested potential customers.

The cost and effort to start up new aerospace programs could negatively impact our operating results and profits.

In recent years, we have been ramping up several new programs, as more fully discussed in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in this Annual Report on Form 10-K. The time required and cost incurred to ramp up a new program can be significant and includes nonrecurring costs for tooling, first article testing, finalizing drawings and engineering specifications and hiring new employees able to perform the technical work required.

New programs can typically involve greater volume of scrap, higher costs due to inefficiencies, delays in production, and learning curves that are more extended than anticipated, all of which can impact operating results. We have been working with our customers and leveraging our years of experience to effectively ramp up these new programs.

A failure to develop and retain national accounts at our Industrial Distribution segment could adversely impact our financial results.

Over the past several years, more companies have begun to consolidate their purchases of industrial products, resulting in their doing business with only a few major distributors or integrated suppliers, rather than a large number of vendors. Through our national accounts strategy, we have worked to develop the relationships necessary to be one of those major distributors. Competition relative to these types of arrangements is significant.

If we are not awarded additional national accounts in the future, or if existing national account agreements are not renewed, our sales volume could be negatively impacted which may result in lower gross margins and weaker operating results. Additionally, national accounts typically require an increased level of customer service, as well as investments in the form of opening of new branches to meet our customers' needs. The cost and time associated with these activities could be significant and if the relationship is not maintained, we could ultimately not make a return on these investments. One of our key strategies has been to increase our national account presence, and we will continue to focus on this objective.

Our insurance coverage may be inadequate to cover all significant risk exposures.

We are exposed to liabilities that are unique to the products and services we provide. While we believe that we maintain adequate insurance for certain risks, insurance cannot be obtained to protect against all risks and liabilities. It is therefore possible that the amount of our insurance coverage may not cover all claims or liabilities, and we may be forced to bear substantial unanticipated costs.

Business disruptions could seriously affect our future sales and financial condition or increase our costs and expenses.

Our business may be impacted by disruptions including, but not limited to, threats to physical security, information technology attacks or failures, damaging weather or other acts of nature and pandemics or other public health crises. Any of these disruptions could affect our internal operations or services provided to customers, and could impact our sales, increase our expenses or adversely affect our reputation or our stock price.

Our revenue and quarterly results may fluctuate, which could adversely affect our stock price.

We have experienced, and may in the future experience, significant fluctuations in our quarterly operating results that may be caused by many factors. These factors include but are not limited to:

- Difficulties with our technical programs;
- Changes in demand for our products;
- Introduction, enhancement or announcement of products by us or our competitors;
- Market acceptance of our new products;
- The growth rates of certain market segments in which we compete;
- Size, timing and shipment terms of significant orders;
- Budgeting cycles of customers;
- Mix of distribution channels;
- Mix of products and services sold;
- Mix of domestic and international revenues;
- Fluctuations in currency exchange rates;
- Changes in the level of operating expenses;
- Changes in our sales incentive plans;
- Inventory obsolescence;
- Accrual of contract losses;
- Fluctuations in oil and utility costs;
- Completion or announcement of acquisitions by us; and
- General economic conditions in regions in which we conduct business.

Most of our expenses are relatively fixed, including costs of personnel and facilities, and are not easily reduced. Thus, an unexpected reduction in our revenue, or failure to achieve the anticipated rate of growth, could have a material adverse effect on our profitability. If our operating results do not meet the expectations of investors, our stock price may decline.

Changes in global economic and political conditions could adversely affect our domestic and foreign operations and results of operations.

If our customers' buying patterns, including decision-making processes, timing of expected deliveries and timing of new projects, unfavorably change due to economic or political conditions, there could be an adverse effect on our business. Our foreign business presents us with additional risk exposures, including:

- Longer payment cycles;
- Difficulties in accounts receivable collection;
- Changes in regulatory requirements;
- Export restrictions, tariffs and other trade barriers;
- Difficulties in staffing and managing foreign operations;
- Seasonal reductions in business activity during the summer months in Europe and certain other parts of the world;
- Political or economic instability in the markets we serve;
- Potentially adverse tax consequences; and
- Cultural and legal differences in the conduct of business.

Any one or more of these factors could have a material adverse effect on our domestic or international operations, and, consequently, on our business, financial condition and operating results.

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) domestic and foreign economic and competitive conditions in markets served by the company, particularly the defense, commercial aviation and industrial production markets; 5) risks associated with successful implementation and ramp up of significant new programs; 6) potential difficulties associated with variable acceptance test results, given sensitive production materials and extreme test parameters; 7) management's success in increasing the volume of profitable work at the Wichita facility; 8) successful resale of the SH-2G(I) aircraft, equipment and spare parts; 9) 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; 10) satisfactory resolution of the company's litigation relating to the FMU-143 program; 11) continued support of the existing K-MAX® helicopter fleet, including sale of existing K-MAX® spare parts inventory; 12) cost estimates associated with environmental remediation activities at the Bloomfield, Moosup and New Hartford, CT facilities and our U.K. facilities; 13) profitable integration of acquired businesses into the company's operations; 14) changes in supplier sales or vendor incentive policies; 15) the effects of price increases or decreases; 16) the effects of pension regulations, pension plan assumptions and future contributions; 17) future levels of indebtedness and capital expenditures; 18) continued availability of raw materials and other commodities in adequate supplies and the effect of increased costs for such items; 19) the effects of currency exchange rates and foreign competition on future operations; 20) changes in laws and regulations, taxes, interest rates, inflation rates and general business conditions; 21) future repurchases and/or issuances of common stock; and 22) 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 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our facilities are generally suitable for, and adequate to serve, their intended uses. At December 31, 2010, we occupied major facilities at the following principal locations:

<u>Segment</u>	<u>Location</u>	<u>Property Type (1)</u>
Aerospace	Jacksonville, Florida	Leased - Manufacturing & Office
	Chihuahua, Mexico	Leased - Manufacturing & Office
	Wichita, Kansas	Leased - Manufacturing & Office
	Darwen, Lancashire, United Kingdom	Leased - Manufacturing & Office
	Hyde, Greater Manchester, United Kingdom	Leased - Manufacturing & Office
	Orlando, Florida	Leased - Manufacturing & Office
	Tucson, Arizona	Leased - Office
	Everett, Washington	Leased - Office
	Dachsbach, Germany	Owned - Manufacturing & Office
	Middletown, Connecticut	Owned - Manufacturing & Office
	Bloomfield, Connecticut	Owned - Manufacturing, Office & Service Center
	Industrial Distribution	Windsor, Connecticut
Ontario, California		Leased - Distribution Center & Office
Albany, New York		Leased - Distribution Center & Office
Savannah, Georgia		Leased - Distribution Center & Office
Salt Lake City, Utah		Leased - Distribution Center & Office
Louisville, Kentucky		Leased - Distribution Center & Office
Glendale, California		Leased - Distribution Center & Office
Gurabo, Puerto Rico		Leased - Distribution Center & Office
Mexico City, Mexico		Leased - Distribution Center & Office
Corporate	Bloomfield, Connecticut	Owned - Office
	Square Feet	Total
	Industrial Distribution (2)	1,768,507
	Aerospace	1,620,083
	Corporate (3, 4, 5)	627,280
	Total	<u>4,015,870</u>

- (1) Owned facilities are unencumbered.
- (2) The Industrial Distribution segment also has branches located across the United States, Puerto Rico, Canada and Mexico, generally operating in leased facilities.
- (3) We occupy a 40,000 square foot corporate headquarters building in Bloomfield, Connecticut and own another 76,000 square foot mixed use building.
- (4) Approximately 500,000 square feet of space included in the corporate square footage is attributable to a facility located in Moosup, Connecticut, that was closed in 2003 and is being held for disposition.
- (5) Approximately 8,000 square feet of space included in the corporate square footage is attributable to an information technology data back-up center that is currently under construction.

ITEM 3. LEGAL PROCEEDINGS

From time to time, the company is subject to various claims and suits arising out of the ordinary course of business, including commercial, employment and environmental matters. We do not expect that the resolution of these matters would have a material adverse effect on our consolidated financial position. Although not required to be disclosed in response to this Item, certain legal proceedings that relate to specific segments of our company are discussed in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Note 18, Commitments and Contingencies, of the Notes to Consolidated Financial Statements, included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders during the fourth quarter of 2010.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

MARKET, DIVIDEND AND SHAREHOLDER INFORMATION

Our Common Stock is traded on the NASDAQ Global Market under the symbol "KAMN". As of January 28, 2011, there were 3,861 registered holders of our Common Stock. Holders of the company's Common Stock are eligible to participate in the Mellon Investor Services Program administered by Mellon Bank, N.A. The program offers a variety of services including dividend reinvestment. A booklet describing the program may be obtained by contacting Mellon at (800) 227-0291 or via the web at www.melloninvestor.com.

The following table sets forth the high, low and closing sale prices per share of the Company's Common Stock on the NASDAQ Global Market and the dividends declared for the periods indicated:

	NASDAQ Market Quotations (1)			Dividend Declared
	High	Low	Close	
2010				
First quarter	\$ 26.35	\$ 22.71	\$ 24.92	\$ 0.14
Second quarter	28.40	21.65	22.07	0.14
Third quarter	26.95	20.97	25.83	0.14
Fourth quarter	30.00	25.34	29.07	0.14
2009				
First quarter	\$ 21.21	\$ 9.33	\$ 14.64	\$ 0.14
Second quarter	18.65	14.25	16.75	0.14
Third quarter	22.63	15.48	20.85	0.14
Fourth quarter	24.86	20.25	23.09	0.14

(1) NASDAQ market quotations reflect inter-dealer prices, without retail mark-up, mark-down, or commission and may not necessarily represent actual transactions.

ISSUER PURCHASES OF EQUITY SECURITIES

The following table provides information about purchases of Common Stock by the Company during the three months ended December 31, 2010:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan (a)	Maximum Number of Shares That May Yet Be Purchased Under the Plan
October 2, 2010 – October 29, 2010	-	\$ -	-	1,130,389
October 30, 2010 – November 26, 2010	-	-	-	1,130,389
November 27, 2010 – December 31, 2010	-	-	-	1,130,389
Total	-	-	-	

(a) 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.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

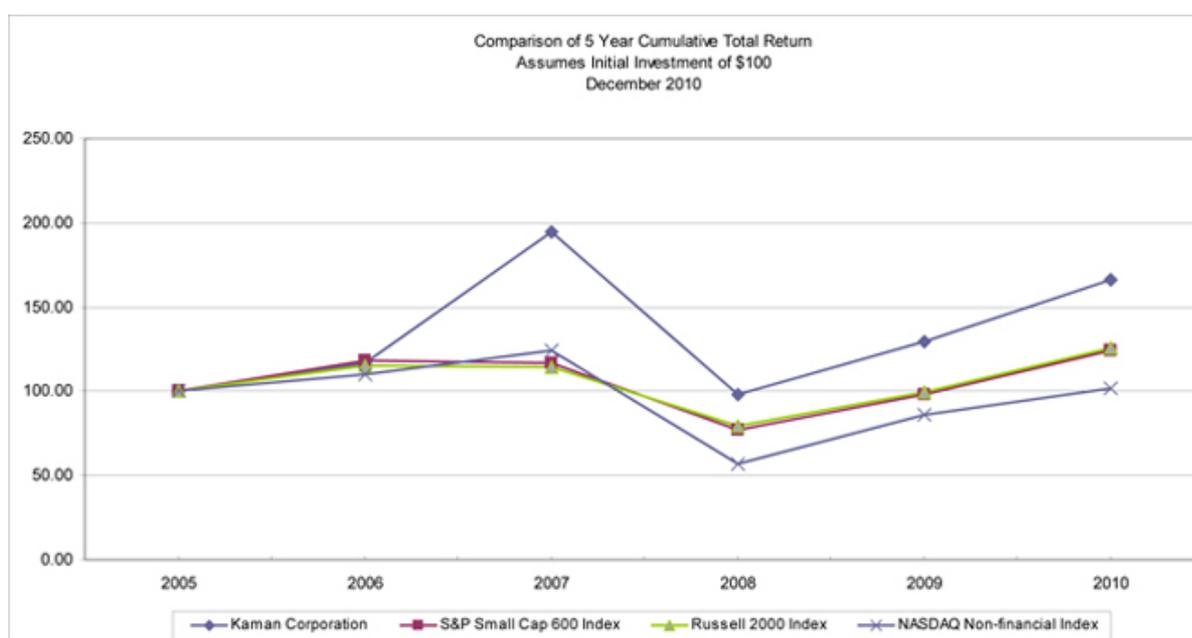
The following table provides information as of December 31, 2010 concerning Common Stock issuable under the company's equity compensation plans.

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders:			
2003 Stock Incentive Plan*	985,079	\$ 20.81	1,108,665
Employees Stock Purchase Plan	—	—	709,303
Equity compensation plans not approved by security holders	—	—	—
Total	985,079	\$ 20.81	1,817,968

* Includes securities to be issued upon exercise of outstanding options granted under a predecessor plan.

PERFORMANCE GRAPH

Following is a comparison of our total shareholder return for the period 2005 – 2010 compared to the S&P 600 Small Cap Index, the Russell 2000 Small Cap Index, and the NASDAQ Non-Financial Composite Index. The performance graph does not include a published industry or line-of-business index or peer group of similar issuers because during the performance period the company was conducting operations in diverse lines of business and we do not believe a meaningful industry index or peer group can be reasonably identified. Accordingly, as permitted by regulation, the graph includes the S&P 600 Small Cap Index and the Russell 2000 Small Cap Index, both of which are comprised of issuers with generally similar market capitalizations to that of the company, and the NASDAQ Non-Financial index calculated by the exchange on which company shares are traded.



	2005	2006	2007	2008	2009	2010
Kaman Corporation	100.00	116.40	194.61	98.20	129.15	166.21
S&P Small Cap 600	100.00	115.12	114.78	79.11	99.34	125.47
Russell 2000	100.00	118.37	116.52	77.15	98.11	124.46
NASDAQ Non-financial	100.00	109.66	124.39	56.94	85.86	101.80

ITEM 6. SELECTED FINANCIAL DATA

FIVE-YEAR SELECTED FINANCIAL DATA

(in thousands except per share amounts, shareholders and employees)

	2010 ¹	2009	2008 ²	2007 ^{3,4}	2006 ⁴
OPERATIONS					
Net sales from continuing operations	\$ 1,318,513	\$ 1,146,231	\$ 1,253,595	\$ 1,086,031	\$ 991,422
Gain (loss) on sale of product lines and other assets	447	(4)	221	2,579	(52)
Operating income from continuing operations	62,817	53,942	65,266	64,728	47,822
Earnings before income taxes from continuing operations	60,372	47,010	59,166	57,527	40,660
Income tax benefit (expense)	(22,048)	(14,361)	(24,059)	(21,036)	(16,017)
Earnings from continuing operations	38,324	32,649	35,107	36,491	24,643
Earnings from discontinued operations, net of taxes	-	-	-	7,890	7,143
Gain on disposal of discontinued operations, net of taxes	-	-	492	11,538	-
Net earnings	\$ 38,324	\$ 32,649	\$ 35,599	\$ 55,919	\$ 31,786
FINANCIAL POSITION					
Current assets	\$ 584,953	\$ 482,603	\$ 486,516	\$ 491,629	\$ 513,231
Current liabilities	221,845	154,070	179,177	182,631	199,126
Working capital	363,108	328,533	307,339	308,998	314,105
Property, plant and equipment, net	89,719	81,322	79,476	53,645	49,954
Total assets	895,757	773,067	762,613	634,863	630,413
Long-term debt, excluding current portion	140,443	56,800	87,924	11,194	72,872
Shareholders' equity	362,670	312,900	274,271	394,526	296,561
PER SHARE AMOUNTS					
Basic earnings per share from continuing operations	1.48	1.27	1.38	1.50	1.02
Basic earnings per share from discontinued operations	-	-	-	0.32	0.30
Basic earnings per share from disposal of discontinued operations	-	-	0.02	0.47	-
Basic net earnings per share	<u>\$ 1.48</u>	<u>\$ 1.27</u>	<u>\$ 1.40</u>	<u>\$ 2.29</u>	<u>\$ 1.32</u>
Diluted earnings per share from continuing operations	1.47	1.27	1.38	1.46	1.01
Diluted earnings per share from discontinued operations	-	-	-	0.31	0.29
Diluted earnings per share from disposal of discontinued operations	-	-	0.02	0.46	-
Diluted net earnings per share	<u>\$ 1.47</u>	<u>\$ 1.27</u>	<u>\$ 1.40</u>	<u>\$ 2.23</u>	<u>\$ 1.30</u>
Dividends declared	0.56	0.56	0.56	0.53	0.50
Shareholders' equity	13.89	12.14	10.77	15.69	12.28
Market price range – High	30.00	24.86	38.56	39.31	25.69
Market price range – Low	20.97	9.33	16.48	21.38	15.52
AVERAGE SHARES OUTSTANDING					
Basic	25,928	25,648	25,357	24,375	24,036
Diluted	26,104	25,779	25,512	25,261	24,869
GENERAL STATISTICS					
Registered shareholders	3,879	4,064	4,107	4,186	4,468
Employees	4,269	4,032	4,294	3,618	3,906

(See Footnotes on following page)

Included within certain annual results are a variety of unusual or significant items that may affect comparability. The most significant of such items are described below as well as within Management's Discussion and Analysis of Financial Condition and Results of Operations and the Notes to Consolidated Financial Statements.

1. Results for 2010 include a \$6.4 million non-cash non-tax deductible charge for the impairment of goodwill related to U.K. Composites, \$2.0 million in additional losses related to the finalization of contract price negotiations on the Sikorsky Canadian MH-92 helicopter program, and \$6.6 million of income related to the claim for look-back interest we filed with the Internal Revenue Service in connection with the Australian SH-2G(A) Super Seasprite Helicopter program.
2. Results for 2008 include a \$7.8 million non-cash non-tax deductible charge for the impairment of goodwill related to Wichita Composites, \$2.5 million related to the write-off of tooling costs at Wichita Composites and \$1.6 million of expense related to the cancellation of foreign currency hedge contracts originally assumed in connection with the acquisition of U.K. Composites.
3. The company sold Kaman Music Corporation on December 31, 2007, which resulted in a pre-tax gain on disposal of discontinued operations of \$18.1 million, and the Aerospace segment's 40mm product line assets, which resulted in a pre-tax gain of \$2.6 million.
4. Results for 2007 and 2006 include charges for the Australian SH-2G(A) helicopter program of \$6.4 million and \$9.7 million, respectively.

ITEM 7. 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. 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 the readers of this report to obtain a comprehensive understanding of our businesses, strategies, current trends and future prospects. MD&A should be read in conjunction with the Consolidated Financial Statements and related Notes included in this Form 10-K. Unless otherwise noted, MD&A relates only to results from continuing operations.

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 international, commercial and military aerospace and defense markets.

Financial performance

- Net sales from continuing operations increased 15.0% compared to the prior year.
- Net earnings increased 17.4% compared to the prior year.
- Diluted earnings per share, when compared to the prior year, increased 15.7% to \$1.47.
- Cash flows provided by operating activities were \$37.4 million for 2010, a decrease of \$33.1 million when compared to the prior year.
- Our Industrial Distribution segment had record annual sales of \$832.0 million.

Acquisitions completed during the year

- On December 10, 2010, we acquired Global Aerosystems, LLC ("Global") of Everett, Washington for \$15.3 million.
- On April 30, 2010, we acquired Minarik Corporation ("Minarik") of Glendale, California for \$42.5 million, the largest acquisition ever completed by our Industrial Distribution segment.
- On April 5, 2010, we acquired Allied Bearings Supply Company ("Allied") of Tulsa, Oklahoma for \$15.2 million.
- On February 26, 2010, we acquired the assets of Fawick de Mexico, S.A. de C. V. ("Fawick") of Mexico City, Mexico for \$4.9 million.

Key events

- In December 2010, the U.S. Naval Air Systems Command awarded Lockheed Martin and our Aerospace segment a \$45.8 million contract for K-MAX® unmanned aircraft systems for a U.S. Marine Corps evaluation of unmanned cargo resupply in an operational forward deployed environment. The contract includes the delivery of two K-MAX® air vehicles and three remote control ground stations to the U.S. Marine Corps for a Quick Reaction Assessment, scheduled for summer 2011.
- In November 2010, we issued \$115.0 million in convertible notes. These notes are due November 17, 2017 and have a coupon rate of 3.25%. Proceeds from these notes were used to pay down \$62.2 million on our revolving credit facility, make a \$25.0 million voluntary contribution to our qualified pension plan and use \$13.2 million for the purchase of call options related to the convertible note offering.
- During the fourth quarter of 2010 we were awarded a contract to manufacture new cabins for Bell Helicopter's AH-1Z attack helicopter. Including potential follow-on options, the program value could exceed \$60 million and has an initial period of performance that runs thru 2015.
- During the fourth quarter we were awarded a contract from Bombardier to build composite doors on the Learjet 85, a new mid-sized business jet. This work will be performed at our U.K. Composite Facility.
- During the fourth quarter, we recorded a \$6.4 million non-cash non-tax deductible goodwill impairment charge. This charge has been included in the operating results of our Aerospace segment and was related to our U.K. Composites reporting unit.
- During the fourth quarter, we opened a low cost aerospace manufacturing facility in Chihuahua, Mexico.
- During the third quarter we received a payment of \$6.6 million related to the 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 during the quarter.
- During the third quarter we finalized the negotiations with Sikorsky related to the contract price of the Canadian MH-92 program resulting in an increase in the contract value from approximately \$6.0 million to approximately \$11.0 million. Because this increase was less than anticipated, we recorded an additional contract loss of \$2.0 million.
- During the third quarter we were awarded an add-on to Option 7 of the JPF Program for Foreign Military Sales ("FMS") with an additional value of \$36.0 million. The total value of Option 7 is now \$81.5 million.
- On September 20, 2010, we replaced our \$225.0 million revolving credit facility with a four-year \$275.0 million revolving credit facility. Also, on September 20, 2010, we amended our existing four-year term loan.
- On September 1, 2010, Steven J. Smidler assumed the role of President of the Industrial Distribution segment, following the retirement of T. Jack Cahill on August 31, 2010.

In January 2010, the Unmanned K-MAX® helicopter successfully completed its demonstration for the U.S. Marine Corps. The demonstration showed the ability of the Unmanned K-MAX® to deliver cargo to troops in extreme environments and at high altitudes.

Outlook

The performance of our Industrial Distribution segment significantly improved in 2010 compared to 2009 as the industrial economy improved. We made three strategic acquisitions that enabled us to grow scale and add new product lines. With the growth in our base business and the addition of the three acquisitions, the segment achieved a record annual sales level of \$832.0 million. Additionally, the segment improved operating margin during 2010 to 3.6% from 2.0% in 2009. This increase is due to increased sales volume across all markets, higher operating margin on sales contributed by our acquired businesses, and the benefits of cost reduction programs undertaken during 2009. This higher operating margin was achieved despite increased pressure on pricing as our customers continue to focus on cost control. We will continue to emphasize cost reduction, margin improvements and market share gains.

Our Aerospace segment had solid performance in 2010, despite the technical issues that we encountered in our JPF program, weaker sales of our bearing products, the charge resulting from the resolution of the contract price negotiations related to the Sikorsky Canadian MH-92 program and the \$6.4 million non-cash goodwill impairment charge. We were able to overcome these challenges by delivering approximately 18,000 JPF fuzes in the second half of the year, delivering more than 170 cockpits on our Sikorsky BLACK HAWK Helicopter program and improving margin on our bearing products.

As we look at 2011, we anticipate growth in both of our segments. Our 2011 outlook is as follows:

- Industrial Distribution:
 - § Sales growth of 12.0% to 15.0%
 - § Operating margin between 4.2% and 4.5%
- Aerospace:
 - § Sales growth of 13.0% to 16.0%
 - § Operating margin between 15.2% and 15.5%
- Corporate expenses in the range of \$10.0 to \$10.5 million per quarter
- Interest expense of approximately \$12.5 million
- Estimated tax rate of 35.0% in 2011
- Free cash flow in the range of \$30.0 to \$35.0 million.

RESULTS OF CONTINUING OPERATIONS

Consolidated Results

Net Sales

	2010	2009	2008
<i>In thousands</i>			
Industrial Distribution	\$ 831,997	\$ 645,535	\$ 776,970
Aerospace	486,516	500,696	476,625
Total	<u>\$ 1,318,513</u>	<u>\$ 1,146,231</u>	<u>\$ 1,253,595</u>
\$ change	\$ 172,282	\$ (107,364)	\$ 167,564
% change	15.0%	-8.6%	15.4%

The increase in net sales for 2010 as compared to 2009 was attributable to an increase in organic sales at our Industrial Distribution segment, the contribution of sales from our 2010 acquisitions and the favorable impact of foreign currency exchange rates of \$2.0 million, partially offset by a decrease in sales at our Aerospace segment. See Segment Results of Operations and Financial Condition below for further discussion of segment net sales.

The decrease in net sales for 2009 as compared to 2008 was attributable to a decline in organic sales at our Industrial Distribution segment. This decrease was partially offset by organic sales growth in our Aerospace segment and the full year effect of sales from the acquisition of Industrial Supply Corp (“ISC”) in March 2008, the acquisition of U.K. Composites in June 2008, and the acquisition of Industrial Rubber & Mechanics Incorporated (“INRUMEC”) in October 2008. Foreign currency exchange rates had an unfavorable impact of \$12.3 million on sales for 2009.

Gross Profit

	2010	2009	2008
In thousands			
Gross profit	\$ 357,807	\$ 305,938	\$ 332,137
\$ change	51,869	(26,199)	31,192
% change	17.0%	-7.9%	10.4%
% of net sales	27.1%	26.7%	26.5%

Gross profit increased for 2010 as compared to 2009 due to an increase in gross profit at both our segments. The increase in Industrial Distribution gross profit was primarily a result of higher sales volume and the addition of gross profit from the acquisitions completed during the year. The increase in gross profit at our Aerospace segment was primarily due to an increase in gross profit for our JPF program resulting from the improved pricing related to deliveries under Option 6, an increase in gross profit on the Sikorsky BLACK HAWK Helicopter program resulting from an increase in deliveries compared to the prior year and an increase in gross profit on our blade erosion coating programs. These increases were partially offset by a decrease in sales volume related to our bearing product lines, \$3.3 million in contract losses on the Sikorsky Canadian MH-92 program, \$1.5 million in losses on our Bell Helicopter program due to inefficiencies and scrap on our initial production units, reduced gross profit on the C-17 program due to a reduction in volume requirements, a reduction in sales resulting from lower volume on our helicopter after market programs, including Egypt SH-2G(E), and \$2.8 million in losses resulting from a reduction in quantities required by our customer for one of our fuze programs.

Gross profit decreased in 2009 as compared to 2008 primarily due to a decrease in gross profit at our Industrial Distribution segment, partially offset by an increase at our Aerospace segment and the full year effect on gross profit from the acquisitions of ISC, U.K. Composites and INRUMEC. The decrease in gross profit at Industrial Distribution was a result of lower sales volume, while the increase at Aerospace was driven by increased shipments on the Sikorsky BLACK HAWK helicopter cockpit and JPF programs and increased sales of bearing products for the military markets. These increases were slightly offset by the absence of gross profit previously generated from Australian helicopter support program and decreased sales volume related to our bearing product lines for the commercial and regional / business jet markets.

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

	2010	2009	2008
In thousands			
S,G&A	\$ 289,066	\$ 251,992	\$ 259,282
\$ change	37,074	(7,290)	20,486
% change	14.7%	-2.8%	8.6%
% of net sales	21.9%	22.0%	20.7%

S,G&A increased for 2010 as compared to 2009 due to an increase in our Corporate expenses and an increase in expense at both our segments. The increase in our Corporate expenses was primarily due to \$1.5 million in acquisition related costs. The higher expense at our Industrial Distribution segment is attributable to the acquisitions as well as the absence of certain one-time benefits related to employee furloughs taken in the prior year 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 is due to an increase in legal fees associated with the FMU-143 program litigation matters.

The decrease in S,G&A for 2009 as compared to 2008 is primarily due to tighter cost control leading to expense reductions at both our segments and our Corporate office and a reduction in expense for our Supplemental Employees' Retirement Plan ("SERP"). The expense reductions included furloughs and a reduction in other employee benefit expenses. These decreases were partially offset by the acquisitions of ISC, U.K. Composites and INRUMEC during 2008 and an increase of \$8.8 million in pension expense. Furloughs were taken by our Corporate Officers and employees at our Industrial Distribution segment and select operations of our Aerospace segment.

Goodwill Impairment

	2010	2009	2008
In thousands			
Goodwill impairment	\$ 6,371	\$ -	\$ 7,810

During the first quarter of 2010, we were informally notified by a customer of its intent to terminate a contract that had been obtained in our acquisition of U.K. Composites. We recognized \$0.6 million in sales related to the contract in question during the year ended December 31, 2008. No sales were recognized during the years ended December 31, 2010 or 2009. Throughout 2010, management worked with this customer to find an acceptable resolution and maintain the work there under. During the fourth quarter we received a contract termination notice and, as a result, removed all future revenue and related profit associated with this contract from the reporting unit's projections when preparing its annual test for impairment. We do not believe the termination of the contract will have a significant impact on our liquidity. This contract loss, in addition to a reduction in revenue for other programs, reduced the revenue and earnings growth forecast to levels below those anticipated at the reporting unit's acquisition in 2008, creating a situation in which Step 1 of the impairment analysis resulted in a fair value for the reporting unit below its carrying value. Prior to proceeding to Step 2 of the impairment analysis, management assessed the tangible and intangible assets subject to amortization to determine if they were impaired. Based on this analysis these assets were determined not to be impaired. Upon completion of the Step 2 impairment analysis, we recorded a non-cash non-tax deductible goodwill impairment charge of \$6.4 million (representing 17% of the total goodwill balance for the reporting unit) to reduce the carrying value of goodwill to its implied fair value. This charge has been included in the operating results of our Aerospace segment. See Note 5, Fair Value Measurements, and Note 9 Goodwill and Intangible Assets, Net, in the Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies, for further discussion.

During the second quarter of 2008, the Aerospace Wichita facility lost two of its major contracts and experienced continuing production and quality issues. As a result, we performed an interim test of goodwill for impairment and recorded a non-tax-deductible goodwill impairment charge of \$7.8 million. This represented the entire goodwill balance for the reporting unit.

Operating Income

	2010	2009	2008
In thousands			
Operating income	\$ 62,817	\$ 53,942	\$ 65,266
\$ change	8,875	(11,324)	538
% change	16.5%	-17.4%	0.8%
% of net sales	4.8%	4.7%	5.2%

The increase in operating income for 2010 as compared to 2009 was primarily driven by a significant increase in operating income at our Industrial Distribution segment, offset slightly by a decrease in operating income at our Aerospace segment, which includes the \$6.4 million non-cash non-tax deductible goodwill charge. See Segment Results of Operations and Financial Condition below for further discussion of segment operating income.

The decrease in operating income in 2009 compared to 2008 was primarily driven by a decrease in operating income at our Industrial Distribution segment and an increase in pension expense offset in part by the absence of the \$7.8 million non-tax deductible goodwill impairment charge taken in 2008, a slight increase in Aerospace segment organic operating income and the addition of operating income associated with the acquisition of U.K. Composites.

Interest Expense, Net

	2010	2009	2008
In thousands			
Interest expense, net	\$ 3,487	\$ 5,700	\$ 4,110

Net interest expense generally consists of interest charged on borrowings and the amortization of capitalized debt issuance costs, offset by interest income. The decrease in interest expense, net is primarily due to the receipt of \$6.6 million of look-back interest during the period, partially offset by an increase in interest expense. The increase in interest expense is due to higher interest rates on amounts outstanding under our revolving credit agreement, increased amortization of capitalized fees and progressively higher borrowings under the revolving credit agreement as we funded the acquisitions completed in 2010.

The increase in net interest expense for 2009 compared to 2008 was primarily due to higher total average bank borrowings and lower interest income, partially offset by lower interest rates in 2009. The higher average bank borrowings for 2009 was the result of progressively higher borrowings under the revolving credit agreement and term loan agreement as we funded the three acquisitions completed in 2008.

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Effective income tax rate	36.5%	30.6%	40.7%

The effective income tax rate represents the combined federal, state and foreign tax effects attributable to pretax earnings for the year. The increase in the effective tax rate for 2010 compared to 2009 is due to the non-cash non-tax deductible goodwill impairment charge of \$6.4 million recorded by the Aerospace segment, a non-recurring tax benefit for foreign exchange losses incurred in the prior year period as part of an international recapitalization, and from a discrete benefit in the prior year due to certain foreign tax incentives.

The decrease in the effective tax rate for 2009 compared to 2008 is primarily due to a one-time tax benefit for foreign exchange losses incurred as part of an international recapitalization, and from a discrete benefit due to certain foreign tax incentives, as well as the impact of the \$7.8 million non-tax deductible non-cash goodwill impairment charge taken during the second quarter of 2008.

Other Matters

Information regarding our various environmental remediation activities and the December 2008 workplace accident that occurred at one of our U.K. Composites facilities and associated accruals as well as other pending matters can be found in Note 18, Commitments and Contingencies, in the Notes to Consolidated Financial Statements.

SEGMENT RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Industrial Distribution Segment

Our Strategy

The primary strategies for the Industrial Distribution segment are to:

1. Expand our geographic footprint in major industrial markets to enhance our position in the competition for regional and national accounts.

In order to increase our geographic footprint, we continue to explore potential acquisition candidates that are consistent with our strategic objectives. By so doing, we intend to more clearly establish our business as one that can provide comprehensive services to our customers who are continually looking to streamline their procurement operations and consolidate supplier relationships.

2. Gain additional business from existing customers through expanded product and service offerings.

In recent years, we have worked to increase market share in several less cyclical markets including the food and beverage, coal mining and energy industries. We are also expanding our presence in the power generation and utilities markets, two other less cyclical industries. We have been successful in this endeavor, as evidenced by our national account wins, and we continue to target these industries. The acquisitions completed in 2010 have allowed us to expand our geographical footprint, provide better levels of support for motion control products and more effectively balance our business between the Original Equipment Manufacturer (“OEM”) and the Maintenance, Repair and Operations (“MRO”) markets.

Results of Operations

	<u>2010</u>	<u>2009</u>	<u>2008</u>
<i>In thousands</i>			
Net sales	\$ 831,997	\$ 645,535	\$ 776,970
\$ change	186,462	(131,435)	76,796
% change	28.9%	-16.9%	11.0%
Operating income	\$ 30,252	\$ 12,612	\$ 35,397
\$ change	17,640	(22,785)	2,359
% change	139.9%	-64.4%	7.1%
% of net sales	3.6%	2.0%	4.6%

Net Sales

Net sales for 2010 increased as compared to 2009 due to a 14.4% increase in organic sales, when measured on a same day sales basis, with the acquisitions contributing \$96.2 million in sales for 2010. The decrease in net sales for 2009 as compared to 2008 is due to a decline of 19.2% in organic sales when measured on a same day sales basis. The decrease was partially offset by the addition of sales resulting from the acquisitions of ISC and INRUMEC.

Organic Sales Per Day

The following represents organic sales per day for the indicated period (in thousands):

	For the three months ended				
	December 31, 2010	October 1, 2010	July 2, 2010	April 2, 2010	December 31, 2009
Net sales	\$ 218,687	\$ 223,127	\$ 210,924	\$ 179,259	\$ 149,754
Acquisition related sales	34,253	35,254	26,729	-	-
Organic sales	\$ 184,434	\$ 187,873	\$ 184,195	\$ 179,259	\$ 149,754
Sales days	60	63	64	65	60
Organic sales per sales day (a)	\$ 3,074	\$ 2,982	\$ 2,878	\$ 2,758	\$ 2,496
% change - sequential	3.1%	3.6%	4.4%	10.5%	-2.0%

(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. See Management's Discussion and Analysis of Financial Condition and Results of Operations - Non-GAAP Financial Measures.

Organic sales per day grew sequentially over the past four quarters. The growth in organic sales is due to increases in sales volume to both OEM and MRO customers and the impact of favorable foreign currency exchange rates for 2010 of \$3.2 million. There were significant increases across all industries, particularly in mining, fabricated metal products and durable goods.

The following represents organic sales per day for the indicated period (in thousands):

	For the three months ended				
	December 31, 2009	October 2, 2009	July 3, 2009	April 3, 2009	December 31, 2008
Net sales	\$ 149,754	\$ 162,921	\$ 155,954	\$ 176,906	\$ 187,197
Acquisition related sales	-	-	-	-	-
Organic sales	\$ 149,754	\$ 162,921	\$ 155,954	\$ 176,906	\$ 187,197
Sales days	60	64	63	66	64
Organic sales per sales day (a)	\$ 2,496	\$ 2,546	\$ 2,475	\$ 2,680	\$ 2,925
% change - sequential	-2.0%	2.9%	-7.6%	-8.4%	-9.8%

The decrease in organic sales was due to a significant decrease in sales to OEMs and reduced capital spending by MRO customers and changes in foreign currency exchange rates which had an unfavorable impact of \$4.9 million on sales. By industry there were significant declines in sales in the non-metallic mineral products, metal mining, machinery and fabricated metals industries which were partially offset by slight sales increases in the food and beverage and paper industries.

Operating Income

Operating income increased in 2010 compared to 2009 primarily due to the increase in sales volume and the resulting impact on our ability to leverage operating costs, higher rebate income, the addition of \$5.4 million in operating income from the three acquisitions completed in 2010 and the benefit of a \$1.8 million decrease in group health insurance expense. 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 and the absence of the benefit of the one-time cost savings of \$1.3 million resulting from the business-wide furlough in the second quarter of 2009.

Operating income decreased for 2009 as compared to 2008 primarily due to the decrease in organic sales volume and the resulting impact on our ability to leverage operating costs. Additionally, operating income was impacted by increases in pension plan expense, employee separation costs and insurance costs. These factors were partially offset by improved gross margin rates and steps taken by management to reduce operating costs. These steps included a business wide furlough and the consolidation of branches and the closure of underperforming branches, which resulted in a reduction in headcount. Additionally, we closed the U.S. pension plan to new employees of the Industrial Distribution segment, effective June 1, 2009. The savings that resulted from the business wide furlough were nonrecurring and although the other actions led to increased costs in the near-term, management believes that the long-term reduction in operating costs allowed the Industrial Distribution segment to manage through the economic downturn and emerge as an even more profitable business.

Aerospace Segment

Our Strategy

Our strategy for the Aerospace segment is to expand our global market position in military and commercial markets, while maintaining leadership in product technical performance and application engineering support, and continuing to concentrate on lean manufacturing techniques and lead time reduction.

Results of Operations

The following table presents selected financial data for our Aerospace segment:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
<i>In thousands</i>			
Net sales	\$ 486,516	\$ 500,696	\$ 476,625
\$ change	(14,180)	24,071	90,768
% change	-2.8%	5.1%	23.5%
Operating income	\$ 67,151	\$ 74,996	\$ 61,608
\$ change	(7,845)	13,388	(6,175)
% change	-10.5%	21.7%	-9.1%
% of net sales	13.8%	15.0%	12.9%
Backlog on contract	\$ 532,630	\$ 430,885	\$ 550,736

Net Sales

Net sales decreased for 2010 as compared to 2009 due to:

- a decrease in sales volume on bearings products;
- lower volume on our helicopter after market programs, including the Egypt SH-2G(E) upgrade program, our K-MAX® program and sales of SH-2G spare parts to New Zealand;
- a reduction in C-17 ship set deliveries due to a reduction in volume requirements and production interruptions at our customer's facility; and
- unfavorable foreign currency exchange rate changes which impacted sales by \$1.3 million.

These decreases were partially offset by:

- higher priced sales on our JPF program to the United States Government ("USG"), resulting from the completion of Option 5 and the transition to Option 6, which has a higher per fuze price;
- commercial sales to foreign militaries of the JPF fuze;
- increased sales volume on our blade erosion coating programs;
- initial deliveries on our Bell Helicopter program; and
- increased sales volume on our Sikorsky BLACK HAWK helicopter cockpit program.

Net sales increased for 2009 as compared to 2008 due to:

- the incremental contribution of \$21.4 million in sales from the acquisition of U.K. Composites;
- increased shipments to the USG and Foreign Military Sales ("FMS") on the JPF program;
- increased shipments on the Sikorsky BLACK HAWK helicopter cockpit program;
- an increase in volume on our helicopter after market programs, including additional upgrade work on the Egypt SH-2G(E) helicopter fleet, SH-2G spare part sales to New Zealand; and
- increased sales of our bearing products for military platforms.

These increases were partially offset by:

- the absence of sales related to the Australian helicopter program support center;
- a decline in sales of our bearings products for business jet platforms; and
- unfavorable changes in foreign currency exchange rates which impacted sales by \$7.4 million, primarily as a result of the strengthening of the U.S. Dollar against the Pound Sterling which unfavorably impacted the current year sales of U.K. Composites.

Operating Income

Operating income decreased for 2010 as compared to 2009 due to:

- the \$6.4 million non-cash non-tax deductible goodwill charge taken at our U.K. Composites reporting unit;
- losses resulting from a decrease in the number of required units and program delays on one of our fuze programs;
- reduced gross profit generated by our bearings products resulting from the lower sales volume noted above;
- a reduction in gross profit due to a reduction in C-17 ship set volume requirements;
- losses recorded on our Bell Helicopter program due to inefficiencies on our initial production units;
- additional losses recorded on the Sikorsky Canadian MH-92 helicopter program, as discussed below; and
- increased selling, general and administrative expenses related to legal fees associated with the FMU-143 program.

These decreases were partially offset by the increased volume on our Sikorsky BLACK HAWK Helicopter cockpit program, increased gross profit on our JPF program due to more favorable pricing on Option 6 deliveries, gross profit associated with the higher sales volume of the JPF fuze to commercial customers and an increase in gross profit on our blade erosion coating programs.

Operating income increased for 2009 when compared to 2008 due to:

- the absence of the \$7.8 million non-cash, non-tax-deductible, goodwill impairment charge taken in 2008;
- increased shipments of higher margin JPF fuzes;
- the addition of operating income from the acquisition of U.K. Composites;
- increased sales on the Egypt helicopter upgrade program;
- increased sales of spares to New Zealand to support their helicopter fleet;
- higher production levels of the Sikorsky BLACK HAWK helicopter cockpit program; and
- increased sales of bearing products for military platforms.

These increases were partially offset by reduced gross profit generated by our bearing products for commercial platforms resulting from the lower sales volume as noted above. In 2009, the Aerospace segment took measures designed to reduce costs and improve operating performance, such as furloughs at certain operations. These measures helped improve operating income for the segment; however, the effect of the furloughs in 2009 was nonrecurring in nature.

Backlog

The increase in backlog in 2010 compared to 2009 is the result of an increase in orders for our bearing products, new USG orders and commercial sales to foreign militaries under our JPF program, as well as the Bell Helicopter and A-10 programs, which were awarded in 2009, but for which orders were received during 2010. The decrease in backlog in 2009 compared to 2008 is the result of the changes in the buying patterns of our customers during 2009 and the impact of certain new programs, A-10 and Bell Helicopters, which were not fully included in backlog at December 31, 2009 due to the timing of order receipt.

Major Programs/Product Lines

Military Markets

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. Full rate production is expected to begin in 2011 with an average of approximately 47 ship sets per year through 2015. During the first quarter of 2010, we received additional work which increased this multiyear program's potential value to over \$110 million; however, annual quantities will vary, as they are dependent upon the orders Boeing receives from the U.S. Air Force ("USAF").

Bearings

Our bearings products are included on military platforms manufactured in North America and Europe. These products are used as original equipment and/or specified as replacement parts by the manufacturers. The most significant portion of our military sales is derived from U.S. military platforms, such as the AH-64, C-17 and F/A-18 aircraft, and sales in Europe for the Typhoon program. These products are primarily proprietary self-lubricating, ball and roller bearings for aircraft flight controls, turbine engines, and landing gear and driveline couplings for helicopters.

BLACK HAWK

The Sikorsky BLACK HAWK helicopter cockpit program involves the manufacture of cockpits including the installation of all wiring harnesses, hydraulic assemblies, control pedals and sticks, seat tracks, pneumatic lines, and the composite structure that holds the windscreen for most models of the BLACK HAWK helicopter. Orders placed to date for the program total 800 cockpits. The total potential value of this program is at least \$350 million, with deliveries on current orders continuing through 2011. Through December 31, 2010, a total of 615 cockpits have been delivered under this contract. During 2010 we experienced production levels higher than those experienced in 2009, with deliveries of 177 cockpits in 2010 compared to 155 in 2009. We expect to deliver 150 to 155 cockpits in 2011.

The segment also performs additional subcontract work involving fuselage joining and installation tasks, blade erosion coating and the production of certain mechanical subassemblies for this helicopter program. During the second quarter of 2010, we delivered the 1,000th BLACK HAWK blade on the blade erosion coating program.

C-17

The segment continues production of structural wing subassemblies for the Boeing C-17. We received additional orders under this program that will extend our work beyond 2011. During 2010 we delivered 14 ship sets. We currently have orders for 20 ship sets to be delivered in 2011 and beyond.

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 \$53.9 million, of which \$18.6 million has been funded through December 31, 2010.

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

We manufacture the JPF, an electro-mechanical bomb safing 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. The modification provides increased unit prices and quantities for these three option buys upon exercise and updates the original contract negotiated in 1997. The total value of the Option 6 award is approximately \$59 million. During 2010 we were awarded Option 7 of the JPF program, which includes USG and Foreign Military Sales and has a total value of \$81.5 million.

The total value of JPF contracts awarded by the USG from inception of the program through December 31, 2010 is \$337.5 million. This value primarily consists of Options 1 through 7 under the original contract and various contract modifications. We expect to continue production under the currently awarded options through 2012.

During the first half of 2010, we experienced supplied component issues on the JPF program that caused us to halt production. In cooperation with our supplier and customer, we analyzed, tested and verified the root cause of the acceptance testing failures, which were traced to the performance of a supplied component, and developed a plan for introduction of key product improvements. Upon resolution of these issues, we were able to deliver more than 18,000 fuzes during the second half of 2010. During this period we completed Option 5 shipments and transitioned to Option 6 of the program, which has a higher per fuze price. Additionally, these deliveries included commercial sales to foreign militaries. These sales are part of a larger order, with an approximate value of \$44.1 million. During 2010 these commercial sales totaled \$18.0 million. We anticipate completing this order in the first quarter of 2011.

MH-92

The Sikorsky Canadian MH-92 helicopter program includes the manufacture and assembly of composite tail rotor pylons. This program has undergone numerous customer directed design changes that caused costs on this program to exceed the originally proposed price for the contract. During the third quarter of 2010, we finalized the contract price negotiations for this program increasing the contract value from approximately \$6.0 million to approximately \$11.0 million. Although we received additional consideration for this contract, we were not able to recover all the estimated costs at completion and because this increase was less than anticipated, we recorded a \$2.0 million contract loss during the third quarter of 2010. To date, we have recorded \$6.8 million in contract losses, and of this amount, \$3.3 million was recorded in 2010.

U.S. Army

In December 2009, we signed a \$7.2 million contract with the U.S. Army to perform blade erosion coating on up to 500 helicopter blades. Initial deliveries began in the first quarter of 2010 and through December 31, 2010 we have delivered 408 blades under this contract. Under all blade erosion coating contracts with the U.S. Army, we have delivered 624 blades through December 31, 2010.

Commercial Markets

777 / 767

In late 2007, we signed a seven-year follow-on contract with Boeing for the production of fixed wing trailing edge assemblies for the Boeing 777 and 767 aircraft. During 2010, on average we delivered 6 ship sets per month on the Boeing 777 platform and 1 ship set per month on the Boeing 767. For 2011, we currently estimate deliveries on these programs to be consistent with 2010. This multiyear contract has a potential value in excess of \$100 million; however, annual quantities will vary, as they are dependent upon the orders Boeing receives from its customers.

Airbus

Our U.K. Composites operations provide composite components for many Airbus platforms. The most significant of these are the A320, A330 and A340. Orders for these components are dependent on the customer's build rate.

Bearings

Our bearings products are included on commercial airliners and regional / business jets manufactured in North and South America, Europe and Asia and are used as original equipment and/or specified as replacement parts by airlines and aircraft manufacturers. These products are primarily proprietary self-lubricating, ball and roller bearings for aircraft flight controls, turbine engines, and landing gear, and driveline couplings for helicopters. The most significant portion of our commercial sales is derived from Boeing and Airbus platforms, such as the Boeing 737, 747, 777 and 787 and the Airbus A320, A330, A350 and A380.

Bell Helicopter

In September 2009, we were awarded a five-year contract with a potential value of \$53 million to build composite helicopter blade skins and skin core assemblies for Bell Helicopter. Under the terms of the contract, we will provide 18 different assemblies for H1, 406, 407, 412, 427, 429, 430 and BA609 aircraft. All work is being performed at our full-service aerospace innovation and manufacturing support center in Bloomfield, Connecticut. First article deliveries to Bell's Hurst, Texas facility began in late 2009, with full production starting in the first quarter of 2010. Through December 31, 2010, the total sales value for our deliveries totaled \$6.2 million. Annual quantities for this program will vary, as they are dependent upon the orders Bell receives from its customers.

Other Matters

SH-2G(I)

We continue to dedicate marketing efforts to identify suitable customers for the 11 SH-2G(I) aircraft, spare parts and equipment. Numerous foreign governments have expressed various levels of interest in the aircraft and we have received small orders for the spare parts and related equipment.

For a discussion of other matters related to our Aerospace segment see Note 18, Commitments and Contingencies, in the Notes to 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 heading "Risk Factors" and "Forward-Looking Statements" in Item 1A of Part I of this 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 \$30.0 to \$35.0 million in 2011, primarily related to machinery and equipment and information technology infrastructure, including completion of an information technology back-up data center. We anticipate a variety of items will have an impact on our liquidity during the next 12 months, aside from our working capital requirements. These may include one or more of the matters described in Note 18, Commitments and Contingencies, in the Notes to Consolidated Financial Statements, including the FMU-143 litigation and continued legal costs associated with this matter, the revenue sharing arrangement with the Commonwealth of Australia, the cost of existing environmental remediation matters, required pension and Supplemental Employees' Retirement Plan ("SERP") 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 and the issuance of our \$115.0 million convertible notes in November 2010.

On February 23, 2010, our Board of Directors approved an amendment to the pension plan that, among other things, closed the pension plan to all new hires on or after March 1, 2010 and changed the benefit calculation for existing employees related to pay and years of service. Specifically, changes in pay will be taken into account for benefit calculation purposes until the end of calendar year 2010, the benefit formula will be improved to use the highest five years out of the last ten years of service up to December 31, 2010, whether consecutive or not, and years of service will continue to be added for purposes of the benefit calculations through December 31, 2015, with no further accumulation for service thereafter except for vesting purposes.

The changes to the pension plan resulted in a net curtailment loss of approximately \$0.2 million. In addition, our projected benefit obligation was reduced, and the pension plan's funded status improved by \$40.7 million on March 1, 2010. Management regularly monitors 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.

On February 23, 2010, our Board of Directors also authorized certain enhancements to our defined contribution plan including, among other things, an increase in employer matching contributions made to the plan based on each participant's pre-tax contributions. The enhancements became effective January 1, 2011.

Pursuant to the terms of our revenue sharing agreement with the Commonwealth of Australia, we will share all proceeds from the resale of the SH-2G(I) aircraft, spare parts, and equipment with the Commonwealth on a predetermined basis. Total payments of at least \$39.5 million (AUD) must be made to the Commonwealth regardless of sales, of which at least \$26.7 million (AUD) must be paid by March 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) or \$39.5 million (AUD) as of such dates, respectively. Through December 31, 2010, we have made required payments of \$2.8 million (AUD). As of that date, the U.S. dollar value of the remaining \$36.7 million (AUD) required payment was \$37.5 million, of which \$24.4 million is due in March 2011. 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 \$36.5 million (AUD) for \$23.7 million.

A summary of our consolidated cash flows from continuing operations is as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>10 vs. 09</u>	<u>09 vs. 08</u>
	(in thousands)				
Total cash provided by (used in):					
Operating activities	\$ 37,356	\$ 70,454	\$ (13,705)	\$ (33,098)	\$ 84,159
Investing activities	(86,930)	(16,267)	(125,776)	(70,663)	109,509
Financing activities	65,309	(45,153)	75,055	110,462	(120,208)
Free Cash Flow (a)					
Net cash provided by (used in) operating activities	\$ 37,356	\$ 70,454	\$ (13,705)	\$ (33,098)	\$ 84,159
Expenditures for property, plant and equipment	(21,507)	(13,567)	(16,000)	(7,940)	2,433
Free cash flow	<u>\$ 15,849</u>	<u>\$ 56,887</u>	<u>\$ (29,705)</u>	<u>\$ (41,038)</u>	<u>\$ 86,592</u>

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

Net cash provided by operating activities decreased \$33.1 million in 2010 compared to 2009, primarily due to the following:

- increased purchases of inventory driven by the increased sales volume at our Industrial Distribution segment;
- increases in our accounts receivable balances;
- increased contributions to the qualified pension plan; and
- increased tax payments for our Industrial Distribution segment.

Partially offsetting these was the receipt of \$6.6 million of look-back interest, pre-tax, in the third quarter of 2010.

Net cash used in investing activities increased \$70.7 million in 2010 compared to 2009, primarily due to cash used for the purchases of Fawick, Allied, Minarik and Global and an increase in capital expenditures to support our information technology infrastructure.

Net cash provided by financing activities increased \$110.5 million in 2010 compared to 2009 primarily due to the issuance of the \$115.0 million convertible notes in November 2010, offset by the purchase of call options on the convertible notes of \$13.2 million. The proceeds from the convertible debt offering were used to purchase the call options, pay down \$62.2 million of borrowing under the Revolving Credit Agreement and make a \$25.0 million voluntary contribution to our qualified pension plan.

Net cash provided by operating activities increased \$84.2 million in 2009 compared to 2008, primarily due to the following:

- Lower working capital requirements due to lower sales at our Industrial Distribution segment.
- Improvements in our inventory procurement and management processes.
- Continued focus on collections of outstanding receivable balances.
- Decreased payments of taxes, due to the absence of payments made in 2008 related to the sale of our Music segment in the fourth quarter of 2007.
- Decreased cash outflows associated with incentive compensation in 2009 compared to 2008.
- Lower SERP payments for retiring executives.

Net cash used in investing activities decreased \$109.5 million for 2009 compared to 2008. The decrease was primarily attributable to cash used for acquisitions in 2008.

Net cash provided by financing activities decreased \$120.2 million for 2009 compared to 2008. In 2009, we had a net repayment under the Revolving Credit Agreement and Term Loan Agreement of \$30.8 million, compared to net proceeds from borrowings under the Revolving Credit Agreement and Term Loan of \$81.6 million received in 2008. The proceeds received in 2008 were used to fund our acquisitions.

Financing Arrangements

In November 2010, we issued convertible unsecured notes due on November 15, 2017 in the aggregate principal amount of \$115.0 million in a private placement offering. These notes bear 3.25% interest per annum on the principal amount, payable semiannually in arrears on May 15 and November 15 of each year, beginning on May 15, 2011. Proceeds from the offering were \$111.0 million, net of fees and expenses, which were capitalized. The proceeds were used to repay \$62.2 million of borrowings outstanding under our revolving credit agreement, make a \$25.0 million contribution to our qualified pension plan and pay \$13.2 million for the purchase of call options related to the convertible note offering. See below for a discussion of the call options.

The notes will mature on November 15, 2017, unless earlier redeemed, purchased by us or converted, and are convertible into cash and, at our election, shares of our common stock based on an initial conversion rate, subject to adjustment, of 29.4499 shares per \$1,000 principal amount of notes (which represents an initial conversion price of approximately \$33.96 per share), in certain circumstances. The conversion rate will be subject to adjustment in certain circumstances, but will not be adjusted for accrued and unpaid interest. Upon conversion, we will pay cash up to the aggregate principal amount of the notes and pay or deliver cash, shares of our common stock or a combination of cash and shares of our common stock, at our election, with respect to any remaining amounts due. Prior to May 15, 2017, the notes are convertible only in the following circumstances: (1) during any fiscal quarter commencing after April 1, 2011 and only during any such fiscal quarter, if the last reported sale price of our common stock was greater than or equal to 130% of the applicable conversion price (\$44.15) for at least 20 trading days (whether or not consecutive) in the period of the 30 consecutive trading days ending on the last trading day of the previous fiscal quarter, (2) upon the occurrence of specified corporate transactions, or (3) during the five consecutive business-day period following any five consecutive trading-day period in which, for each day of that period, the trading price for the notes was less than 98% of the product of the last reported sale price of our common stock and the applicable conversion rate on such trading day. On and after May 15, 2017, until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their notes at any time, regardless of the foregoing circumstances. Upon a change in control or termination of trading, holders of the notes may require us to repurchase all or a portion of their notes for cash at a repurchase price equal to 100% of the principal amount, plus any accrued and unpaid interest.

In connection with the offering, we entered into convertible note hedge transactions with affiliates of the initial purchasers of the notes. These transactions are intended to reduce the potential dilution to our stockholders upon any future conversion of the notes. The call options, which cost an aggregate \$13.2 million, were recorded as a reduction of additional paid-in capital. We also entered into warrant transactions concurrently with the offering, pursuant to which we sold warrants to acquire up to approximately 3.4 million shares of our common stock to the same counterparties that entered into the convertible note hedge transactions. Proceeds received from the issuance of the warrants totaled approximately \$1.9 million and were recorded as an addition to additional paid-in capital. The convertible note hedge and warrant transactions effectively increased the conversion price of the convertible notes to approximately \$44.40 per share of our common stock.

The note payable principal balance at the date of issuance of \$115.0 million was bifurcated into the debt component of \$101.7 million and the equity component of \$13.3 million. The difference between the note payable principal balance and the value of the debt component is being accreted to interest expense over a period of 7 years. The debt component was recognized at the present value of associated cash flows discounted using a 5.25% discount rate, the borrowing rate at the date of issuance for a similar debt instrument without a conversion feature. We recorded \$0.5 million of debt issuance costs as an offset to additional paid-in capital. The balance, \$3.1 million, will be amortized over the term of the notes.

On September 20, 2010, we entered into a four-year \$275.0 million Amended and Restated Revolving Credit Agreement with co-lead arrangers Bank of America Securities LLC, JP Morgan Securities LLC, and RBS Citizens N.A. and a syndicate of lenders ("Revolving Credit Agreement"), which replaced our existing \$225.0 million senior revolving credit facility which was due to expire on September 17, 2012 (the "Former Revolving Credit Agreement"). 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.

On September 20, 2010, we entered into the Second Amended and Restated Term Loan Credit Agreement, which was originally entered into on October 29, 2008 and amended and restated on September 17, 2009 ("Term Loan Agreement"). The Term Loan Agreement, which is in addition to the Revolving Credit Agreement, is a \$42.5 million facility with a four-year term. Principal payments of \$1.25 million are due quarterly, starting in the third quarter of 2010, with \$22.5 million of the initial aggregate principal payable in the final quarter. 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. As of December 31, 2010, \$40.0 million was outstanding on the Term Loan Agreement. As of December 31, 2009, \$45.0 million was outstanding on the former Term Loan Agreement.

Interest rates on amounts outstanding under the Revolving Credit Agreement and the Term Loan Agreement are variable, and are determined based on the Consolidated Senior Secured Leverage Ratio. At December 31, 2010, the interest rate for the outstanding amounts on both the Revolving Credit Agreement and Term Loan Agreement was 2.39%. In addition, the Company is required to pay a quarterly commitment fee on the unused revolving loan commitment amount at a rate ranging from 0.35% to 0.50% per annum, based on the Consolidated Senior Secured Leverage Ratio. Fees for outstanding letters of credit range from 2.00% to 3.00%, based on the Consolidated Senior Secured Leverage Ratio.

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 December 31, 2010, and we do not anticipate noncompliance in the foreseeable future.

Total average bank borrowings during the year ended December 31, 2010 were \$98.0 million compared to \$90.5 million for the year ended December 31, 2009. As of December 31, 2010, there was \$228.2 million available for borrowing 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 \$43.2 million in letters of credit was outstanding under the Revolving Credit Agreement at December 31, 2010, \$37.5 million of which was 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 be reduced upon payment of the first of the guaranteed minimum payments to Australia in March 2011.

We incurred \$2.3 million in debt issuance costs in connection with the Revolving Credit Agreement and Term Loan Agreement amendments. These costs have been capitalized and will be amortized over the term of the facility. We incurred \$3.6 million in debt issuance costs in connection with the Convertible Notes. These costs have been capitalized and will be amortized over the term of the notes. Total amortization expense for the year ended December 31, 2010 was \$2.0 million, including the \$0.6 million write-off of capitalized fees related to the former revolving credit agreement. Total amortization expense for the years ended December 31, 2009 and 2008 was \$0.7 million and \$0.2 million, respectively.

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 and are intended to manage interest rate risk associated with our variable-rate borrowings and minimize the negative impact on our earnings and cash flows of interest rate fluctuations attributable to changes in LIBOR rates. For the year ended December 31, 2010, we recorded \$0.6 million of additional interest expense associated with the interest rate swap agreements.

Other Sources/Uses of Capital

We expect to contribute \$19.6 million to the qualified pension plan and \$4.7 million to the SERP for the 2011 plan year. 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.

During 2010, we contractually committed to spend \$77.9 million for acquisitions. Through December 31, 2010, we have paid \$65.1 million, with the remaining \$12.8 million relating to holdback provisions and debt of the acquired businesses that we have assumed. These acquisitions, Fawick, Allied, Minarik and Global, closed on February 26, 2010, April 5, 2010, April 30, 2010 and December 10, 2010, respectively. Fawick, Allied and Minarik are included in our Industrial Distribution segment, while Global is included in our Aerospace segment. We anticipate that we will continue to identify and evaluate potential acquisition candidates, the purchase of which may require the use of additional capital.

In November 2000, our Board of Directors approved a replenishment of our stock repurchase program, providing for repurchase of an aggregate 1.4 million common shares for use in administration of our stock plans and for general corporate purposes. There were no shares repurchased during 2009 or 2010 under this program. At December 31, 2010, approximately 1.1 million shares were 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 pursuant to this registration statement. Future offerings thereunder, 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.

We received \$6.6 million from the Internal Revenue Service on July 21, 2010 in response to a claim we filed for look-back interest in connection with the Australian SH-2G(A) Super Seasprite Helicopter program. The payment was recorded as interest income in the third quarter of 2010. Look-back interest is the mechanism under the U.S. tax law whereby a taxpayer receives or pays interest on the difference between the actual tax taken into account each year under the percentage of completion method of contract accounting, and the hypothetical tax that would have been taken into account using the actual contract revenues and costs instead of estimates.

NON-GAAP FINANCIAL MEASURES

Management believes that the non-GAAP (Generally Accepted Accounting Principles) measures used in this report on Form 10-K 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 and other disclosures, 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 acquisitions 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 & 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

Contractual Obligations

The following table summarizes certain of the company's contractual obligations as of December 31, 2010:

Contractual Obligations	Payments due by period (in millions)				
	Total	Within 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt	\$ 43.6	\$ 5.0	\$ 10.0	\$ 28.6	\$ -
Convertible notes	115.0	-	-	-	115.0
Interest payments on debt (a)	42.7	8.5	14.4	10.3	9.5
Operating leases	41.2	17.4	17.1	4.7	2.0
Purchase obligations (b)	126.9	106.1	17.7	3.0	0.1
Other long-term obligations (c)	50.2	13.6	14.8	8.7	13.1
Planned funding of pension and SERP (d)	37.5	24.3	1.5	1.7	10.0
Payments to the Commonwealth of Australia (e)	37.5	24.4	13.1	-	-
Total	\$ 494.6	\$ 199.3	\$ 88.6	\$ 57.0	\$ 149.7

Note: For more information refer to Note 12, Debt – Short-Term Borrowing and Long-Term Debt; Note 18, Commitments and Contingencies; Note 17, Other Long-Term Liabilities; Note 16, Pension Plans, and Note 15, Income Taxes in the Notes to Consolidated Financial Statements included in Item 8 of this Form 10-K.

- (a) Interest payments on debt are calculated based on the applicable rate and payment dates for each instrument. For variable-rate instruments, interest rates and payment dates are based on management's estimate of the most likely scenarios for each relevant debt instrument.
- (b) This category includes purchase commitments to suppliers for materials and supplies as part of the ordinary course of business, consulting arrangements and support services. Only obligations in the amount of at least \$50,000 are included.
- (c) This category includes obligations under the company's long-term incentive plan, deferred compensation plan, a supplemental disability income arrangement for one former company officer and unrecognized tax benefits.
- (d) This category includes planned funding of the company's SERP and qualified defined benefit pension plan. Projected funding for the qualified defined benefit pension plan beyond one year has not been included as there are several significant factors, such as the future market value of plan assets and projected investment return rates, which could cause actual funding requirements to differ materially from projected funding.
- (e) Pursuant to the terms of our revenue sharing agreement with the Commonwealth of Australia, we will share all proceeds from the resale of the SH-2G(I) aircraft, spare parts, and equipment with the Commonwealth on a predetermined basis. Total payments of at least \$39.5 million (AUD) must be made to the Commonwealth regardless of sales, of which at least \$26.7 million (AUD) must be paid by March 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. Through December 31, 2010, we have made required payments of \$2.8 million (AUD). As of that date, the U.S. dollar value of the remaining \$36.7 million (AUD) required payment was \$37.5 million, of which \$24.4 million is due in March 2011. 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 \$36.5 million (AUD) for \$23.7 million.

Off-Balance Sheet Arrangements

The following table summarizes the company's off-balance sheet arrangements:

	Payments due by period (in millions)				
	Total	Within 1 year	1-3 years	3-5 years	More than 5 years
Acquisition earn-out (1)	\$ 3.6	\$ 0.6	\$ 2.0	\$ 1.0	\$ -
Total	\$ 3.6	\$ 0.6	\$ 2.0	\$ 1.0	\$ -

- (1) The obligation to pay earn-out amounts depends upon the attainment of specific milestones for KPP Orlando, an operation acquired in 2002.

The company currently maintains \$43.2 million in outstanding standby letters of credit under the Revolving Credit Agreement. Of this amount, \$37.5 million is 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).

CRITICAL ACCOUNTING ESTIMATES

Our significant accounting policies are outlined in Note 1 to the Consolidated Financial Statements. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses and related disclosures based upon historical experience, current trends and other factors that management believes to be relevant. We are also responsible for evaluating the propriety of our estimates, judgments, and accounting methods as new events occur. Actual results could differ from those estimates. Management periodically reviews the company's critical accounting policies, estimates, and judgments with the Audit Committee of our Board of Directors. The most significant areas currently involving management judgments and estimates are described below.

Long-Term Contracts

Methodology

For long-term aerospace contracts, we generally recognize sales and income based on the percentage-of-completion method of accounting, which allows for recognition of revenue as work on a contract progresses. We recognize sales and profit based upon either (1) the cost-to-cost method, in which sales and profit are recorded based upon the ratio of costs incurred to estimated total costs to complete the contract, or (2) the units-of-delivery method, in which sales are recognized as deliveries are made and cost of sales is computed on the basis of the estimated ratio of total cost to total sales.

Management performs detailed quarterly reviews of all of our significant long-term contracts. Based upon these reviews, we record the effects of adjustments in profit estimates each period. If at any time management determines that in the case of a particular contract total costs will exceed total contract revenue, we record a provision for the entire anticipated contract loss at that time.

Judgment and Uncertainties

The percentage-of-completion method requires that we estimate future revenues and costs over the life of a contract. Revenues are estimated based upon the original contract price, with consideration being given to exercised contract options, change orders and in some cases projected customer requirements. Contract costs may be incurred over a period of several years, and the estimation of these costs requires significant judgment based upon the acquired knowledge and experience of program managers, engineers, and financial professionals. Estimated costs are based primarily on anticipated purchase contract terms, historical performance trends, business base and other economic projections. The complexity of certain programs as well as technical risks and uncertainty as to the future availability of materials and labor resources could affect the company's ability to estimate future contract costs.

Effect if Actual Results Differ From Assumptions

While we do not believe there is a reasonable likelihood there will be a material change in estimates or assumptions used to calculate our long-term revenues and costs, estimating the percentage of work complete on certain programs is a complex task. As a result, changes to these estimates could have a significant impact on our results of operations. These programs include the Sikorsky Canadian MH-92 program, the Sikorsky BLACK HAWK program, the JPF program, the Boeing A-10 program, the Bell Helicopter program and several other programs. Estimating the ultimate total cost of these programs has been challenging due to the complexity of the programs, the increase in production of new programs, the nature of the materials needed to complete these programs, change orders related to the programs and the need to manage our customers' expectations. These programs are an important element in our continuing strategy to increase operating efficiencies and profitability as well as broaden our business base. Management continues to monitor and update program cost estimates quarterly for these contracts. A significant change in an estimate on one or more programs could have a material effect on our financial position and results of operations.

Allowance for Doubtful Accounts

Methodology

The allowance for doubtful accounts represents management's best estimate of probable losses inherent in the receivable balance. These estimates are based on known past due amounts and historical write-off experience, as well as trends and factors impacting the credit risk associated with specific customers. In an effort to identify adverse trends for trade receivables, we perform ongoing reviews of account balances and the aging of receivables. Amounts are considered past due when payment has not been received within a pre-determined time frame based upon the credit terms extended. For our government and commercial contracts, we evaluate, on an ongoing basis, the amount of recoverable costs. The recoverability of costs is evaluated on a contract-by-contract basis based upon historical trends of payments, program viability and the customer's credit-worthiness.

Judgment and Uncertainties

Write-offs are charged against the allowance for doubtful accounts only after we have exhausted all collection efforts. Actual write-offs and adjustments could differ from the allowance estimates due to unanticipated changes in the business environment as well as factors and risks associated with specific customers.

Effect if Actual Results Differ From Assumptions

As of December 31, 2010 and 2009, our allowance for doubtful accounts was \$3.8 million and \$2.4 million, respectively. Receivables written off, net of recoveries, in 2010 and 2009 were \$1.2 million and \$1.3 million, respectively.

Currently we do not believe that we have a significant amount of risk relative to the allowance for doubtful accounts. A 10% change in the allowance would have a \$0.4 million effect on pre-tax earnings.

Inventory Valuation

Methodology

We have four types of inventory (a) merchandise for resale, (b) contracts in process, (c) other work in process, and (d) finished goods. Merchandise for resale is stated at the lower of the cost of the inventory or its fair market value. Contracts in process, other work in process and finished goods are valued at production cost comprised of material, labor and overhead, including general and administrative expenses on certain government contracts. Contracts in process, other work in process, and finished goods are reported at the lower of cost or net realizable value. We include raw material amounts in the contracts in process and other work in process balances. Raw material includes certain general stock materials but primarily relates to purchases that were made in anticipation of specific programs that have not been started as of the balance sheet date. The total amount of raw material included in these in process amounts was less than 5.0% of the total inventory balance as of both December 31, 2010 and 2009.

Judgment and Uncertainties

The process for evaluating inventory obsolescence or market value often requires the company to make subjective judgments and estimates concerning future sales levels, quantities and prices at which such inventory will be sold in the normal course of business. We adjust our inventory by the difference between the estimated market value and the actual cost of our inventory to arrive at net realizable value. Changes in estimates of future sales volume may necessitate future write-downs of inventory value. Based upon a market evaluation performed in 2002 we wrote down our K-MAX® inventory by \$46.7 million in that year. The K-MAX® inventory balance, consisting of work in process and finished goods, was \$23.7 million as of December 31, 2010. We believe that it is stated at net realizable value, although lack of demand for spare parts in the future could result in additional write-downs of the inventory value. Overall, management believes that our inventory is appropriately valued and not subject to further obsolescence in the near term.

On February 12, 2009, we completed the transfer of title to the 11 Australian SH-2G(A) Super Seasprite helicopters, including related inventory and equipment. At December 31, 2010, \$53.7 million of SH-2G(I) inventory, formerly SH-2G(A), was included in contracts and other work in process inventory. We believe there is market potential for these aircraft and we are actively marketing them to interested potential customers; however a significant portion of this inventory will be sold after December 31, 2011, based upon the time needed to market the aircraft and prepare them for sale.

Effect if Actual Results Differ From Assumptions

Inventory valuation at our Industrial Distribution segment generally requires less subjective management judgment than the valuation of certain inventory in the Aerospace segment.

Management reviews the K-MAX® inventory balance on an annual basis to determine whether any additional write-downs are necessary. If such a write down were to occur, this could have a significant impact on our operating results. A 10% write down of the December 31, 2010 inventory balance would have affected pre-tax earnings by approximately \$2.4 million in 2010.

Management reviewed the SH-2G(I) inventory balance at December 31, 2010 to determine that no write-down was necessary. If such a write down were to occur, this could have a significant impact on our operating results. A 10% write down of the December 31, 2010 inventory balance would have affected pre-tax earnings by approximately \$5.4 million in 2010.

Goodwill and Other Intangible Assets

Methodology

Goodwill and certain intangible assets that have indefinite lives are evaluated at least annually for impairment. All intangible assets are also reviewed for possible impairment whenever changes in conditions indicate that their carrying value may not be recoverable. The annual evaluation is generally performed during the fourth quarter, using forecast information.

In accordance with generally accepted accounting principles, we test goodwill for impairment at the reporting unit level. A component of an operating segment is deemed to be a reporting unit if it constitutes a business for which discrete financial information is available and segment management regularly reviews the operating results of that component.

The identification and measurement of goodwill impairment involves the estimation of fair value of the reporting unit as compared to its carrying value.

The carrying value of goodwill and other intangible assets was \$164.2 million and \$117.5 million as of December 31, 2010 and 2009, respectively. See Note 9, Goodwill and Other Intangible Assets, Net, in the Notes to Consolidated Financial Statements for discussion of the \$6.4 million goodwill impairment charge taken by our U.K. Composites reporting unit.

Judgment and Uncertainties

During 2010, management estimated the fair value of its reporting units by using an income methodology based on management's estimates of forecasted cash flows for each business unit, with those cash flows discounted to present value using rates commensurate with the risks of those cash flows. In addition, management used a market-based valuation method involving analysis of market multiples of revenues and earnings before interest, taxes, depreciation and amortization ("EBITDA") for (i) a group of comparable public companies and (ii) recent transactions, if any, involving comparable companies. Assumptions used by management were similar to those that would be used by market participants performing valuations of our reporting units.

In 2009 management used an income-based methodology in the determination of the fair value of the reporting units. Management believes the decision to incorporate a second valuation technique in 2010 is appropriate as the market-based approach provides additional information that would be available to market participants performing a similar valuation.

In preparing our annual evaluation we used an assumed terminal growth rate of 3.0% to 3.5% for our reporting units. The discount rate utilized to reflect the risk and uncertainty in the financial markets and specifically in our internally developed earnings projections ranged from 10.0% - 13.0% for our reporting units. Changes in these estimates and assumptions could materially affect the results of our tests for goodwill impairment.

Effect if Actual Results Differ From Assumptions

We do not currently believe there is a reasonable likelihood that there will be a material change in estimates or assumptions used to test goodwill and other intangible assets for impairment losses. A decrease of 1% in our terminal growth rate or an increase of 1% in our discount rate would still result in a fair value calculation exceeding our book value for the reporting units that did not record a goodwill impairment charge in 2010. Additionally, a 10% decrease in the fair value of these reporting units also would not have resulted in an impairment of goodwill. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to an impairment charge that could be material.

Long-Term Incentive Programs

Methodology

The company maintains a Stock Incentive Plan, which provides for share-based payment awards, including non-statutory stock options, restricted stock, stock appreciation rights, and long-term incentive program (LTIP) awards. We determine the fair value of our non-qualified stock option awards at the date of grant using a Black-Scholes model. We determine the fair value of our restricted share awards at the date of grant using an average of the high and low market price of our stock.

LTIP awards provide certain senior executives an opportunity to receive award payments, generally in cash. For each performance cycle, the company's financial results are compared to the Russell 2000 indices for the same periods based upon the following: (a) average return on total capital, (b) earnings per share growth and (c) total return to shareholders. No awards will be payable unless the company's performance is at least in the 25th percentile of the designated indices. The maximum award is payable if performance reaches the 75th percentile of the designated indices. Awards for performance between the 25th and 75th percentiles are determined by straight-line interpolation. Awards will be paid out at 100% at the 50th percentile.

In order to estimate the liability associated with LTIP awards, management must make assumptions as to how our current performance compares to current Russell 2000 data based upon the Russell 2000's historical results. This analysis is performed on a quarterly basis. When sufficient Russell 2000 data for a year is available, which typically will not be until May or June of the following year, management will adjust the liability to reflect its best estimate of the total award. Actual results could differ significantly from management's estimates. The total estimated liability as of December 31, 2010 was \$8.2 million.

Judgment and Uncertainties

Option-pricing models and generally accepted valuation techniques require management to make assumptions and to apply judgment to determine the fair value of our awards. These assumptions and judgments include estimating the future volatility of our stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors. Changes in these assumptions can materially affect the fair value estimate.

Our long-term incentive plan requires management to make assumptions regarding the likelihood of achieving long-term company goals as well as estimate the impact the Russell 2000 results may have on our accrual.

Effect if Actual Results Differ From Assumptions

We do not currently believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions we use to determine stock-based compensation expense. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to changes in stock-based compensation expense that could be material.

If actual results are not consistent with the assumptions used, the stock-based compensation expense reported in our financial statements may not be representative of the actual economic cost of the stock-based compensation. A 10% change in our stock-based compensation expense for the year ended December 31, 2010, would have affected pre-tax earnings by approximately \$0.4 million in 2010. Due to the timing of availability of the Russell 2000 data, there is a risk that the amount we have recorded as LTIP expense could be different from the actual payout. A 10.0 percentage point increase in the total performance factor earned for our LTIP would result in a reduction of 2010 pretax earnings of \$0.8 million.

Pension Plans

Methodology

We maintain a qualified defined benefit pension, as well as a non-qualified Supplemental Employees Retirement Plan (SERP), for certain key executives. See Note 16, Pension Plans, in the Notes to Consolidated Financial Statements included in this Form 10-K for further discussion of these plans.

Expenses and liabilities associated with each of these plans are determined based upon actuarial valuations. Integral to these actuarial valuations are a variety of assumptions including expected return on plan assets, discount rate and rate of increase in compensation levels. We regularly review these assumptions, which are updated at the measurement date, December 31st. In accordance with generally accepted accounting principles, the impact of differences between actual results and the assumptions are accumulated and generally amortized over future periods, which will affect expense recognized in future periods.

We believe that two assumptions, the discount rate and the expected rate of return on plan assets, are important elements of expense and/or liability measurement.

Judgment and Uncertainties

The discount rate represents the interest rate used to determine the present value of future cash flows currently expected to be required to settle the pension obligation. For 2010, management reviewed the Citigroup Pension Discount Curve and Liability Index to determine the continued appropriateness of our discount rate assumptions. This index was designed to provide a market average discount rate to assist plan sponsors in valuing the liabilities associated with postretirement obligations. Additionally, we reviewed the changes in the general level of interest rates since the last measurement date noting that overall rates had decreased when compared with 2009.

Based upon this information, we used a 5.30% discount rate as of December 31, 2010 for the qualified benefit pension plan. This rate takes into consideration the participants in our pension plan and the anticipated payment stream as compared to the Citigroup Index and rounds the results to the nearest fifth basis point. For the SERP, we used the same methodology as the pension plan and derived a discount rate of 4.50% in 2010 for the benefit obligation. The difference in the discount rates is primarily due to the expected duration of SERP payments, which is shorter than the anticipated duration of benefit payments to be made to the average participant in the pension plan. The qualified defined benefit pension plan and SERP used discount rates of 5.85% and 5.15% at December 31, 2009, respectively, for purposes of calculating the benefit obligation.

The expected long-term rate of return on plan assets represents the average rate of earnings expected on the funds invested to provide for anticipated benefit payments. The expected return on assets assumption is developed based upon several factors. Such factors include current and expected target asset allocation, our historical experience of returns by asset class type, a risk premium and an inflation estimate.

Effect if Actual Results Differ From Assumptions

A lower discount rate increases the present value of benefit obligations and increases pension expense. A one percentage point decrease in the assumed discount rate would have increased pension expense in 2010 by \$5.8 million. A one percentage point increase in the assumed discount rate would have decreased pension expense in 2010 by \$2.7 million.

A lower expected rate of return on pension plan assets would increase pension expense. The expected return on plan assets was 8.0% at December 31, 2010. A one-percentage point increase/decrease in the assumed return on pension plan assets assumption would have changed pension expense in 2010 by approximately \$4.0 million. The actual return on pension plan assets during 2010 and 2009 was significantly higher than our expected rate of return on pension plan assets of 8%. However, management believes that 8% is still a valid assumption for the expected return on pension plan assets due to the long-term nature of our benefit obligations and the likely returns associated with our allocation targets to various investments.

Income Taxes

Methodology

Tax laws in certain of our operating jurisdictions require items to be reported for tax purposes at different times than the items are reflected in our financial statements. One example of such temporary differences is depreciation expense. Other differences are permanent, such as expenses that are never deductible on our tax returns, an example being a charge related to the impairment of goodwill. Temporary differences create deferred tax assets and liabilities. Deferred tax assets generally represent items that can be used as a tax deduction or credit in our tax returns in future years for which we have already recorded the tax benefit in our financial statements. Deferred tax liabilities generally represent tax expense recognized in our financial statements for which payment is not yet due or the realized tax benefit of expenses we have already reported in our tax returns, but have not yet recognized as expense in our financial statements.

As of December 31, 2010, we had recognized \$52.5 million of net deferred tax assets, net of valuation allowances. The realization of these benefits is dependent in part on future taxable income. For those foreign countries or U.S. states where the expiration of tax loss or credit carryforwards or the projected operating results indicates that realization is not likely, a valuation allowance is provided.

Judgment and Uncertainties

Management believes that sufficient income will be earned in the future to realize deferred income tax assets, net of valuation allowances recorded. The realization of these deferred tax assets can be impacted by changes to tax laws or statutory tax rates and future taxable income levels.

Our effective tax rate on earnings from continuing operations was 36.5% for 2010. Our effective tax rate is based on expected or reported income or loss, statutory tax rates, and tax planning opportunities available to us in the various jurisdictions in which we operate. Significant judgment is required in determining our effective tax rate and in evaluating our tax positions. We establish reserves when, despite our belief that our tax return positions are valid and defensible, we believe that certain positions may not prevail if challenged. We adjust these reserves in light of changing facts and circumstances, such as the progress of a tax audit or changes in tax legislation. Our effective tax rate includes the impact of reserve provisions and changes to reserves that we consider appropriate. This rate is then applied to our quarterly operating results. In the event that there is a significant unusual or one-time item recognized in our operating results, the tax attributable to that item would be separately calculated and recorded at the same time as the unusual or one-time item.

Effect if Actual Results Differ From Assumptions

We do not anticipate a significant change in our unrecognized tax benefits within the next twelve months. We file tax returns in numerous U.S. and foreign jurisdictions, with returns subject to examination for varying periods, but generally back to and including 2007. It is our policy to record interest and penalties on unrecognized tax benefits as income taxes. A one percent increase/decrease in our tax rate would affect our 2010 earnings by \$0.6 million.

Environmental Costs

Methodology

Our operations are subject to environmental regulation by federal, state and local authorities in the United States and regulatory authorities with jurisdiction over our foreign operations. As a result, we have established and update, as necessary, policies relating to environmental standards of performance for our operations worldwide.

When we become aware of an environmental risk, we perform a site study to ascertain the potential magnitude of contamination and the estimated cost of remediation. This cost is accrued using a reasonable discount factor based on the estimated future cost of remediation.

We continually evaluate the identified environmental issues to ensure the time to complete the remediation and the total cost of remediation are consistent with our initial estimate. If there is any change in the cost and/or timing of remediation, the accrual is adjusted accordingly.

Judgment and Uncertainties

Environmental costs are accrued when it is probable that a liability has been incurred and the amount can be reasonably estimated. The most likely cost to be incurred is accrued based on an evaluation of currently available facts with respect to each individual site, including existing technology, current laws and regulations and prior remediation experience. Liabilities with fixed or readily determinable payment dates are discounted.

We believe that expenditures necessary to comply with the present regulations governing environmental protection will not have a material effect upon our competitive position, consolidated financial position, results of operations or cash flows.

Effect if Actual Results Differ From Assumptions

At December 31, 2010, amounts accrued for known environmental remediation costs were \$15.0 million. A 10% change in this accrual could have impacted pre-tax earnings by \$1.5 million. Further information about our environmental costs is provided in Note 11, Environmental Costs, in the Notes to Consolidated Financial Statements.

Derivatives and Hedging

Methodology

We use derivatives to manage risks related to foreign exchange, our net investment in certain foreign subsidiaries and interest rates. Accounting for derivatives as hedges requires that, at inception and over the term of the arrangement, the hedged item and related derivative meet the requirements for hedge accounting. The rules and interpretations related to derivative accounting are complex. If a derivative does not meet the complex requirements established as a prerequisite for hedge accounting, changes in the fair value of the derivative must be reported in earnings rather than as a component of other comprehensive income, without regard to the offsetting changes in the fair value of the hedged item.

Judgment and Uncertainties

In evaluating whether a particular relationship qualifies for hedge accounting, we first determine whether the relationship meets the strict criteria to qualify for exemption from ongoing effectiveness testing. For a relationship that does not meet these criteria, we test effectiveness at inception and quarterly thereafter by determining whether changes in the fair value of the derivative offset, within a specified range, changes in the fair value of the hedged item. If fair value changes fail this test, we discontinue applying hedge accounting to that relationship prospectively. Fair values of both the derivative instrument and the hedged item are calculated using internal valuation models incorporating market-based assumptions.

Effect if Actual Results Differ From Assumptions

At December 31, 2010, derivative assets were \$12.6 million and derivative liabilities were \$0.8 million. We recorded a net loss of \$0.8 million in other comprehensive income. The amount recorded to other comprehensive income would have been recorded in the Consolidated Statement of Operations for the year ended December 31, 2010 had the criteria for hedge accounting not been met. Changes in the fair value of these instruments will be recorded to other comprehensive income until the point where either the Company stops utilizing the derivative instruments as a hedge or the derivative instruments no longer provide an effective hedge against the impact of foreign currency changes on the underlying transaction.

Further information about our use of derivatives is provided in Note 6, Derivative Financial Instruments, in the Notes to Consolidated Financial Statements.

RECENT ACCOUNTING STANDARDS

A summary of recent accounting standards is included in Note 1, Summary of Significant Accounting Policies, of the Notes to Consolidated Financial Statements, included in Item 8, Financial Statements and Supplementary Data, of this Form 10-K.

SELECTED QUARTERLY FINANCIAL DATA

2010	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
	(in thousands, except per share amounts)				
Net sales	\$ 276,772	\$ 317,087	\$ 359,545	\$ 365,109	\$ 1,318,513
Gross profit	\$ 72,755	\$ 83,260	\$ 93,763	\$ 108,029	\$ 357,807
Net earnings	\$ 1,726	\$ 6,077	\$ 15,825	\$ 14,696	\$ 38,324
Basic earnings per share	\$ 0.07	\$ 0.23	\$ 0.61	\$ 0.57	\$ 1.48
Diluted earnings per share	\$ 0.07	\$ 0.23	\$ 0.61	\$ 0.56	\$ 1.47
2009	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
	(in thousands, except per share amounts)				
Net sales	\$ 294,035	\$ 293,223	\$ 289,901	\$ 269,072	\$ 1,146,231
Gross profit	\$ 77,695	\$ 78,471	\$ 76,692	\$ 73,080	\$ 305,938
Net earnings	\$ 5,376	\$ 9,394	\$ 9,624	\$ 8,255	\$ 32,649
Basic earnings per share	\$ 0.21	\$ 0.37	\$ 0.37	\$ 0.32	\$ 1.27
Diluted earnings per share	\$ 0.21	\$ 0.37	\$ 0.37	\$ 0.32	\$ 1.27

Included within certain annual results are a variety of unusual or significant adjustments that may affect comparability. The most significant of such adjustments are described below as well as within Management's Discussion and Analysis of Financial Condition and Results of Operations and the Notes to Consolidated Financial Statements.

Nonrecurring charges within the 2010 quarterly results are as follows: third quarter, \$2.0 million charge related to the resolution of the contract price negotiations on the Sikorsky Canadian MH-92 Helicopter program; third quarter, \$6.6 million in income related to a claim for look back interest filed with the Internal Revenue Service; fourth quarter, a \$6.4 million non-cash non-tax deductible charge related to the impairment of goodwill at our Aerospace U.K. Composites reporting unit.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have various market risk exposures that arise from our ongoing business operations. Market risk is the potential economic loss that may result from adverse changes in the fair value of financial instruments. Our financial results are impacted by changes in interest rates, certain foreign currency exchange rates and commodity prices.

Foreign Currencies

We have manufacturing, sales, and distribution facilities in various locations throughout the world. As a result, we make investments and conduct business transactions denominated in various currencies, including the U.S. dollar, the British pound, the European euro, the Canadian dollar, the Mexican peso, and the Australian dollar. Total annual foreign sales, including foreign export sales, averaged approximately \$171.5 million over the last three years. More than half of our foreign sales are to Europe or Canada. Foreign sales represented 12.1% of consolidated net sales in 2010. We estimate a hypothetical 10% adverse change in foreign currency exchange rates relative to the U.S. dollar for 2010 would have had an unfavorable impact of \$9.7 million on sales and, excluding the \$6.4 million non-cash non-tax deductible goodwill charge taken at our Aerospace U.K. Composites reporting unit, a \$0.6 million unfavorable impact on operating income. We manage foreign currency exposures that are associated with committed foreign currency purchases and sales and other assets and liabilities created in the normal course of business at the subsidiary operations level. Sometimes we may, through the use of forward contracts, hedge the price risk associated with committed and forecasted foreign denominated payments and rates. Historically the use of these forward contracts has been minimal. We do not use derivatives for speculative or trading purposes.

On February 12, 2009 (the Transfer Date) we completed the transfer of ownership of the 11 SH-2G(A) Super Seasprite helicopters (along with spare parts and associated equipment) to the Company. In accordance with the settlement agreement proceeds from the sale of these items will be shared with the Commonwealth of Australia on a predetermined basis. In connection with sharing sale proceeds, we have agreed that total payments of at least \$39.5 million (AUD) will be made to the Commonwealth regardless of sales, with at least \$26.7 million (AUD) to be paid by March 2011, and, to the extent cumulative payments have not yet reached \$33.1 million (AUD) and \$39.5 million (AUD), respectively, additional payments of \$6.4 million (AUD) each in March of 2012 and 2013. During 2008, we entered into forward contracts for the purpose of hedging these required payments. These contracts cover \$36.5 million (AUD) of the \$39.5 million (AUD) required payments. See Note 6, Derivative Financial Instruments, in the Notes to Consolidated Financial Statements for further discussion.

Interest Rates

Our primary exposure to interest rate risk results from our outstanding debt obligations and derivative financial instruments employed in the management of our debt portfolio with interest at current market rates. The level of fees and interest charged on revolving credit commitments and borrowings are based upon leverage levels and market interest rates.

The principal debt facilities are a \$275.0 million revolving credit agreement that expires September 20, 2014 and a \$42.5 million term loan agreement with a four year-term entered into on October 29, 2008 and amended on September 20, 2010. Total average bank borrowings for 2010 were \$98.0 million. The impact of a hypothetical 100 basis point increase in the interest rates on our average bank borrowings would have resulted in a \$1.0 million increase in interest expense. Changes in market interest rates would impact interest rates on our Revolving Credit Agreement and Term Loan Agreement. The other facilities, established for foreign operations, are comparatively insignificant in amount.

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 and are intended to manage interest rate risk associated with our variable-rate borrowings and minimize the negative impact on our earnings and cash flows of interest rate fluctuations attributable to changes in LIBOR rates.

In November 2010, we issued \$115.0 million convertible unsecured senior notes due on November 15, 2017 in a private placement offering. These notes bear 3.25% interest per annum on the principal amount, payable semiannually in arrears on November 15 and May 15 of each year, beginning on May 15, 2011 and have an effective interest rate of 5.25%.

Commodity Prices

We are exposed to volatility in the price of raw materials used in certain manufacturing operations as well as a variety of items procured by our distribution business. These raw materials include, but are not limited to, aluminum, titanium, nickel, copper and other specialty metals. We manage our exposure related to these price changes through strategic procurement and sales practices.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Kaman Corporation:

We have audited the accompanying consolidated balance sheets of Kaman Corporation and subsidiaries (Kaman Corporation) as of December 31, 2010 and 2009, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2010. We also have audited Kaman Corporation's internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Kaman Corporation's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Controls Over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on Kaman Corporation's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kaman Corporation and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles. Also in our opinion, Kaman Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ KPMG LLP

Hartford, Connecticut
February 28, 2011

CONSOLIDATED BALANCE SHEETS
KAMAN CORPORATION AND SUBSIDIARIES
(In thousands, except share and per share amounts)

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 32,232	\$ 18,007
Accounts receivable, net	173,620	135,423
Inventories	316,899	285,263
Deferred income taxes	26,357	23,040
Income taxes receivable	2,420	-
Other current assets	33,425	20,870
Total current assets	584,953	482,603
Property, plant and equipment, net	89,719	81,322
Goodwill	114,818	88,190
Other intangibles assets, net	49,428	29,345
Deferred income taxes	33,740	69,811
Other assets	23,099	21,796
Total assets	\$ 895,757	\$ 773,067
Liabilities and Shareholders' Equity		
Current liabilities:		
Notes payable	\$ 2,980	\$ 1,835
Current portion of long-term debt	5,000	5,000
Accounts payable – trade	95,416	79,309
Accrued salaries and wages	31,730	19,049
Current portion of amount due to Commonwealth of Australia	24,399	-
Other accruals and payables	61,676	43,419
Income taxes payable	644	5,458
Total current liabilities	221,845	154,070
Long-term debt, excluding current portion	140,443	56,800
Deferred income taxes	7,556	8,352
Underfunded pension	98,624	157,266
Due to Commonwealth of Australia, excluding current portion	13,102	34,067
Other long-term liabilities	51,517	49,612
Commitments and contingencies	-	-
Shareholders' equity:		
Capital stock, \$1 par value per share:		
Preferred stock, 200,000 shares authorized; none outstanding	-	-
Common stock, 50,000,000 shares authorized; voting; 26,091,067 and 25,817,477 shares issued, respectively	26,091	25,817
Additional paid-in capital	97,903	89,624
Retained earnings	325,844	302,058
Accumulated other comprehensive income (loss)	(86,300)	(104,042)
Less 64,949 and 51,000 shares of common stock, respectively, held in treasury, at cost	(868)	(557)
Total shareholders' equity	362,670	312,900
Total liabilities and shareholders' equity	\$ 895,757	\$ 773,067

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS
KAMAN CORPORATION AND SUBSIDIARIES

(In thousands, except per share amounts)

	For the Year Ended December 31,		
	2010	2009	2008
Net sales	\$ 1,318,513	\$ 1,146,231	\$ 1,253,595
Cost of sales	960,706	840,293	921,458
	<u>357,807</u>	<u>305,938</u>	<u>332,137</u>
Selling, general and administrative expenses	289,066	251,992	259,282
Goodwill impairment	6,371	-	7,810
Net (gain)/loss on sale of assets	(447)	4	(221)
Operating income from continuing operations	62,817	53,942	65,266
Interest expense, net	3,487	5,700	4,110
Other (income) expense, net	(1,042)	1,232	1,990
	<u>60,372</u>	<u>47,010</u>	<u>59,166</u>
Earnings from continuing operations before income taxes	60,372	47,010	59,166
Income tax expense	22,048	14,361	24,059
Earnings from continuing operations	38,324	32,649	35,107
	<u>-</u>	<u>-</u>	<u>492</u>
Gain on disposal of discontinued operations, net of taxes	-	-	492
Net earnings	<u>\$ 38,324</u>	<u>\$ 32,649</u>	<u>\$ 35,599</u>
Net earnings per share:			
Basic earnings per share from continuing operations	\$ 1.48	\$ 1.27	\$ 1.38
Basic earnings per share from disposal of discontinued operations	-	-	0.02
Basic net earnings per share	<u>\$ 1.48</u>	<u>\$ 1.27</u>	<u>\$ 1.40</u>
	<u>1.47</u>	<u>1.27</u>	<u>1.38</u>
Diluted earnings per share from continuing operations	\$ 1.47	\$ 1.27	\$ 1.38
Diluted earnings per share from disposal of discontinued operations	-	-	0.02
Diluted net earnings per share	<u>\$ 1.47</u>	<u>\$ 1.27</u>	<u>\$ 1.40</u>
Average shares outstanding:			
Basic	25,928	25,648	25,357
Diluted	<u>26,104</u>	<u>25,779</u>	<u>25,512</u>
Dividends declared per share	<u>\$ 0.56</u>	<u>\$ 0.56</u>	<u>\$ 0.56</u>

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
KAMAN CORPORATION AND SUBSIDIARIES

(In thousands, except share amounts)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Total Shareholders' Equity
	Shares	\$				Shares	\$	
Balance at December 31, 2007	<u>25,181,894</u>	<u>\$ 25,182</u>	<u>\$ 78,783</u>	<u>\$ 262,417</u>	<u>\$ 28,555</u>	<u>38,471</u>	<u>\$ (411)</u>	<u>\$ 394,526</u>
Net earnings	-	-	-	35,599	-	-	-	35,599
Foreign currency translation adjustments, net of tax expense of \$224	-	-	-	-	(27,782)	-	-	(27,782)
Unrealized gain on derivative instruments, net of tax expense of \$493	-	-	-	-	804	-	-	804
Pension plan adjustments, net of tax benefit of \$74,279	-	-	-	-	(121,235)	-	-	(121,235)
Comprehensive loss	-	-	-	(14,227)	-	-	-	(14,227)
Dividends	-	-	-	(14,227)	-	-	-	(14,227)
Stock awards issued, net of tax benefit of \$349	209,586	210	3,406	-	-	-	-	3,616
Share-based compensation expense	<u>123,045</u>	<u>123</u>	<u>2,884</u>	-	-	<u>5,436</u>	<u>(37)</u>	<u>2,970</u>
Balance at December 31, 2008	<u>25,514,525</u>	<u>\$ 25,515</u>	<u>\$ 85,073</u>	<u>\$ 283,789</u>	<u>\$ (119,658)</u>	<u>43,907</u>	<u>\$ (448)</u>	<u>\$ 274,271</u>
Net earnings	-	-	-	32,649	-	-	-	32,649
Foreign currency translation adjustments, net of tax benefit of \$268	-	-	-	-	9,241	-	-	9,241
Unrealized loss on derivative instruments, net of tax benefit of \$1,002	-	-	-	-	(1,633)	-	-	(1,633)
Pension plan adjustments, net of tax expense of \$4,851	-	-	-	-	8,008	-	-	8,008
Comprehensive income	-	-	-	(14,380)	-	-	-	(14,380)
Dividends	-	-	-	(14,380)	-	-	-	(14,380)
Stock awards issued, net of tax expense of \$55	128,802	128	1,690	-	-	5,154	(104)	1,714
Share-based compensation expense	<u>174,150</u>	<u>174</u>	<u>2,861</u>	-	-	<u>1,939</u>	<u>(5)</u>	<u>3,030</u>
Balance at December 31, 2009	<u>25,817,477</u>	<u>\$ 25,817</u>	<u>\$ 89,624</u>	<u>\$ 302,058</u>	<u>\$ (104,042)</u>	<u>51,000</u>	<u>\$ (557)</u>	<u>\$ 312,900</u>
Net earnings	-	-	-	38,324	-	-	-	38,324
Foreign currency translation adjustments	-	-	-	-	(4,555)	-	-	(4,555)
Unrealized loss on derivative instruments, net of tax benefit of \$87	-	-	-	-	(142)	-	-	(142)
Pension plan adjustments, net of tax expense of \$13,715	-	-	-	-	22,439	-	-	22,439
Comprehensive income	-	-	-	(14,538)	-	-	-	(14,538)
Dividends	-	-	-	(14,538)	-	-	-	(14,538)
Stock awards issued, net of tax expense of \$341	168,510	169	2,386	-	-	12,130	(309)	2,246
Equity component of convertible notes issuance (See Note 12), net of tax expense of \$5,065	-	-	8,264	-	-	-	-	8,264
Proceeds from issuance of warrants (See Note 12),	-	-	1,886	-	-	-	-	1,886
Purchase of call options on convertible notes (See Note 12), net of tax benefit of \$5,026	-	-	(8,199)	-	-	-	-	(8,199)
Equity issuance costs, net of tax benefit of \$177	-	-	(290)	-	-	-	-	(290)
Share-based compensation expense	<u>105,080</u>	<u>105</u>	<u>4,232</u>	-	-	<u>1,819</u>	<u>(2)</u>	<u>4,335</u>
Balance at December 31, 2010	<u>26,091,067</u>	<u>\$ 26,091</u>	<u>\$ 97,903</u>	<u>\$ 325,844</u>	<u>\$ (86,300)</u>	<u>64,949</u>	<u>\$ (868)</u>	<u>\$ 362,670</u>

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
KAMAN CORPORATION AND SUBSIDIARIES

(In thousands)

	For the Year Ended December 31,		
	2010	2009	2008
Cash flows from operating activities:			
Earnings from continuing operations	\$ 38,324	\$ 32,649	\$ 35,107
Adjustments to reconcile earnings from continuing operations to net cash provided by (used in) operating activities of continuing operations:			
Depreciation and amortization	20,484	16,104	12,842
Accretion of convertible notes discount	172	-	-
Provision for doubtful accounts	574	113	217
Net (gain) loss on sale of assets	(447)	4	(221)
Goodwill impairment	6,371	-	7,810
(Gain) loss Due to Commonwealth of Australia, net of gain (loss) on derivative instruments	(1,012)	1,483	306
Stock compensation expense	4,458	3,084	2,109
Excess tax (expense) benefit from share-based compensation arrangements	(341)	55	(349)
Deferred income taxes	12,855	(1,102)	10,108
Changes in assets and liabilities, excluding effects of acquisitions/divestitures:			
Accounts receivable	(18,504)	(712)	(3,610)
Inventories	(19,695)	24,229	(35,453)
Income tax receivable	(2,420)	3,450	(3,450)
Other current assets	(681)	944	3,540
Accounts payable	11,133	(7,216)	(5,317)
Other accrued expenses and payables	14,617	(6,260)	(10,690)
Income taxes payable	(4,285)	3,797	(11,591)
Pension liabilities	(25,223)	(1,073)	(12,790)
Other long-term liabilities	976	905	(2,273)
Net cash provided by (used in) operating activities of continuing operations	<u>37,356</u>	<u>70,454</u>	<u>(13,705)</u>
Net cash provided by (used in) operating activities of discontinued operations	-	-	(14)
Net cash provided by (used in) operating activities	<u>37,356</u>	<u>70,454</u>	<u>(13,719)</u>
Cash flows from investing activities:			
Proceeds from sale of assets	1,104	59	210
Net proceeds from sale of discontinued operations	-	-	447
Expenditures for property, plant & equipment	(21,507)	(13,567)	(16,000)
Acquisition of businesses including earn out adjustments, net of cash received	(66,549)	(704)	(106,131)
Other, net	22	(2,055)	(4,302)
Cash provided by (used in) investing activities	<u>(86,930)</u>	<u>(16,267)</u>	<u>(125,776)</u>
Cash flows from financing activities:			
Net borrowings (repayments) under revolving credit agreements	(12,936)	(25,777)	31,636
Proceeds from issuance of long-term debt	-	-	50,000
Debt repayment	(5,000)	(5,000)	-
Proceeds from issuance of convertible notes	115,000	-	-
Proceeds from issuance of warrants	1,886	-	-
Purchase of call options related to convertible notes	(13,225)	-	-
Net change in book overdraft	(2,295)	1,444	5,003
Proceeds from exercise of employee stock awards	2,555	1,844	3,616
Dividends paid	(14,501)	(14,338)	(14,181)
Debt issuance costs	(5,878)	(3,404)	(645)
Windfall tax (expense) benefit	341	(55)	349
Other	(638)	133	(723)
Cash provided by (used in) financing activities	<u>65,309</u>	<u>(45,153)</u>	<u>75,055</u>
Net increase (decrease) in cash and cash equivalents	15,735	9,034	(64,440)
Effect of exchange rate changes on cash and cash equivalents	(1,510)	812	(1,297)
Cash and cash equivalents at beginning of period	18,007	8,161	73,898
Cash and cash equivalents at end of period	<u>\$ 32,232</u>	<u>\$ 18,007</u>	<u>\$ 8,161</u>

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2010, 2009 and 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Kaman Corporation, headquartered in Bloomfield, Connecticut, was incorporated in 1945. We are a diversified company that conducts business in the aerospace and industrial distribution markets. We report information for ourselves and our subsidiaries (collectively, the "Company") in two business segments, Industrial Distribution and Aerospace.

Basis of Presentation

The accompanying consolidated financial statements include the accounts of the company and its subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. Certain amounts in prior year financial statements and notes thereto have been reclassified to conform to current year presentation.

Use of Estimates

The preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Significant items subject to such estimates and assumptions include the carrying amount of property, plant and equipment, goodwill and other intangible assets; valuation allowances for receivables, inventories and income taxes; valuation of share-based compensation and vendor incentives; assets and obligations related to employee benefits; estimates of environmental remediation costs; and accounting for long-term contracts. Actual results could differ from those estimates.

Foreign Currency Translation

The company has certain operations outside the United States that prepare financial statements in currencies other than the U.S. dollar. For these operations, results of operations and cash flows are translated using the average exchange rate throughout the period. Assets and liabilities are generally translated at end of period rates. The gains and losses associated with these translation adjustments are included as a component of accumulated other comprehensive income (loss) in shareholders' equity.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of trade accounts receivable. The carrying amounts of these items as well as trade accounts payable and notes payable approximate fair value due to the short-term maturity of these instruments. At December 31, 2010 and 2009, there was one customer that represented 13.5% and 13.0%, respectively, of consolidated accounts receivable. No individual customer accounted for more than 10% of consolidated net sales. Foreign sales were approximately 12.1%, 14.9% and 14.6% of the company's net sales in 2010, 2009 and 2008, respectively, and are concentrated in the United Kingdom, Canada, Germany, Mexico, New Zealand, Australia and Asia.

Additional Cash Flow Information

On February 12, 2009, the Company completed the transfer of ownership of the Australian SH-2G(A) Super Seasprite Program inventory and equipment. See Note 7, Inventories, for further discussion.

Non-cash investing activities in 2008 include \$2.4 million in costs related to the acquisitions made by the Company's Industrial Distribution segment as well as the purchase of the NAVAIR property for \$10.3 million, which represents the assumption of the associated environmental remediation costs. See Note 11, Environmental Costs, for further discussion. There were no non-cash investing activities in 2010 and 2009.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2010, 2009 and 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Additional Cash Flow Information – Continued

Non-cash financing activities in 2010 include an adjustment to other comprehensive income related to the underfunding of the pension and SERP plans and changes in the fair value of derivative financial instruments that qualified for hedge accounting. The total adjustment was \$22.4 million, net of tax of \$13.7 million. Non-cash financing activities in 2009 include an adjustment to other comprehensive income related to the underfunding of the pension and SERP plans and changes in the fair value of derivative financial instruments that qualified for hedge accounting. The total adjustment was \$6.4 million, net of tax of \$3.8 million. Non-cash financing activities in 2008 include an adjustment to other comprehensive income related to the underfunding of the pension and SERP plans and changes in the fair value of derivative financial instruments that qualified for hedge accounting. The total adjustment was \$120.4 million, net of tax of \$73.8 million. The Company describes its pension obligations in more detail in Note 16, Pension Plans.

Revenue Recognition

Sales and estimated profits under long-term contracts are generally recognized using the percentage-of-completion method of accounting, using as a measurement basis either a ratio that costs incurred bear to estimated total costs (after giving effect to estimates of costs to complete based upon most recent information for each contract) or units-of-delivery. Reviews of contracts are made routinely throughout their lives and the impact of revisions in profit estimates are recorded in the accounting period in which the revisions are made. Any anticipated contract losses are charged to operations when first indicated. In cases where we have multiple contracts with a single customer, each contract is generally treated as a separate profit center and accounted for as such. Except in the case of contracts accounted for using the cost-to-cost method of percentage of completion accounting, revenues are recognized when the product has been shipped or delivered, depending upon when title and risk of loss have passed. For certain U.S. government contracts delivery is deemed to have occurred when work is substantially complete and acceptance by the customer has occurred by execution of a Material Inspection and Receiving Report, DD Form 250 or Memorandum of Shipment.

Sales contracts are initially reviewed to ascertain if they involve multiple element arrangements. If such an arrangement exists and there is no evidence of stand-alone value for each element of the undelivered items, recognition of sales for the arrangement is deferred until all elements of the arrangement are delivered and risk of loss and title have passed. For elements that do have stand-alone value or contracts that are not considered multiple element arrangements, sales and related costs of sales are recognized when services have been completed or the product has been shipped or delivered depending upon when title and risk of loss have passed.

As of December 31, 2010 and 2009, approximately \$2.6 million and \$2.8 million, respectively, of pre-contract costs were included in inventory, which, in both cases, represented 1% of total inventory. Pre-contract costs incurred for items such as materials or tooling for anticipated contracts are included in inventory if recovery of such costs is considered probable. Thereafter, if the Company determines it will not be awarded an anticipated contract and the associated pre-contract costs cannot be applied to another program the costs are expensed immediately. Learning or start-up costs incurred in connection with existing or anticipated follow-on contracts are charged to the existing contract unless the terms of the contract permit recovery of these costs over a specific contractual term and provide for reimbursement if the contract is cancelled.

If it is probable that a claim with respect to change orders will result in additional contract revenue and the amount of such additional revenue can be reliably estimated, then the additional contract revenue is considered in our accounting for the program, but only if the contract provides a legal basis for the claim, the additional costs were unforeseen and not caused by deficiencies in our performance, the costs are identifiable and reasonable in view of the work performed and the evidence supporting the claim is objective and verifiable. If these requirements are met, the claim portion of the program is accounted for separately to ensure revenue from the claim is recorded only to the extent claim related costs have been incurred; accordingly, no profit with respect to such costs is recorded until the change order is formally approved. If these requirements are not met, the forecast of total contract cost at completion (which is used to calculate the gross margin rate) for the basic contract is increased to include all incurred and anticipated claim related costs.

Recognition of sales not accounted for under the cost-to-cost method of percentage of completion accounting occurs when the sales price is fixed, collectability is reasonably assured and the product's title and risk of loss has transferred to the customer. The Company includes freight costs charged to customers in net sales and the correlating expense as a cost of sales. Sales tax collected from customers is excluded from net sales in the accompanying Consolidated Statements of Operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued
For the Years Ended December 31, 2010, 2009 and 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cost of Sales and Selling, General and Administrative Expenses

Cost of sales includes costs of products and services sold (i.e., purchased product, raw material, direct labor, engineering labor, outbound freight charges, depreciation and amortization, indirect costs and overhead charges). Selling expenses primarily consist of advertising, promotion, bid and proposal, employee payroll and corresponding benefits and commissions paid to sales and marketing personnel. General and administrative expenses primarily consist of employee payroll including executive, administrative and financial personnel and corresponding benefits, incentive compensation, independent research and development, consulting expenses, warehousing costs, depreciation and amortization. The Aerospace segment includes general and administrative expenses as an element of program cost and inventory for certain government contracts.

Certain inventory related costs, including purchasing costs, receiving costs and inspection costs, for the Industrial Distribution segment are not included in the cost of sales line item. For the years ended December 31, 2010, 2009 and 2008, \$2.1 million, \$2.4 million and \$2.7 million, respectively, of such costs are included in general and administrative expenses.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits and short-term cash investments. These investments are liquid in nature and have original maturities of three months or less. Book overdraft positions, which occur when total outstanding issued checks exceed available cash balances at a single financial institution at the end of a reporting period, are reclassified to accounts payable within the consolidated balance sheets. At December 31, 2010 and 2009, the Company had book overdrafts of \$13.4 million and \$15.2 million, respectively, classified in accounts payable.

Accounts Receivable

The Company has three types of accounts receivable: (a) Trade receivables, which consist of amounts billed and currently due from customers; (b) U.S. Government contracts, which consist of (1) amounts billed, and (2) costs and accrued profit – not billed; and (c) Commercial and other government contracts, which consist of (1) amounts billed, and (2) costs and accrued profit – not billed.

The allowance for doubtful accounts reflects management's best estimate of probable losses inherent in the trade accounts receivable and billed contracts balance. Management determines the allowance based on known troubled accounts, historical experience, and other currently available evidence.

Inventories

Inventory of merchandise for resale is stated at cost (using the average costing method) or market, whichever is lower. Contracts and other work in process and finished goods are valued at production cost represented by raw material, labor and overhead. Initial tooling and startup costs may be included, where applicable. Contracts and other work in process and finished goods are not reported at amounts in excess of net realizable values. The Company includes raw material amounts in the contracts in process and other work in process balances. Raw material includes certain general stock materials but primarily relates to purchases that were made in anticipation of specific programs for which production has not been started as of the balance sheet date. The total amount of raw material included in these work in process amounts is less than 5% of the total inventory balance.

Property, Plant and Equipment

Property, plant and equipment is recorded at cost. Depreciation is computed primarily on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives for buildings range from 15 to 30 years and for leasehold improvements range from 5 to 20 years, whereas machinery, office furniture and equipment generally have useful lives ranging from 3 to 10 years. At the time of retirement or disposal, the acquisition cost of the asset and related accumulated depreciation are eliminated and any gain or loss is credited to or charged against income.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, Plant and Equipment – Continued

Long-lived assets, such as property, plant, and equipment, and purchased intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset be tested for possible impairment, the Company first compares undiscounted cash flows expected to be generated by an asset to the carrying value of the asset. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.

Maintenance and repair items are charged against income as incurred, whereas renewals and betterments are capitalized and depreciated.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the aggregate purchase price over the fair value of the net assets acquired in a purchase business combination and is reviewed for impairment at least annually. The goodwill impairment test is a two-step test. Under the first step, the fair value of the reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and the enterprise must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill.

Fair value of the reporting unit is determined using an income methodology based on management's estimates of forecasted cash flows for each business unit, with those cash flows discounted to present value using rates commensurate with the risks of those cash flows. In addition, management used a market-based valuation method involving analysis of market multiples of revenues and earnings before interest, taxes, depreciation and amortization ("EBITDA") for (i) a group of comparable public companies and (ii) recent transactions, if any, involving comparable companies. If the fair value of the reporting unit exceeds its carrying value, step two need not be performed.

Goodwill and intangible assets with indefinite lives are evaluated annually for impairment in the fourth quarter, based on annual forecast information. Intangible assets with finite lives are amortized using the straight-line method over their estimated period of benefit. The goodwill and other intangible assets are also reviewed for possible impairment whenever changes in conditions indicate that the fair value of a reporting unit is below its carrying value. See Note 9, Goodwill and Other Intangible Assets, Net, for discussion of the goodwill impairment charges recorded during 2010 and 2008. No such charge was taken during 2009.

Product Warranty Costs

Reserves are recorded on the consolidated balance sheet in other accruals and payables to reflect the Company's contractual liabilities related to warranty commitments to customers. Warranty coverage of various lengths and terms is provided to customers based upon standard terms and conditions or negotiated contractual agreements. An estimated warranty expense is recorded at the time of the sale based upon historical warranty return rates and repair costs, or at the point in time when a specific warranty related expense is considered probable and can be estimated.

Vendor Incentives

The Company's Industrial Distribution segment enters into agreements with certain vendors providing for inventory purchase incentives that are generally earned upon achieving specified volume-purchasing levels. The company recognizes rebate income relative to specific rebate programs as a reduction of the cost of inventory based on a systematic and rational allocation of the cash consideration offered to each of the underlying transactions that results in progress toward earning the rebate, provided that the amounts are probable and reasonably estimable. As of December 31, 2010 and 2009, total vendor incentive receivables, included in other current assets, was approximately \$12.0 million and \$8.1 million, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued
For the Years Ended December 31, 2010, 2009 and 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Self-Insured Retentions

To limit exposure to losses related to group health, workers' compensation, auto and product general liability claims, the Company obtains third-party insurance coverage. The Company has varying levels of deductibles for these claims. The total liability/deductible for group health is limited to \$0.2 million per claim, workers' compensation is limited to \$0.4 million per claim and for product/general liability and auto liability the limit is \$0.3 million per claim. The cost of such benefits is recognized as expense based on claims filed in each reporting period and an estimate of claims incurred but not reported ("IBNR") during such period. The estimates for the IBNR are based upon historical trends and information provided to us by the claims administrators, and are periodically revised to reflect changes in loss trends. These amounts are included in other accruals and payables on the consolidated balance sheets.

Liabilities associated with these claims are estimated in part by considering historical claims experience, severity factors and other actuarial assumptions. Projections of future losses are inherently uncertain because of the random nature of insurance claim occurrences and changes that could occur in actuarial assumptions. Such self-insurance accruals will likely include claims for which the ultimate losses will be settled over a period of years.

Research and Development

Government sponsored research expenditures (which are included in cost of sales) were \$7.5 million in 2010, \$7.7 million in 2009, and \$6.3 million in 2008. Research and development costs not specifically covered by contracts are charged against income as incurred and included in selling, general and administrative expenses. Such costs amounted to \$4.2 million, \$4.1 million and \$4.2 million in 2010, 2009 and 2008, respectively.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company records a benefit for uncertain tax positions in the financial statements only when it determines it is more likely than not that such a position will be sustained upon examination by taxing authorities based on the technical merits of the position. Unrecognized tax benefits represent the difference between the position taken in the tax return and the benefit reflected in the financial statements.

Share-Based Payment Arrangements

The Company records compensation expense for share-based awards based upon an assessment of the grant date fair value of the awards. The fair value of each option award is estimated on the date of grant using the Black-Scholes option valuation model. A number of assumptions are used to determine the fair value of options granted. These include expected term, dividend yield, volatility of the options and the risk free interest rate.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pension Accounting

The Company accounts for its defined benefit pension plan by recognizing the overfunded or underfunded status of the plans, calculated as the difference between the plan assets and the projected benefit obligation, as an asset or liability on the balance sheet, with changes in the funded status recognized through comprehensive income in the year in which they occur.

Recent Accounting Standards

In September 2009, the Financial Accounting Standards Board (“FASB”) issued guidance related to revenue recognition for multiple element deliverables which eliminates the requirement that all undelivered elements must have objective and reliable evidence of fair value before a company can recognize the portion of the consideration that is attributable to items that already have been delivered. Under the new guidance, the relative selling price method is required to be used in allocating consideration between deliverables and the residual value method will no longer be permitted. This guidance is effective prospectively for revenue arrangements entered into or materially modified on or after January 1, 2011, although early adoption is permitted. A company may elect, but will not be required, to adopt the amendments retrospectively for all prior periods. The Company does not believe the adoption of this guidance will have a material impact on its consolidated financial statements.

In January 2010, the FASB issued changes to disclosure requirements for fair value measurements. Specifically, the changes require a reporting entity to disclose, in the reconciliation of fair value measurements using significant unobservable inputs (Level 3), separate information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number). These changes become effective beginning January 1, 2011. The Company has determined that these changes will not have a material impact on its consolidated financial statements.

Effective January 1, 2010, the Company adopted changes issued by the FASB on January 21, 2010, to disclosure requirements for fair value measurements. Specifically, the changes require a reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. The changes also clarify existing disclosure requirements related to how assets and liabilities should be grouped by class and valuation techniques used for recurring and nonrecurring fair value measurements. The adoption of these changes had no impact on the consolidated financial statements.

Effective January 1, 2010, the Company adopted changes issued by the FASB on February 24, 2010, to accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued, otherwise known as “subsequent events.” Specifically, these changes clarified that an entity that is required to file or furnish its financial statements with the Securities and Exchange Commission (“SEC”) is not required to disclose the date through which subsequent events have been evaluated. Other than the elimination of the disclosure of the date through which management has performed its evaluation for subsequent events, the adoption of these changes had no impact on the consolidated financial statements.

In March 2010, the FASB issued changes related to existing accounting requirements for embedded credit derivatives. Specifically, the changes clarify the scope exception regarding when embedded credit derivative features are not considered embedded derivatives subject to potential bifurcation and separate accounting. These changes became effective on July 1, 2010. The Company has determined these changes will not have an impact on its consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued
For the Years Ended December 31, 2010, 2009 and 2008

2. DISCONTINUED OPERATIONS

In December 2007, the Company completed its sale of all of the capital stock of its wholly owned subsidiary, Kaman Music Corporation, to Fender Musical Instruments Corporation. During 2008, the Company recorded a gain on disposal of discontinued operations of \$0.5 million, related to working capital adjustments for this transaction.

3. ACQUISITIONS

The Company incurred acquisition costs of \$65.1 million, \$0.7 million and \$106.1 million during 2010, 2009 and 2008, respectively. Included in these acquisition costs are contingency payments to the former owners of the Aerospace Orlando facility. These payments are based on the attainment of certain milestones, and over the term of the agreement could total \$25.0 million. These contingency payments are recorded as additional goodwill and totaled \$1.4 million, \$0.2 million and \$0.9 million during 2010, 2009 and 2008, respectively.

On December 10, 2010, the Company acquired Global Aerosystems, LLC (“Global”) of Everett, WA for \$15.3 million, inclusive of working capital adjustments. Global has become a part of the Company’s Aerospace segment. Global, founded in 2006, is a provider of aerostructure engineering design analysis and FAA certification services to the aerospace industry.

On April 30, 2010, the Company acquired Minarik Corporation (“Minarik”) of Glendale, California for \$42.5 million, inclusive of working capital adjustments. Minarik has become part of the Company’s Industrial Distribution segment. Minarik, founded in 1952, is a national distributor of motion control and automation products and features a broad product offering including many of the leading brands of sensors, drives, motors and automation control products serving U.S. manufacturers. Minarik operates from nineteen branch locations in most of the major high technology and OEM markets in the U.S.

On April 5, 2010, the Company acquired Allied Bearings Supply Company (“Allied”) of Tulsa, Oklahoma for \$15.2 million, inclusive of working capital adjustments. Allied has become part of the Company’s Industrial Distribution segment. Allied, founded in 1934, is a distributor of bearings, power transmission, material handling, and industrial supplies to diverse markets including the oil, gas, refinery, drilling equipment, steel, cement, paper, and food industries. In addition to Tulsa, Allied also had branches in Oklahoma City, Pryor, Ponca City, Ardmore and Muskogee, Oklahoma; Fort Smith, Arkansas; and Houston, Texas.

On February 26, 2010, the Company acquired the assets of Fawick de Mexico, S.A. de C. V. (“Fawick”) of Mexico City, Mexico for \$4.9 million, inclusive of working capital adjustments. Fawick has become a part of the Industrial Distribution segment’s Mexican subsidiary. Fawick, founded in 1965, is a distributor of fluid power and lubrication products, equipment and systems to a wide variety of industries throughout Mexico. In addition, Fawick offers value added services in the areas of pump maintenance and hydraulic and lubrication systems.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued
For the Years Ended December 31, 2010, 2009 and 2008

3. ACQUISITIONS (CONTINUED)

These acquisitions were accounted for as purchase transactions. In each case, the value of the assets acquired and liabilities assumed was allocated to tangible and intangible assets based on their fair value at the date of acquisition. The combined allocation for the four acquisitions is as follows (in thousands):

Cash	\$ 6,094
Accounts receivable, net	20,545
Inventories	12,275
Property, plant and equipment	4,501
Other tangible assets	4,832
Goodwill	32,922
Other intangible assets	23,642
Debt	(1,418)
Other liabilities	(20,769)
Total of net assets acquired	82,624
Less cash received	(6,094)
Plus debt assumed	1,418
Total consideration	<u>\$ 77,948</u>

The Company has paid \$65.1 million of the total consideration of \$77.9 million through December 31, 2010. The remaining \$12.8 million includes amounts relating to holdback provisions and debt payments of the acquired businesses that the Company has assumed. The goodwill associated with the acquisitions of Minarik, Allied and Fawick are not deductible for tax purposes. The goodwill associated with the acquisition of Global is deductible for tax purposes. The goodwill for each acquisition is the result of expected synergies from combining the operations of the acquired businesses with the Company's operations and intangible assets that do not qualify for separate recognition, such as an assembled workforce. There are \$97.5 million in revenues from these acquisitions included in the Consolidated Statement of Operations for the year ended December 31, 2010.

The fair value of the combined identifiable intangible assets of \$23.6 million, consisting of trade names, customer relationships, non-compete agreements and developed technologies, was determined using the income approach. Specifically, the relief-from-royalty method was utilized for the trade names, the discounted cash flows method was utilized for the customer relationships and non-compete agreements, and the replacement cost method was used for the developed technologies. The trade names, \$0.8 million, are being amortized over a period of 3 to 7 years, the customer relationships, \$20.1 million, are being amortized over a period of 10 to 15 years, the non-compete agreements, \$2.0 million, are being amortized over a period of 1 to 5 years and the developed technologies, \$0.7 million, are being amortized over a period of 5-7 years, the estimated lives of the assets.

During 2008, the Company acquired three businesses, which were accounted for as purchase transactions. Accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based on estimates of fair value. The excess of the purchase price over the fair value of the net assets acquired, including intangible assets, was allocated to goodwill. The operating results for Brookhouse Holdings Ltd ("U.K. Composites"), acquired in June 2008, Industrial Supply Corp ("ISC"), acquired in March 2008, and Industrial Rubber and Mechanics Inc. ("INRUMEC"), acquired in October 2008, have been included in our consolidated financial statements from the date of acquisition.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued
For the Years Ended December 31, 2010, 2009 and 2008

4. ACCOUNTS RECEIVABLE, NET

Accounts receivable consist of the following:

	<u>At December 31,</u>	
	<u>2010</u>	<u>2009</u>
<i>In thousands</i>		
Trade receivables	\$ 102,679	\$ 65,524
U.S. Government contracts:		
Billed	37,278	33,784
Costs and accrued profit – not billed	7,521	7,034
Commercial and other government contracts:		
Billed	29,973	30,046
Costs and accrued profit – not billed	-	1,442
Less allowance for doubtful accounts	(3,831)	(2,407)
Total	<u>\$ 173,620</u>	<u>\$ 135,423</u>

Accounts receivable, net includes amounts for matters such as contract changes, negotiated settlements and claims for unanticipated contract costs, which totaled \$0.5 million and \$0.9 million at December 31, 2010 and 2009, respectively.

5. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued
For the Years Ended December 31, 2010, 2009 and 2008

5. FAIR VALUE MEASUREMENTS (CONTINUED)

Recurring Fair Value Measurements

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:

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

	Total Carrying Value at December 31, 2009	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Derivative instruments	\$ 7,047	\$ -	\$ 7,047	\$ -
Total Assets	<u>\$ 7,047</u>	<u>\$ -</u>	<u>\$ 7,047</u>	<u>\$ -</u>
Derivative instruments	\$ 664	\$ -	\$ 664	\$ -
Total Liabilities	<u>\$ 664</u>	<u>\$ -</u>	<u>\$ 664</u>	<u>\$ -</u>

The Company's derivative instruments are 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 Consolidated Balance Sheets at December 31, 2010 and 2009. Based on the continued ability to trade and enter into forward contracts and interest rate swaps, we consider the markets for our fair value instruments to be active.

The Company evaluated the credit risk associated with the counterparties to these derivative instruments and determined that as of December 31, 2010, such credit risks have not had an adverse impact on the fair value of these instruments.

Nonrecurring Fair Value Measurements

Goodwill and indefinite-lived intangible assets are tested for possible impairment during the fourth quarter of each year. During 2010, management concluded that the carrying value of goodwill at its U.K. Composites reporting unit exceeded its fair value and, accordingly, recorded an impairment charge totaling \$6.4 million to write down the goodwill to its implied fair value. After the \$6.4 million charge there was \$30.7 million of goodwill remaining at December 31, 2010 for this reporting unit. See Note 9, Goodwill and Intangible Assets, Net, for further discussion.

The nonrecurring fair value measurement for goodwill was developed using significant unobservable inputs (Level 3). For Step 1 of the impairment analysis, the primary valuation technique used was an income methodology based on management's estimates of forecasted cash flows for each business unit, with those cash flows discounted to present value using rates commensurate with the risks of those cash flows. In addition, management used a market-based valuation method involving analysis of market multiples of revenues and earnings before interest, taxes, depreciation and amortization ("EBITDA") for (i) a group of comparable public companies and (ii) recent transactions, if any, involving comparable companies. Valuation methods used to perform the Step determination of the fair value of the reporting unit's assets and liabilities in order to perform a purchase price allocation included the income and market approach depending on the nature of the asset/liability. Assumptions used by management were similar to those that would be used by market participants performing valuations of this reporting unit.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued
For the Years Ended December 31, 2010, 2009 and 2008

6. DERIVATIVE FINANCIAL INSTRUMENTS

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 and 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 next four quarterly variable-rate interest payments.

The Company holds forward exchange contracts designed to hedge forecasted transactions denominated in foreign currencies and to minimize the impact of foreign currency fluctuations on the Company's earnings and cash flows. Some of these contracts 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 transaction.

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

	Balance Sheet Location	Fair Value		Notional Amount
		December 31, 2010	December 31, 2009	
Derivative Liabilities				
Interest rate swap contracts	Other liabilities	\$ 806	\$ 607	\$40,000 - \$45,000
Total		\$ 806	\$ 607	

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

<i>In thousands</i>	For the year ended December 31,		
	2010	2009	2008
Foreign exchange contracts (a)	\$ -	\$ (37)	\$ 244
Foreign exchange contracts (b)	-	(1,941)	1,053
Interest rate swap contracts	(792)	(607)	-
Total	\$ (792)	\$ (2,585)	\$ 1,297

- a) Forward exchange contract dedesignated on July 4, 2010. See information below for amounts recognized in the Consolidated Statement of Operations after dedesignation.
- b) Forward exchange contract dedesignated on February 12, 2010. See information below for amounts recognized in the Consolidated Statement of Operations after dedesignation.

During 2010, the loss reclassified to income from other comprehensive income for derivative instruments designated as cash flow hedges was \$0.6 million. During 2009 the loss reclassified from other comprehensive income for derivative instruments designated as cash flow hedges was not material. No amounts were reclassified during 2008. Over the next twelve months the amount related to cash flow hedges expected to be reclassified to income from other comprehensive income is \$0.7 million.

During 2009, the amount recorded in other income for the ineffective portion of derivative instruments designated as cash flow hedges was not material. No such amounts were recorded during 2010 or 2008.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued
For the Years Ended December 31, 2010, 2009 and 2008

6. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Derivatives Not Designated as Hedging Instruments

The following table shows the fair value of derivative instruments not designated as hedging instruments:

<i>In thousands</i>	Balance Sheet Location	Fair Value		Notional Amount
		December 31, 2010	December 31, 2009	
Derivative Assets				
Foreign exchange contracts	Other current assets	\$ -	\$ 16	\$135
Foreign exchange contracts	Other current assets	-	72	187 Euro
Foreign exchange contracts	Other current assets	10	-	350 Euro
Foreign exchange contracts	Other current assets / Other assets	12,613	6,959	36,516 Australian Dollars
Total		<u>\$ 12,623</u>	<u>\$ 7,047</u>	
Derivative Liabilities				
Foreign exchange contracts	Other current liabilities	\$ -	\$ 57	\$1,900
Total		<u>\$ -</u>	<u>\$ 57</u>	

On February 12, 2010, 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. At December 31, 2010, the U.S. dollar value of the \$36.5 million (AUD) payable was \$37.3 million.

On July 4, 2010, the Company dedesignated the forward contract it had entered into to hedge future Euro obligations, due to a change in the timing of those payments.

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

<i>In thousands</i>	Income Statement Location	For the year ended December 31,		
		2010	2009	2008
Derivative Assets				
Foreign exchange contracts	Other expense, net	\$ 5	\$ 45	\$ -
Foreign exchange contracts	Other expense, net	(55)	85	-
Foreign exchange contracts	Other expense, net	10	-	-
Foreign exchange contracts (a)	Other expense, net	5,654	8,122	-
Total		<u>\$ 5,614</u>	<u>\$ 8,252</u>	<u>\$ -</u>
Derivative Liabilities				
Foreign exchange contracts	Other expense, net	\$ (61)	\$ (57)	\$ -
Total		<u>\$ (61)</u>	<u>\$ (57)</u>	<u>\$ -</u>

- a) For the years ended December 31, 2010 and 2009, the Company recorded expense of \$4.5 million and \$9.0 million in Other expense, net, respectively, related to the change in the value of the \$36.5 million (AUD) payable.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued
For the Years Ended December 31, 2010, 2009 and 2008

6. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Hedges of a Net Investment in Foreign Operations

Prior to 2010, the Company maintained a Euro note, part of the revolving credit facility, which qualified and had been designated as an effective hedge against the Company's investment in its German subsidiary (RWG). This loan was repaid during the fourth quarter of 2009.

The following table shows the amount of the translation gain associated with the Euro note recorded in other comprehensive income:

<i>In thousands</i>	Location	For the year ended December 31,		
		2010	2009	2008
Euro note	Cumulative Translation Adjustment	\$ -	\$ 706	\$ (116)
Total		\$ -	\$ 706	\$ (116)

The Company did not reclassify any amounts associated with this note from other comprehensive income to earnings during the years ended December 31, 2010, 2009 and 2008 and the Company does not expect to reclassify any such amounts over the next twelve months.

7. INVENTORIES

Inventories consist of the following:

<i>In thousands</i>	At December 31,	
	2010	2009
Merchandise for resale	\$ 113,841	\$ 95,904
Contracts in process:		
U.S. Government, net of progress payments of \$39,541 and \$40,377 in 2010 and 2009, respectively	66,109	52,754
Commercial and other government contracts	44,097	40,903
Other work in process (including certain general stock materials)	74,004	77,085
Finished goods	18,848	18,617
Total	\$ 316,899	\$ 285,263

The increase in merchandise for resale is partially attributable to the three acquisitions in the Industrial Distribution segment. Inventories include amounts associated with matters such as contract changes, negotiated settlements and claims for unanticipated contract costs, which totaled \$10.4 million and \$11.5 million at December 31, 2010 and December 31, 2009, respectively. The Company records revenue associated with these matters only when recovery can be estimated reliably and realization is probable. The reduction in this balance is due to the Company finalizing the contract price negotiations with Sikorsky related to the Canadian MH-92 helicopter program. This resulted in an increase in the contract value from approximately \$6.0 million to approximately \$11.0 million. Because this increase was less than anticipated, we recorded an additional contract loss of \$2.0 million.

The amount of general and administrative costs charged to inventory by the Aerospace segment during 2010 and 2009 were \$45.0 million and \$39.1 million, respectively. The estimated amounts of general and administrative costs remaining in contracts in process at December 31, 2010 and 2009 are \$9.3 million and \$6.8 million, respectively. These estimates are based on the ratio of such costs to total costs of production.

The Company had inventory of \$6.1 million and \$5.7 million as of December 31, 2010 and 2009, respectively, on consignment at customer locations, the majority of which is located with Industrial Distribution segment customers.

K-MAX® inventory of \$23.7 million and \$24.6 million as of December 31, 2010 and 2009, respectively, is included in contracts and other work in process inventory and finished goods. Management believes that a significant portion of this K-MAX® inventory will be sold after December 31, 2011, based upon the anticipation of supporting the fleet for the foreseeable future.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued
For the Years Ended December 31, 2010, 2009 and 2008

7. INVENTORIES (CONTINUED)

On February 12, 2009, the Company completed the transfer of ownership of the Australian SH-2G(A) Super Seasprite Program inventory and equipment. As a result, the Company recorded \$51.7 million of contracts and other work in process inventory, which represented the following:

<i>In thousands</i>	
Net unbilled accounts receivable (a)	\$ 32,041
Accrued contract loss eliminated	(6,072)
USD equivalent of \$39.5 million (AUD) minimum liability due to the Commonwealth of Australia (translated at the exchange rate in effect on the transaction date, which was 0.6522)	25,772
Total inventory recorded on February 12, 2009	<u>\$ 51,741</u>

- (a) The unbilled receivables associated with the SH-2G(A) program were \$40.6 million and the balance of amounts received as advances on this contract was \$8.6 million.

SH-2G(I), formerly SH-2G(A), inventory of \$53.7 million and \$55.0 million at December 31, 2010 and 2009, respectively, is included in contracts and other work in process inventory. Management believes that a significant portion of this inventory could be sold after December 31, 2011, based upon the time needed to market the aircraft and prepare them for sale. For more information on the SH-2G(I) inventory, see Note 18, Commitments and Contingencies.

8. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net is summarized as follows:

<i>In thousands</i>	<u>At December 31,</u>	
	<u>2010</u>	<u>2009</u>
Land	\$ 10,537	\$ 9,547
Buildings	45,789	41,445
Leasehold improvements	15,165	15,458
Machinery, office furniture and equipment	143,574	132,612
Construction in process	5,339	1,402
Total	<u>220,404</u>	<u>200,464</u>
Less accumulated depreciation	(130,685)	(119,142)
Property, plant and equipment, net	<u>\$ 89,719</u>	<u>\$ 81,322</u>

The Aerospace segment charged excess capacity and related costs of \$1.0 million in 2008 to cost of sales. In 2010 and 2009, such charges were not significant.

Depreciation expense was \$14.7 million, \$13.2 million and \$11.4 million for 2010, 2009 and 2008, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued
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9. GOODWILL AND OTHER INTANGIBLE ASSETS, NET

Goodwill

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

	2010			2009		
	Industrial Distribution	Aerospace	Total	Industrial Distribution	Aerospace	Total
<i>In thousands</i>						
Gross balance at beginning of period	\$ 15,423	\$ 80,577	\$ 96,000	\$ 15,615	\$ 75,789	\$ 91,404
Accumulated impairment	-	(7,810)	(7,810)	-	(7,810)	(7,810)
Net balance at beginning of period	15,423	72,767	88,190	15,615	67,979	83,594
Additions	24,416	10,448	34,864	21	206	227
Impairments	-	(6,371)	(6,371)	-	-	-
Foreign currency	29	(1,894)	(1,865)	(213)	4,582	4,369
Ending balance at end of period	\$ 39,868	\$ 74,950	\$ 114,818	\$ 15,423	\$ 72,767	\$ 88,190

During the first quarter of 2010, the Company was informally notified by a customer of its intent to terminate a contract that had been obtained in the Company's acquisition of U.K. Composites. The Company recognized \$0.6 million in sales related to the contract in question during the year ended December 31, 2008. No sales were recognized during the years ended December 31, 2010 or 2009. Throughout the year, management worked with this customer to find an acceptable resolution and maintain the work there under. During the fourth quarter the Company received a contract termination notice and, as a result, removed all future revenue and related profit associated with this contract from the reporting unit's projections when preparing its annual test for impairment. The Company does not believe the termination of the contract will have any significant impact on its liquidity. This contract loss, in addition to a reduction in revenue for other programs, reduced the revenue and earnings growth forecast to levels below those anticipated at the reporting unit's acquisition in 2008, creating a situation in which Step 1 of the impairment analysis resulted in a fair value for the reporting unit below its carrying value. Prior to proceeding to Step 2 of the impairment analysis, management assessed the tangible and intangible assets subject to amortization to determine if they were impaired. Based on this analysis these assets were not impaired. Upon completion of the Step 2 impairment analysis, the Company recorded a non-cash non-tax deductible goodwill impairment charge of \$6.4 million, or 17% of the reporting units total goodwill balance, to reduce the carrying value of goodwill to its implied fair value. This charge has been included in the operating results of the Company's Aerospace segment. See Note 5, Fair Value Measurements, in the Notes to Consolidated Financial Statements, for further discussion.

During 2008, our Aerospace Wichita reporting unit experienced production and quality issues, which resulted in the separate termination of two long-term contracts. Due to the loss of the two major contracts as well as the continued production and quality issues, the Company performed a goodwill impairment analysis for this reporting unit as of June 27, 2008. The resulting non-cash goodwill impairment charge was \$7.8 million, which represented the entire goodwill balance for this reporting unit.

Other Intangible Assets

Other intangible assets consisted of:

	Amortization Period	At December 31, 2010		At December 31, 2009	
		Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
<i>In thousands</i>					
Customer lists / relationships	10-21 years	\$ 50,798	\$ (5,135)	\$ 30,632	\$ (2,559)
Trademarks / trade names	3-7 years	1,396	(403)	1,007	(627)
Non-Compete Agreements and other	1-9 years	3,902	(1,345)	1,397	(736)
Patents	17 years	657	(442)	669	(438)
Total		\$ 56,753	\$ (7,325)	\$ 33,705	\$ (4,360)

9. GOODWILL AND OTHER INTANGIBLE ASSETS, NET (CONTINUED)

Other Intangible Assets - Continued

The increase in the goodwill and other intangible assets balance at December 31, 2010 as compared to December 31, 2009 is primarily due to the acquisitions of Fawick, Allied, Minarik and Global. See Note 3, Acquisitions, for further discussion of the acquisitions. Intangible asset amortization expense was \$3.5 million, \$2.1 million and \$1.1 million in 2010, 2009 and 2008, respectively. Amortization expense for the next five years is expected to approximate \$4.8 million per year.

In order to determine the useful life of our customer lists/relationships acquired in 2010, the Company considered numerous factors, most importantly the industry considerations associated with the acquired entity. The Company determined the amortization period for the customer list/relationships intangible assets for its 2010 aerospace acquisition based primarily on the program development life cycles. The Company determined the amortization period for the customer lists/relationships intangible assets for its Industrial Distribution acquisitions in 2010 based primarily on an analysis of their historical customer sales attrition information.

10. ACCRUED CONTRACT LOSSES

The following is a summary of activity and balances associated with accrued contract losses, which is included in Other accruals and payables on the Consolidated Balance Sheet:

	2010	2009
<i>In thousands</i>		
Balance at January 1	\$ 1,310	\$ 9,714
Additions to loss accrual	5,440	3,407
Costs incurred	(3,190)	(5,289)
Elimination of Australian loss accrual	-	(6,072)
Release to income	153	(450)
Balance at December 31	<u>\$ 3,713</u>	<u>\$ 1,310</u>

The additions in 2010 relate to additional costs on the Sikorsky Canadian MH-92 program, the Bell Helicopter composite blade skins and skin core assembly program and a non-JPF fuze program. The Sikorsky Canadian MH-92 helicopter program includes the manufacture and assembly of composite tail rotor pylons. This program has undergone numerous customer-directed design changes causing costs on this program to exceed the price for the contract. During the third quarter of 2010, we finalized the contract price negotiations for this program increasing the contract value from approximately \$6.0 million to approximately \$11.0 million. Although we received additional consideration for this contract we were not able to recover all the anticipated cost growth and because the price was less than anticipated we recorded a \$2.0 million contract loss during the third quarter of 2010. To date, we have recorded \$6.8 million in contract losses on the Sikorsky Canadian MH-92 program, of which \$3.3 million was recorded in 2010 and \$0.6 million recorded in 2009.

The additions in 2009 relate primarily to work performed on the unmanned K-MAX® program and legacy fuze programs. During 2008, the Company and the Commonwealth of Australia terminated the SH-2G(A) Super Seasprite program on mutually agreed terms. As a result of this termination agreement, the remaining accrued contract loss of \$6.1 million was eliminated in connection with the transfer of the Australian program inventory and equipment to the Company on February 12, 2009. This matter is discussed more fully in Note 18, Commitments and Contingencies.

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For the Years Ended December 31, 2010, 2009 and 2008

11. 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:

<i>In thousands</i>	2010		2009	
Balance at January 1	\$	15,606	\$	16,136
Additions to accrual		1,121		787
Payments		(1,313)		(1,566)
Release to income		(313)		-
Changes in foreign currency exchange rates		(89)		249
Balance at December 31	\$	<u>15,012</u>	\$	<u>15,606</u>

In August 2008, the Company completed its purchase of the portion of the Bloomfield campus that Kaman Aerospace Corporation had leased from NAVAIR for many years. In connection with the purchase, the Company has assumed responsibility for environmental remediation at the facility as may be required under the Connecticut Transfer Act (the "Transfer Act") and it continues the effort to define the scope of the remediation that will be required by the Connecticut Department of Environmental Protection ("CTDEP"). The transaction was recorded by taking the undiscounted estimated remediation liability of \$20.8 million and discounting it at a rate of 8% to its present value. The fair value of the Navy Property asset, which approximates the discounted present value of the assumed environmental liability of \$10.3 million, is included in Property, Plant and Equipment, net. This remediation process will take many years to complete.

The following represents estimated future payments for the undiscounted environmental remediation liability related to the Bloomfield campus as of December 31, 2010 (in thousands):

2011	\$	1,316
2012		770
2013		888
2014		1,327
2015		637
Thereafter		12,867
Total	\$	<u>17,805</u>

The accrual also includes estimated ongoing environmental remediation costs for the idle Moosup, CT facility and environmental remediation costs that the Company expects to incur at the former Music segment's New Hartford, CT facility and the Aerospace segment's U.K. Composites facilities. The Company continues to assess the work that may be required at each of these facilities, which may result in a change to this accrual. For further discussion of these matters, see Note 18, Commitments and Contingencies.

12. DEBT

Long-Term Debt

The company has long-term debt as follows:

<i>In thousands</i>	At December 31,	
	2010	2009
Revolving credit agreement	\$	3,600
Term loan		40,000
Convertible notes		101,843
Total		<u>145,443</u>
Less current portion		5,000
Total excluding current portion	\$	<u>140,443</u>

The weighted average interest rate on long-term borrowings outstanding as of December 31, 2010 and 2009 was 3.01% and 2.66%, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued
For the Years Ended December 31, 2010, 2009 and 2008

12. DEBT (CONTINUED)

Long-Term Debt - Continued

The aggregate annual maturities of long-term debt for each of the next five years are approximately as follows (in thousands):

2011	\$	5,000
2012		5,000
2013		5,000
2014		28,600
2015		-

Revolving Credit and Term Loan Agreements

On September 20, 2010, the Company entered into a four-year \$275.0 million Amended and Restated Revolving Credit Agreement with co-lead arrangers Bank of America Securities LLC, JP Morgan Securities LLC, and RBS Citizens N.A. and a syndicate of lenders (“Revolving Credit Agreement”), which replaced its then existing \$225.0 million senior revolving credit facility which was due to expire on September 17, 2012 (the “Former Revolving Credit Agreement”). The Revolving Credit Agreement includes an “accordion” feature that allows the Company 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.

The Revolving Credit Agreement permits the Company to pay cash dividends. The lenders have been granted a security interest in substantially all of the Company’s and its domestic subsidiaries’ personal property and other assets (including intellectual property but excluding real estate), including a pledge of 66% of the Company’s equity interest in certain foreign subsidiaries and 100% of the Company’s equity interest in its domestic subsidiaries, as collateral for the Company’s obligations under the Revolving Credit Agreement. At December 31, 2010, there was \$3.6 million outstanding under the Revolving Credit Agreement, excluding letters of credit, with \$228.2 million available for borrowing. Letters of credit are considered borrowings for purposes of the Revolving Credit Agreement. A total of \$43.2 million in letters of credit was outstanding under the Revolving Credit Agreement at December 31, 2010, \$37.5 million of which was 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). At December 31, 2009, there was \$16.8 million outstanding under the Former Revolving Credit Agreement, excluding letters of credit, with \$168.2 million available for borrowing. A total of \$40.0 million in letters of credit was outstanding under the Former Revolving Credit Agreement at December 31, 2009, \$34.2 million of which was related to the Australian SH-2G(A) Super Seasprite Program.

On September 20, 2010, the Company entered into the Second Amended and Restated Term Loan Credit Agreement, which was originally entered into on October 29, 2008 and amended and restated on September 17, 2009 (“Term Loan Agreement”). The Term Loan Agreement, which is in addition to the Revolving Credit Agreement, is a \$42.5 million facility with a four-year term. Principal payments of \$1.25 million are due quarterly, with \$22.5 million of the initial aggregate principal payable in the final quarter. The Company 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. As of December 31, 2010, \$40.0 million was outstanding on the Term Loan Agreement. As of December 31, 2009, \$45.0 million was outstanding on the former Term Loan Agreement.

Interest rates on amounts outstanding under the Revolving Credit Agreement and Term Loan Agreement are variable, and are determined based on the Consolidated Senior Secured Leverage Ratio, as defined in the Revolving Credit Agreement. At December 31, 2010, the interest rate for the outstanding amounts on both the Revolving Credit Agreement and Term Loan Agreement was 2.39%. In addition, the Company is required to pay a quarterly commitment fee on the unused revolving loan commitment amount at a rate ranging from 0.35% to 0.50% per annum, based on the Consolidated Senior Secured Leverage Ratio. Fees for outstanding letters of credit range from 2.00% to 3.00%, based on the Consolidated Senior Secured Leverage Ratio.

12. DEBT (CONTINUED)

Revolving Credit and Term Loan Agreements - Continued

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. The Company was in compliance with those financial covenants as of and for the quarter ended December 31, 2010, and management does not anticipate noncompliance in the foreseeable future.

Convertible Notes

In November 2010, the Company issued convertible unsecured notes due on November 15, 2017 in the aggregate principal amount of \$115.0 million in a private placement offering. These notes bear 3.25% interest per annum on the principal amount, payable semiannually in arrears on May 15 and November 15 of each year, beginning on May 15, 2011. Proceeds from the offering were \$111.0 million, net of fees and expenses which were capitalized. The proceeds were used to repay \$62.2 million of borrowings outstanding on the Company's Revolving Credit Agreement, make a \$25.0 million voluntary contribution to the Qualified Pension Plan and pay \$13.2 million for the purchase of call options related to the convertible note offering. See below for further discussion of the call options.

The notes will mature on November 15, 2017, unless earlier redeemed, repurchased by the Company or converted, and are convertible into cash and, at the Company's election, shares of our common stock based on an initial conversion rate, subject to adjustment, of 29.4499 shares per \$1,000 principal amount of notes (which represents an initial conversion price of approximately \$33.96 per share), in certain circumstances. The conversion rate will be subject to adjustment in certain circumstances, but will not be adjusted for accrued and unpaid interest. Upon conversion, the Company will pay cash up to the aggregate principal amount of the notes and pay or deliver cash, shares of its common stock or a combination of cash and shares of its common stock, at its election with respect to any remaining amounts due. Prior to May 15, 2017, the notes are convertible only in the following circumstances: (1) during any fiscal quarter commencing after April 1, 2011 and only during any such fiscal quarter, if the last reported sale price of our common stock was greater than or equal to 130% of the applicable conversion price (\$44.15) for at least 20 trading days (whether or not consecutive) during the 30 consecutive trading days ending on the last trading day of the previous fiscal quarter, (2) upon the occurrence of specified corporate transactions, or (3) during the five consecutive business-day period following any five consecutive trading-day period in which, for each day of that period, the trading price for the notes was less than 98% of the product of the last reported sale price of our common stock and the applicable conversion rate on such trading day. On and after May 15, 2017 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their notes at any time, regardless of the foregoing circumstances. Upon a change in control or termination of trading, holders of the notes may require us to repurchase all or a portion of their notes for cash at a repurchase price equal to 100% of the principal amount, plus any accrued and unpaid interest.

Because the embedded conversion option is indexed to the Company's own stock and would be classified in stockholders' equity, it therefore does not meet the criterion under FASB Accounting Standards Codification ("ASC") 815 Derivatives and Hedging ("ASC 815") that would require separate accounting as a derivative instrument.

In connection with the offering, we entered into convertible note hedge transactions with affiliates of the initial purchasers. These transactions are intended to reduce the potential dilution to our Company's stockholders upon any future conversion of the notes. The call options, which cost an aggregate \$13.2 million, were recorded as a reduction of additional paid-in capital. The Company also entered into warrant transactions concurrently with the offering, pursuant to which we sold warrants to acquire up to approximately 3.4 million shares of our common stock to the same counterparties that entered into the convertible note hedge transactions. Proceeds received from the issuance of the warrants totaled approximately \$1.9 million and were recorded as an addition to additional paid-in capital. The convertible note hedge and warrant transactions effectively increased the conversion price of the convertible notes to approximately \$44.40 per share of our common stock.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued
For the Years Ended December 31, 2010, 2009 and 2008

12. DEBT (CONTINUED)

Convertible Notes - Continued

ASC 815 provides that contracts are initially classified as equity if (1) the contract requires physical settlement or net-share settlement, or (2) the contract gives the company a choice of net-cash settlement or settlement in its own shares (physical settlement or net-share settlement). The settlement terms of our purchased call options and sold warrant contracts require net-share settlement. Based on the guidance in ASC 815, the purchased call option contracts were recorded as a reduction of equity and the warrants were recorded as an addition to equity as of the trade date. ASC 815 states that a reporting entity shall not consider contracts to be derivative instruments if the contract issued or held by the reporting entity is both indexed to its own stock and classified in stockholders' equity in its Consolidated Balance Sheet. The Company concluded the purchased call option contracts and the warrant contracts should be accounted for in stockholders' equity.

ASC 470-20 *Debt with Conversion and Other Options* ("ASC 470-20"), clarifies the accounting for convertible debt instruments that may be settled in cash upon conversion, including partial cash settlement. ASC 470-20 specifies that an issuer of such instruments should separately account for the liability and equity components of the instruments in a manner that reflect the issuer's non-convertible debt borrowing rate which interest costs are to be recognized in subsequent periods. The note payable principal balance at the date of issuance of \$115.0 million was bifurcated into the debt component of \$101.7 million and the equity component of \$13.3 million. The difference between the note payable principal balance and the value of the debt component is being accreted to interest expense over the term of the notes. The debt component was recognized at the present value of associated cash flows discounted using a 5.25% discount rate, the borrowing rate at the date of issuance for a similar debt instrument without a conversion feature. The Company recorded \$0.5 million of debt issuance costs as an offset to additional paid-in capital. The balance, \$3.1 million, will be amortized over the term of the notes.

The carrying amount of the equity component and the principal amount of the liability component, the unamortized discount, and the net carrying amount are as follows:

	At December 31, 2010
<i>In thousands</i>	
Principal amount of liability	\$ 115,000
Unamortized discount	13,157
Carrying value of liability	<u>\$ 101,843</u>
Equity component	<u>\$ 13,329</u>

Interest expense associated with the Convertible Notes consisted of the following:

	For the year ended December 31, 2010
<i>In thousands</i>	
Contractual coupon rate of interest	\$ 401
Accretion of convertible notes discount	172
Interest expense - convertible notes	<u>\$ 573</u>

The effective interest yield of the convertible debt due in 2017 is 5.25% at December 31, 2010 and the cash coupon interest rate is 3.25%.

Short-Term Borrowings

The Company also has certain other credit arrangements to borrow funds on a short-term basis with interest at current market rates. Short-term borrowings outstanding under such other credit arrangements as of December 31, 2010 and 2009 were \$3.0 million and \$1.8 million, respectively. The weighted average interest rate on short-term borrowings for 2010 and 2009 was 5.04% and 2.44%, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued
For the Years Ended December 31, 2010, 2009 and 2008

12. DEBT (CONTINUED)

Debt Issuance Costs

The Company incurred \$2.3 million in debt issuance costs in connection with the replacement of the Revolving Credit Agreement and the Term Loan Agreement amendment. These costs have been capitalized and will be amortized over the terms of the facilities. The Company incurred \$3.1 million in debt issuance costs in connection with the Convertible Notes. These costs have been capitalized and will be amortized over the term of the notes. Total amortization expense for the year ended December 31, 2010 was \$2.0 million, including the \$0.6 million write-off of capitalized fees related to the Former Revolving Credit Agreement. Total amortization expense for the years ended December 31, 2009 and 2008 was \$0.7 million and \$0.2 million, respectively.

Letters of Credit

The face amounts of irrevocable letters of credit issued under the Revolving Credit Agreement totaled \$43.2 million and \$40.0 million at December 31, 2010 and 2009, respectively. Of those amounts, \$37.5 million and \$34.2 million at December 31, 2010 and 2009, respectively, was attributable to the Australian SH-2G(A) Super Seasprite program.

Interest Payments

Cash payments for interest were \$7.5 million, \$6.1 million and \$4.5 million for 2010, 2009 and 2008, respectively.

13. ADVANCES ON CONTRACTS

Advances on contracts include customer advances together with customer payments and billings associated with the achievement of certain contract milestones in excess of costs incurred. As of December 31, 2008, \$8.6 million of this liability was associated with the Australian SH-2G(A) helicopter contract. As part of the Australia program termination agreement, these balances were eliminated in connection with the transfer of the Australian program inventory and equipment to the Company. See Note 7, Inventories, and Note 18, Commitments and Contingencies, for further discussion of this termination agreement. At December 31, 2010 and 2009, the balance of Advances on Contracts, included in Other accruals and payables on the Consolidated Balance Sheet, was \$3.5 million and \$1.8 million, respectively.

14. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

	At December 31,	
	2010	2009
<i>In thousands</i>		
Changes in pension and post-retirement benefit plans	\$ (66,448)	\$ (88,887)
Foreign currency translation adjustment	(18,881)	(14,326)
Unrealized gain (loss) on derivative instruments	(971)	(829)
Accumulated other comprehensive income (loss)	<u>\$ (86,300)</u>	<u>\$ (104,042)</u>

No amounts were reclassified from other comprehensive income into net income for foreign currency translation adjustments in 2010 and 2009.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued
For the Years Ended December 31, 2010, 2009 and 2008

15. INCOME TAXES

The components of income tax expense (benefit) associated with earnings from continuing operations are as follows:

	For the year ended December 31,		
	2010	2009	2008
<i>In thousands</i>			
Current:			
Federal	\$ 7,624	\$ 12,474	\$ 10,628
State	909	675	1,287
Foreign	1,122	2,205	2,083
	<u>9,655</u>	<u>15,354</u>	<u>13,998</u>
Deferred:			
Federal	13,164	(887)	9,087
State	(152)	190	1,092
Foreign	(619)	(296)	(118)
	<u>12,393</u>	<u>(993)</u>	<u>10,061</u>
Total	\$ 22,048	\$ 14,361	\$ 24,059

The tax effects of temporary differences that give rise to deferred tax assets and liabilities are presented below:

<i>In thousands</i>	At December 31,	
	2010	2009
Deferred tax assets:		
Deferred employee benefits	\$ 50,666	\$ 77,978
Inventory	13,577	12,316
Environmental	5,536	5,643
Tax loss and credit carryforwards	9,532	9,456
Tax deductible bond hedge	4,951	-
Accrued liabilities and other items	6,491	7,730
Total deferred tax assets	<u>90,753</u>	<u>113,123</u>
Deferred tax liabilities:		
Fixed assets	(8,737)	(9,570)
Intangibles	(19,906)	(12,880)
Unamortized discount on convertible notes	(5,000)	-
Other items	(352)	(953)
Total deferred tax liabilities	<u>(33,995)</u>	<u>(23,403)</u>
Net deferred tax assets before valuation allowance	56,758	89,720
Valuation allowance	(4,217)	(5,221)
Net deferred tax assets after valuation allowance	<u>\$ 52,541</u>	<u>\$ 84,499</u>

Valuation allowances of \$4.2 million and \$5.2 million at December 31, 2010 and 2009, respectively, reduced the deferred tax asset attributable to foreign loss and state loss and credit carryforwards to an amount that, based upon all available information, is more likely than not to be realized. Reversal of the valuation allowance is contingent upon the recognition of future taxable income in the respective jurisdictions or changes in circumstances which cause the realization of the benefits of the loss carryforwards to become more likely than not. The net decrease in the valuation allowance of \$1.0 million is due to the generation of \$0.8 million in U.S. state and Canadian loss and tax credit carryforwards, offset by utilization of \$0.9 million of state carryforwards, expiration of \$0.2 million of state and Canadian carryforwards, and the reversal of \$0.7 million of valuation allowances on state loss carryforwards.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued
For the Years Ended December 31, 2010, 2009 and 2008

15. INCOME TAXES (CONTINUED)

U.S. foreign tax credit carryforwards of \$4.0 million expire between 2014 and 2020. Canadian tax loss carryforwards are approximately \$1.4 million and do not begin to expire until 2027. State carryforwards are in numerous jurisdictions with varying lives.

No valuation allowance has been recorded against the other deferred tax assets because the Company believes that these deferred tax assets will, more likely than not, be realized. This determination is based largely upon the company's earnings history, anticipated future taxable income, foreign-source income, and its ability to carryback reversing items within two years to offset taxes paid. In addition, the Company has the ability to offset deferred tax assets against deferred tax liabilities created for such items as depreciation and amortization.

Pre-tax income (loss) from foreign operations amounted to \$(2.8) million, \$6.3 million and \$5.4 million in 2010, 2009 and 2008, respectively. Income taxes have not been provided on undistributed earnings of \$14.9 million from foreign subsidiaries since it is the Company's intention to permanently reinvest such earnings or to distribute them only when it is tax efficient to do so. It is impracticable to estimate the total tax liability, if any, that would be created by the future distribution of these earnings.

The provision for income taxes associated with earnings from continuing operations differs from that computed at the federal statutory corporate tax rate as follows:

	For the year ended December 31,		
	2010	2009	2008
<i>In thousands</i>			
Federal tax at 35% statutory rate	\$ 21,130	\$ 16,453	\$ 20,708
State income taxes, net of federal benefit	492	562	1,547
Tax effect of:			
International recapitalization	-	(1,577)	-
Goodwill impairment	2,229	-	2,733
Other, net	(1,803)	(1,077)	(929)
Income taxes	<u>\$ 22,048</u>	<u>\$ 14,361</u>	<u>\$ 24,059</u>

The Company records a benefit for uncertain tax positions in the financial statements only when it determines it is more likely than not that such a position will be sustained upon examination by taxing authorities. Unrecognized tax benefits represent the difference between the position taken and the benefit reflected in the financial statements. On December 31, 2010, 2009 and 2008 the total liability for unrecognized tax benefits was \$3.9 million, \$2.7 million and \$2.6 million, respectively (including interest and penalties of \$0.5 million, \$0.4 million and \$0.3 million, respectively). The change in the liability for 2010, 2009 and 2008 is explained as follows:

	2010	2009	2008
<i>In thousands</i>			
Balance at January 1	\$ 2,679	\$ 2,585	\$ 3,645
Additions based on current year tax positions	1,345	1,035	133
Changes for tax positions of prior years	139	(8)	56
Settlements	-	(933)	(1,103)
Reductions due to lapses in statutes of limitation	(256)	-	(146)
Balance at December 31	<u>\$ 3,907</u>	<u>\$ 2,679</u>	<u>\$ 2,585</u>

Included in unrecognized tax benefits at December 31, 2010 were items approximating \$2.2 million that, if recognized, would favorably affect the Company's effective tax rate in future periods. The Company files tax returns in numerous U.S. and foreign jurisdictions, with returns subject to examination for varying periods, but generally back to and including 2007. During 2010, 2009 and 2008, \$0.1 million of interest and penalties was recognized each year as a component of income tax expense. It is the Company's policy to record interest and penalties on unrecognized tax benefits as income taxes.

Cash payments for income taxes, net of refunds, were \$14.5 million, \$6.9 million, and \$30.4 million in 2010, 2009 and 2008, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued
For the Years Ended December 31, 2010, 2009 and 2008

16. PENSION PLANS

The Company has a non-contributory qualified defined benefit pension plan (the “Qualified Pension Plan”). On February 23, 2010, the Company’s Board of Directors approved an amendment to the Qualified Pension Plan that, among other things, closed the Qualified Pension Plan to all new hires on or after March 1, 2010 and changed the benefit calculation for existing employees related to pay and years of service. Specifically, changes in pay will be taken into account for benefit calculation purposes until the end of calendar year 2010, the benefit formula will be improved to use the highest five years out of the last ten years of service up to December 31, 2010, whether consecutive or not, and years of service will continue to be added for purposes of the benefit calculations through December 31, 2015, with no further accrual of benefits for service thereafter except for vesting purposes. The changes to the Qualified Pension Plan resulted in a net curtailment loss of \$0.2 million, a \$25.2 million reduction of accumulated other comprehensive loss, a \$15.5 million decrease of deferred tax assets and a \$40.7 million reduction in our pension liability on the Company’s Consolidated Balance Sheet.

The Company also has a Supplemental Employees’ Retirement Plan (“SERP”), which is considered a non-qualified pension plan. The SERP provides certain key executives, whose compensation is in excess of the limitations imposed by federal law on the qualified defined benefit pension plan, with supplemental benefits based upon eligible earnings, years of service and age at retirement. The measurement date for both these plans is December 31.

Obligations and Funded Status

The changes in the actuarial present value of the projected benefit obligation and fair value of plan assets are as follows:

	For the year ended December 31,			
	Qualified Pension Plan		SERP	
	2010	2009	2010	2009
<i>In thousands</i>				
Projected benefit obligation at beginning of year	\$ 544,735	\$ 502,269	\$ 18,037	\$ 20,732
Service cost	11,527	13,423	371	389
Interest cost	29,104	30,462	789	1,012
Plan amendments	-	444	-	-
Actuarial liability (gain) loss (a)	32,073	25,613	(1,083)	1,586
Benefit payments	(23,558)	(27,476)	(3,397)	(5,682)
(Curtailment) / Settlement	(40,716)	-	935	-
Projected benefit obligation at end of year	<u>\$ 553,165</u>	<u>\$ 544,735</u>	<u>\$ 15,652</u>	<u>\$ 18,037</u>
Fair value of plan assets at beginning of year	\$ 387,469	\$ 334,121	\$ -	\$ -
Actual return on plan assets	54,930	68,183	-	-
Employer contributions	35,700	12,641	3,397	5,682
Benefit payments	(23,558)	(27,476)	(3,397)	(5,682)
Fair value of plan assets at end of year	<u>\$ 454,541</u>	<u>\$ 387,469</u>	<u>\$ -</u>	<u>\$ -</u>
Funded status at end of year	<u>\$ (98,624)</u>	<u>\$ (157,266)</u>	<u>\$ (15,652)</u>	<u>\$ (18,037)</u>
Accumulated benefit obligation	<u>\$ 553,165</u>	<u>\$ 490,960</u>	<u>\$ 15,652</u>	<u>\$ 17,605</u>

(a) The actuarial liability loss amount for the qualified pension plan for 2010 is principally due to the effect of changes in the discount rate. The actuarial liability loss amount for the qualified pension plan for 2009 is principally due to the decrease in the discount rate.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued
For the Years Ended December 31, 2010, 2009 and 2008

16. PENSION PLANS (CONTINUED)

Obligations and Funded Status – Continued

The Company has recorded liabilities related to our qualified pension plan and SERP as follows:

	At December 31,			
	Qualified Pension Plan		SERP	
	2010	2009	2010	2009
<i>In thousands</i>				
Current liabilities (a)	\$ -	\$ -	\$ (4,673)	\$ (887)
Noncurrent liabilities	(98,624)	(157,266)	(10,979)	(17,150)
Total	<u>\$ (98,624)</u>	<u>\$ (157,266)</u>	<u>\$ (15,652)</u>	<u>\$ (18,037)</u>

(a) The current liabilities are included in other accruals and payables on the Consolidated Balance Sheets.

Certain amounts included in accumulated other comprehensive income on the Consolidated Balance Sheets represent costs that will be recognized as components of pension cost in future periods. These consist of:

	At December 31,			
	Qualified Pension Plan		SERP	
	2010	2009	2010	2009
<i>In thousands</i>				
Unrecognized (gain) or loss	\$ 104,622	\$ 138,732	\$ 2,467	\$ 3,854
Unrecognized prior service cost (credit)	451	770	-	(192)
Amount included in accumulated other comprehensive income (loss)	<u>\$ 105,073</u>	<u>\$ 139,502</u>	<u>\$ 2,467</u>	<u>\$ 3,662</u>

The estimated net loss and prior service cost (credit) for the qualified pension plan and the SERP that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next year will be \$7.3 million and \$0.2 million, respectively.

The pension plan net periodic benefit costs on the Consolidated Statements of Operations and other amounts recognized in other comprehensive loss on the Consolidated Statements of Shareholders' Equity were computed using the projected unit credit actuarial cost method and included the following components:

	For the year ended December 31,					
	Qualified Pension Plan			SERP		
	2010	2009	2008	2010	2009	2008
<i>In thousands</i>						
Service cost for benefits earned during the year	\$ 11,527	\$ 13,423	\$ 12,277	\$ 371	\$ 389	\$ 698
Interest cost on projected benefit obligation	29,104	30,462	29,352	789	1,012	1,591
Expected return on plan assets	(32,026)	(31,615)	(34,724)	-	-	-
Amortization of prior service credit (cost)	98	61	61	(192)	(962)	(691)
Recognized net loss	2,565	3,423	-	501	291	1,586
Additional amount recognized due to curtailment/settlement	221	-	-	737	767	2,833
Net pension benefit cost	<u>\$ 11,489</u>	<u>\$ 15,754</u>	<u>\$ 6,966</u>	<u>\$ 2,206</u>	<u>\$ 1,497</u>	<u>\$ 6,017</u>
Change in prior service cost	\$ (221)	\$ 444	\$ -	\$ -	\$ -	\$ -
Change in net gain or loss	(31,546)	(10,955)	199,454	(886)	820	(3,394)
Amortization of prior service cost (credit)	(98)	(61)	(61)	192	962	691
Amortization of net gain (loss)	(2,564)	(3,423)	-	(501)	(291)	(1,586)
Total recognized in other comprehensive loss	<u>\$ (34,429)</u>	<u>\$ (13,995)</u>	<u>\$ 199,393</u>	<u>\$ (1,195)</u>	<u>\$ 1,491</u>	<u>\$ (4,289)</u>
Total recognized in net periodic benefit cost and other comprehensive loss	<u>\$ (22,940)</u>	<u>\$ 1,759</u>	<u>\$ 206,359</u>	<u>\$ 1,011</u>	<u>\$ 2,988</u>	<u>\$ 1,728</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued
For the Years Ended December 31, 2010, 2009 and 2008

16. PENSION PLANS (CONTINUED)

Obligations and Funded Status – Continued

The Company expects to contribute \$19.6 million to the qualified pension plan and \$4.7 million to the SERP for the 2011 plan year. For the 2010 plan year, the Company contributed \$35.7 million to the Qualified Pension Plan and \$3.4 million to the SERP. For the 2009 plan year, the Company made contributions of \$10.9 million to the Qualified Pension Plan and \$5.7 million to the SERP.

Expected future benefit payments, which reflect expected future service, are as follows (in thousands):

	Qualified Pension Plan	SERP
2011	28,018	4,673
2012	28,593	776
2013	29,345	724
2014	30,452	675
2015	31,496	1,044
2016-2020	179,852	10,050

The actuarial assumptions used in determining benefit obligations of the pension plans are as follows:

	At December 31,			
	Qualified Pension Plan		SERP	
	2010	2009	2010	2009
Discount rate	5.30%	5.85%	4.50%	5.15%
Average rate of increase in compensation levels (a)	N/A	3.50%	N/A	3.50%

(a) Effective January 1, 2011, changes in pay will no longer be taken into account for benefit calculation purposes.

The discount rates take into consideration the populations of our pension plans and the anticipated payment streams as compared to the Citigroup Discount Yield Curve index and rounds the results to the nearest fifth basis point.

The actuarial assumptions used in determining the net periodic benefit cost of the pension plans are as follows:

	At December 31,			
	Qualified Pension Plan		SERP	
	2010	2009	2010	2009
Discount rate	5.85%	6.15%	5.15%	6.15%
Expected return on plan assets	8.00%	8.00%	N/A	N/A
Average rate of increase in compensation levels	3.50%	3.50%	3.50%	3.50%

Plan Assets for Qualified Pension Plan

The expected return on plan assets rate was determined based upon historical returns adjusted for estimated future market fluctuations. During 2010 and 2009, the actual return on pension plan assets was significantly higher than our expected rate of return on pension plan assets of 8%. However, management believes that 8% is still a valid assumption for the expected return on pension plan assets due to the long-term nature of our benefit obligations and the likely returns associated with our allocation targets to various investments.

16. PENSION PLANS (CONTINUED)

Plan Assets for Qualified Pension Plan – Continued

Plan assets are invested in a diversified portfolio consisting of equity and fixed income securities (including \$22.2 million of common stock of Kaman Corporation at December 31, 2010). In April 2010, the Company updated its investment policy. The updated investment policies and goals for pension plan assets are to improve and/or maintain the Plan's funded status by generating long-term asset returns that exceed the rate of growth of the Plan's liabilities. The Plan shall invest assets in a manner that seeks to (a) maximize return within reasonable and prudent levels of risk of loss of funded status; and (b) maintain sufficient liquidity to meet benefit payment obligations and other periodic cash flow requirements on a timely basis. The return generation/liability matching asset allocation ratio is currently 57%/43%. As the plan's funded status changes, the pension plan's Administrative Committee (the management committee that is responsible for plan administration) will act through an immediate or gradual process, as appropriate, to reallocate assets.

Under the current investment policy no Investment Manager may invest in investments deemed illiquid by the Investment Manager at the time of purchase, development programs, real estate, mortgages or private equities or securities of Kaman Corporation without prior written authorization from the Finance Committee of the Board of Directors. In addition, with the exception of U.S. Government securities, managers' holdings in the securities of any one issuer, at the time of purchase, may not exceed 7.5% of the total market value of that manager's account.

The pension plan assets are valued at fair value. The following is a description of the valuation methodologies used for the investments measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy.

Cash equivalents – Investments with maturities of three months or less when purchased, including certain short-term fixed-income securities, are considered cash equivalents and are included in the recurring fair value measurements hierarchy as Level 1.

Corporate Stock – This investment category consists of common and preferred stock issued by U.S. and non-U.S. corporations. Common and preferred shares are traded actively on exchanges and price quotes for these shares are readily available. Holdings of corporate stock are classified as Level 1 investments.

Mutual Funds – Mutual funds are traded actively on public exchanges. The share prices for mutual funds are published at the close of each business day. Holdings of mutual funds are classified as Level 1 investments.

Common Trust Funds – Common trust funds are comprised of shares or units in commingled funds that are not publicly traded. The values of the commingled funds are not publically quoted and must trade through a broker. For equity and fixed-income commingled funds traded through a broker, the fund administrator values the fund using the net asset value ("NAV") per fund share, derived from the value of the underlying assets. The underlying assets in these funds (equity securities, fixed income securities, and commodity-related securities) are publicly traded on exchanges and price quotes for the assets held by these funds are readily available. Holdings of common trust funds are classified as Level 2 investments.

Total Return Funds – Total return funds are comprised of shares or units in private investment funds that are not publicly traded. The values of the private investment funds are not publically quoted and must trade through a broker. The fund administrator values the fund using the net asset value ("NAV") per fund share, derived from the value of the underlying assets. The underlying assets in these funds (equity and fixed income securities, commodities, currencies and other instruments) are publicly traded on exchanges and price quotes for the assets held by these funds are readily available. Holdings of total return funds are classified as Level 2 investments.

Fixed-income Securities - For fixed income securities, multiple prices and price types are obtained from pricing vendors whenever possible, which enables cross-provider validations. A primary price source is identified based on asset type, class or issue for each security. The fair values of fixed-income securities are based on evaluated prices that reflect observable market information, such as actual trade information of similar securities, adjusted for observable differences and are categorized as Level 2.

Real Estate Investment Trusts – Real estate investment trusts are valued daily based on quoted prices in active markets and are categorized as Level 1

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued
For the Years Ended December 31, 2010, 2009 and 2008

16. PENSION PLANS (CONTINUED)

Plan Assets for Qualified Pension Plan – Continued

The fair value of the Company's qualified pension plan assets at December 31, 2010 and 2009 are as follows:

	Total Carrying Value at December 31, 2010	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<i>In thousands</i>				
Cash & Cash Equivalents	\$ 17,644	\$ 17,644	\$ -	\$ -
Corporate Stock	102,819	102,819	-	-
Mutual Funds	19,854	19,854	-	-
Common Trust Funds	93,916	-	93,916	-
Total Return Funds	42,996	-	42,996	-
Fixed-income Securities:				
U.S. Government Securities (a)	52,667	-	52,667	-
Corporate Securities	112,224	-	112,224	-
Other (b)	12,421	-	12,421	-
Total	<u>\$ 454,541</u>	<u>\$ 140,317</u>	<u>\$ 314,224</u>	<u>\$ -</u>

	Total Carrying Value at December 31, 2009	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<i>In thousands</i>				
Cash & Cash Equivalents	\$ 12,137	\$ 12,137	\$ -	\$ -
Corporate Stock	137,054	137,054	-	-
Mutual Funds	39,312	39,312	-	-
Common Trust Funds	90,175	-	90,175	-
Fixed-income Securities:				
U.S. Government Securities (a)	25,819	-	25,819	-
Corporate Securities	67,078	-	67,078	-
Foreign Securities	5,233	-	5,233	-
Other (b)	10,179	-	10,179	-
Real Estate Investment Trusts	482	482	-	-
Total	<u>\$ 387,469</u>	<u>\$ 188,985</u>	<u>\$ 198,484</u>	<u>\$ -</u>

(a) This category represents investments in debt securities issued by the U.S. Treasury, other U.S. government corporations and agencies, states and municipalities.

(b) This category primarily represents investments in commercial and residential mortgage-backed securities.

Other Plans

The Company also maintains a Defined Contribution Plan that has been adopted by most of its U.S. subsidiaries. Employees of the adopting employers who meet the eligibility requirements of the plan may participate. Employer matching contributions are made to the plan based on a percentage of each participant's pre-tax contribution. For each dollar that a participant contributes up to 5% of compensation, participating subsidiaries make employer contributions of fifty cents (\$0.50). Employer contributions to the plan totaled \$3.7 million, \$3.5 million and \$3.3 million in 2010, 2009 and 2008, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued
For the Years Ended December 31, 2010, 2009 and 2008

16. PENSION PLANS (CONTINUED)

Other Plans – Continued

On February 23, 2010, the Company's Board of Directors authorized certain enhancements to the Company's Defined Contribution Plan including, among other things, an increase in employer matching contributions made to the plan based on each participant's pre-tax contributions. Effective January 1, 2011, for each dollar that a participant contributes up to 5% of compensation, participating subsidiaries make employer contributions of one dollar (\$1.00).

Two of the Company's acquired U.S. subsidiaries maintain separate defined contribution plans for their eligible employees. Employer matching contributions are made on a discretionary basis. Additionally, two of our foreign subsidiaries each maintain a defined benefit plan of their own for their local employees. The pension liabilities of \$0.3 million associated with these plans are included in accrued pension costs on the Consolidated Balance Sheets.

17. OTHER LONG-TERM LIABILITIES

Other long-term liabilities consist of the following:

	At December 31,	
	2010	2009
<i>In thousands</i>		
Supplemental employees' retirement plan (SERP)	\$ 10,979	\$ 17,150
Deferred compensation	11,903	11,655
Long-term incentive plan	4,705	3,382
Noncurrent income taxes payable	4,002	2,748
Environmental remediation liability	11,066	11,571
Other	8,862	3,106
Total	<u>\$ 51,517</u>	<u>\$ 49,612</u>

Disclosures regarding the assumptions used in the determination of the SERP liabilities are included in Note 16, Pension Plans. Discussions of our environmental remediation liabilities are in Note 11, Environmental Costs, and Note 18, Commitments and Contingencies.

The Company maintains a non-qualified deferred compensation plan for certain of its employees as well as a non-qualified deferred compensation plan for its Board of Directors. Generally, participants in these plans have the ability to defer a certain amount of their compensation, as defined in the agreement. The deferred compensation liability will be paid out either upon retirement or as requested based upon certain terms in the agreements and in accordance with Internal Revenue Code Section 409A.

18. COMMITMENTS AND CONTINGENCIES

Asset Retirement Obligations

The Company currently leases various properties under leases that give the lessor the right to make the determination as to whether the lessee must return the premises to their original condition, except for normal wear and tear. The Company does not normally make substantial modifications to leased property, and many of the Company's leases either require lessor approval of planned improvements or transfer ownership of such improvements to the lessor at the termination of the lease. Historically we have not incurred significant costs to return leased premises to their original condition.

The Company also has unrecorded Asset Retirement Obligation's ("ARO's") that are conditional upon certain events. These ARO's generally include the removal and disposition of non-friable asbestos. The Company has not recorded a liability for these conditional ARO's at December 31, 2010 because the Company does not currently believe there is a reasonable basis for estimating a date or range of dates for major renovation or demolition of these facilities. In reaching this conclusion, the Company considered the historical performance of each facility and has taken into account factors such as planned maintenance, asset replacement and upgrades, which, if conducted as in the past, can extend the physical lives of the facilities indefinitely. The Company also considered the possibility of changes in technology and risk of obsolescence in arriving at its conclusion.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued
For the Years Ended December 31, 2010, 2009 and 2008

18. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Leases

Rent commitments under various leases for office space, warehouses, land and buildings expire at varying dates from January 2011 to December 2017. The standard term for most leases ranges from 3 to 5 years. Some of the Company's leases have rent escalations, rent holidays or contingent rent that are recognized on a straight-line basis over the entire lease term. Material leasehold improvements and other landlord incentives are amortized over the shorter of their economic lives or the lease term, including renewal periods, if reasonably assured. Certain annual rentals are subject to renegotiation, with certain leases renewable for varying periods.

Lease periods for machinery and equipment range from 1 to 5 years.

Substantially all real estate taxes, insurance and maintenance expenses are obligations of the Company. It is expected that in the normal course of business leases that expire will be renewed or replaced by leases on other similar property.

The following minimum future rental payments are required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2010 (in thousands):

2011	\$	17,441
2012		11,428
2013		5,647
2014		2,804
2015		1,907
Thereafter		1,998
Total	\$	<u>41,225</u>

Lease expense for all operating leases, including leases with terms of less than one year, amounted to \$17.3 million, \$17.0 million and \$17.9 million for 2010, 2009 and 2008, respectively.

Legal Matters

Two warranty matters continue to impact the FMU-143 program at the Aerospace segment's Orlando facility ("Orlando Facility"). The items involved are an impact switch embedded in certain bomb fuzes that was recalled by a supplier and an incorrect version of a part, called a bellows motor, found to be contained in bomb fuzes manufactured for the U.S. Army, which utilized systems that originated before the Orlando Facility was acquired by the Company. The U.S. Army Sustainment Command ("USASC"), the procurement agency that administers the FMU-143 contract, had authorized warranty rework for the bellows motor matter in late 2004/early 2005; however, the Company was not permitted to finish the rework due to issues raised by the USASC primarily related to administrative matters and requests for verification of the accuracy of test equipment (which accuracy was subsequently verified).

In late 2006, the USASC informed the Company that it was changing its remedy under the contract from performance of warranty rework to an "equitable adjustment" to the contract price. The Company responded, explaining its view that it had complied with contract requirements. In June 2007, the USASC affirmed its position and gave instructions for disposition of the subject fuzes, including both the impact switch and bellows motor-related items, to a Navy facility and the Company complied with that direction. By letter dated July 16, 2009, the USASC informed the Company of its demand for payment of \$9.8 million under the contract related to warranty rework. In November 2009, the United States Government ("USG") also instituted suit, alleging liability associated with this matter, including specific claims of approximately \$6.0 million (treble damages) in connection with allegedly "false claims" by the Company for payment for fuzes containing the incorrect version of the part and \$3.0 million in connection with rework. At December 31, 2010, the Company had no amount accrued for this demand, as the Company believes that all these allegations are unfounded, and it is defending itself vigorously.

18. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Legal Matters – Continued

As reported previously, a separate contract dispute between the Orlando Facility and the USASC relative to the FMU-143 fuze program is now in litigation. Generally, the USASC has alleged the existence of latent defects in certain fuzes due to unauthorized rework during production and has sought to revoke its acceptance. Management believes that the Orlando Facility has performed in accordance with the contract and rather that it is the government that has materially breached its terms in several ways; as a result, during the fourth quarter of 2007, the Company cancelled the contract and, in January 2008, commenced litigation before the Armed Services Board of Contract Appeals (the “Board”) requesting a declaratory judgment that the cancellation was proper. Shortly thereafter, the USASC notified the Company that it was terminating the contract for default, making the allegations noted above, and the Company filed a second complaint with the Board appealing that termination decision. The litigation process continues. In the same July 2009 letter referenced above, USASC also demanded a repayment by the Company of \$5.7 million for these alleged latent defects. The Company also contests this demand and has filed an appeal before the Board. At December 31, 2010, the Company had no amount accrued for these matters as it believes that the likelihood of an adverse outcome to this litigation is remote.

Other Matters

Revenue Sharing Agreement with the Commonwealth of Australia

The Company is actively engaged in efforts to resell the former Australia SH-2G(A) (now designated the SH-2G(I)) aircraft, spare parts and equipment to other potential customers. 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 aircraft, spare parts, and equipment with the Commonwealth on a predetermined basis, and total payments of at least \$39.5 million (AUD) must be made to the Commonwealth regardless of sales, of which at least \$26.7 million (AUD) must be paid by March 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.

In addition, to secure these payments, the Company has provided the Commonwealth with a \$39.5 million (AUD) unconditional letter of credit, which is being reduced as such payments are made. Through December 31, 2010, the Company had made required payments of \$2.8 million (AUD). As of that date, the U.S. dollar value of the remaining \$36.7 million (AUD) required payment was \$37.5 million, of which \$24.4 million is due in March 2011. 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 \$36.5 million (AUD) for \$23.7 million. See Note 6, Derivative Financial Instruments, for further discussion of these instruments.

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.

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 (\$0.3 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.

18. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Other Matters – Continued

New Hartford

In connection with sale of the Company's Music segment in 2007, the Company assumed responsibility for meeting certain requirements of the Connecticut Transfer Act (the "Transfer Act") that applied to our transfer of the New Hartford, Connecticut, facility leased by that segment for guitar manufacturing purposes ("Ovation"). Under the Transfer Act, those responsibilities essentially consist of assessing the site's environmental conditions and remediating environmental impairments, if any, caused by Ovation's operations prior to the sale. The site is a multi-tenant industrial park, in which Ovation and other unrelated entities lease space. The environmental assessment process, which began in 2008, 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 (\$0.6 million) of the accrual related to this property is included in other accruals and payables and the balance is included in other long-term liabilities. The remaining balance of the accrual reflects the total anticipated cost of completing these environmental remediation activities. Although it is reasonably possible that additional costs will be paid in connection with the resolution of this matter, the Company is unable to estimate the amount of such additional costs, if any, at this time.

Bloomfield

In connection with the Company's 2008 purchase of the portion of the Bloomfield campus that 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 \$3.0 million. A portion (\$1.3 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 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 December 31, 2010 was £1.1 million, with £0.3 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 December 31, 2010 is \$1.7 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.

In December 2008, a workplace accident occurred at one of the Company's U.K. Composites facilities in which one employee died and another was seriously injured. In accordance with U.K. law, the matter was investigated by Lancashire Police and the Health and Safety Executive ("HSE") and in April 2010, an inquest conducted by the regional Coroner (which is customary in cases where the local police have not sought prosecution) found that the employee's death was accidental. As anticipated, the HSE has initiated civil proceedings and a hearing is currently scheduled for March 2011. The Company expects that the HSE will conduct civil proceedings under U.K. Health and Safety legislation. The Company currently estimates that the total potential financial exposure of the U.K. Composites operation with respect to these government proceedings is not likely to be material to our consolidated financial statements.

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For the Years Ended December 31, 2010, 2009 and 2008

19. 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 year. The computation of diluted earnings per share includes the common stock equivalency of dilutive options granted to employees under the Stock Incentive Plan.

Excluded from the diluted earnings per share calculation for the years ended December 31, 2010, 2009 and 2008, respectively, are 471,688, 610,436 and 242,259 shares of equity awards granted to employees that are anti-dilutive based on the average stock price.

	For the Year Ended December 31,		
	2010	2009	2008
<i>In thousands, except per share amounts</i>			
Basic:			
Earnings from continuing operations	\$ 38,324	\$ 32,649	\$ 35,107
Gain on disposal of discontinued operations, net of tax	-	-	492
Net earnings	<u>\$ 38,324</u>	<u>\$ 32,649</u>	<u>\$ 35,599</u>
Weighted average number of shares outstanding	<u>25,928</u>	<u>25,648</u>	<u>25,357</u>
Earnings per share from continuing operations	\$ 1.48	\$ 1.27	\$ 1.38
Earnings per share from gain on disposal of discontinued operations	-	-	0.02
Net earnings per share	<u>\$ 1.48</u>	<u>\$ 1.27</u>	<u>\$ 1.40</u>
Diluted:			
Earnings from continuing operations	\$ 38,324	\$ 32,649	\$ 35,107
Gain on disposal of discontinued operations, net of tax	-	-	492
Net earnings (as adjusted)	<u>\$ 38,324</u>	<u>\$ 32,649</u>	<u>\$ 35,599</u>
Weighted average number of shares outstanding	25,928	25,648	25,357
Weighted average shares issuable on exercise of dilutive stock options	176	131	155
Total	<u>26,104</u>	<u>25,779</u>	<u>25,512</u>
Earnings per share from continuing operations	\$ 1.47	\$ 1.27	\$ 1.38
Earnings per share from gain on disposal of discontinued operations	-	-	0.02
Diluted net earnings per share	<u>\$ 1.47</u>	<u>\$ 1.27</u>	<u>\$ 1.40</u>

In November 2010, the Company issued Convertible Notes due on November 15, 2017 in the aggregate principal amount of \$115.0 million. Shares issuable under the Convertible Notes were excluded from the diluted earnings per share calculation because the conversion price was greater than the average market price of our stock during the period. Excluded from the diluted earnings per share calculation for the year ended December 31, 2010 are 3,386,739 shares issuable under the warrants sold in connection with the Company's convertible note offering as they would be anti-dilutive.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued
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20. SHARE-BASED ARRANGEMENTS

General

The Company accounts for stock options and restricted stock as equity awards whereas the stock appreciation rights and employee stock purchase plan are accounted for as liability awards. Compensation expense for stock options and restricted stock awards is recognized on a straight-line basis over the vesting period of the awards.

The following table summarizes share-based compensation expense recorded during each period presented:

	For the Year Ended December 31,		
	2010	2009	2008
<i>In thousands</i>			
Stock options	\$ 1,407	\$ 1,137	\$ 1,268
Restricted stock awards	2,658	1,653	1,503
Stock appreciation rights	123	54	(862)
Employee stock purchase plan	270	240	200
Total share-based compensation	<u>\$ 4,458</u>	<u>\$ 3,084</u>	<u>\$ 2,109</u>

Stock Incentive Plan

The 2003 Stock Incentive Plan (the "2003 Plan") provides for the issuance of shares of common stock and includes a continuation and extension of the predecessor plan. As with the predecessor plan, the 2003 Plan provides for equity compensation awards, including principally incentive and non-statutory stock options, restricted stock, stock appreciation rights, and long-term incentive program (LTIP) awards. In addition, the 2003 Plan contains provisions intended to qualify the LTIP under Section 162(m) of the Internal Revenue Code of 1986, as amended. As of December 31, 2010, there were 1,108,665 shares available for grant under the plan.

Effective October 13, 2009, the Company's Board of Directors amended the 2003 Plan. In general, the amendment increased the total number of shares of common stock available for issuance by 2,000,000. The October 13, 2009 amendment also added Restricted Stock Units ("RSU"s) to the potential awards that can be made under the 2003 Plan. In addition, on February 23, 2010, the 2003 Plan was further amended to clarify the definition of persons eligible to receive awards. On April 5, 2010, the 2003 Plan was further amended to reduce from 2,000,000 to 950,000 the increase in the maximum number of shares of common stock that may be issued pursuant to awards granted under the 2003 Plan. These amendments required shareholder approval, which was received at the Company's 2010 annual shareholders' meeting.

On October 12, 2010 the 2003 Plan was further amended by the Company. The amendment was a technical correction of an inconsistency between the treatment of RSU's and Restricted Stock Awards ("RSA's") in the context of change in control.

LTIP awards provide certain senior executives an opportunity to receive award payments in either stock or cash as determined by the Personnel and Compensation Committee of the Board of Directors in accordance with the Plan, at the end of a three-year performance cycle. For the performance cycle, the Company's financial results are compared to the Russell 2000 indices for the same periods based upon the following: (a) average return on total capital, (b) earnings per share growth and (c) total return to shareholders. No awards will be payable unless the Company's performance is at least in the 25th percentile of the designated indices. The maximum award is payable if performance reaches the 75th percentile of the designated indices. Awards for performance between the 25th and 75th percentiles are determined by straight-line interpolation. Generally, LTIP awards are paid in cash.

Stock options are granted with an exercise price equal to the average market price of our stock at the date of grant. Stock options and Stock Appreciation Rights ("SAR"s) granted under the plan generally expire ten years from the date of grant and vest 20% each year over a 5-year period on each of the first five anniversaries from the date of grant. RSA's are generally granted with restrictions that lapse at the rate of 20% per year over a 5-year period on each of the first five anniversaries from the date of grant. Generally, these awards are subject to forfeiture if a recipient separates from service with the Company.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued
For the Years Ended December 31, 2010, 2009 and 2008

20. SHARE-BASED ARRANGEMENTS (CONTINUED)

Stock Incentive Plan – Continued

Stock option activity is as follows:

	Options	Weighted average- exercise price
Options outstanding at December 31, 2009	889,876	\$ 18.50
Granted	231,300	26.07
Exercised	(123,585)	14.59
Forfeited or expired	(12,512)	14.74
Options outstanding at December 31, 2010	<u>985,079</u>	<u>\$ 20.81</u>

The following table presents information regarding options outstanding as of December 31, 2010:

Weighted-average remaining contractual term - options outstanding	6.7 years
Aggregate intrinsic value - options outstanding (in thousands)	\$ 8,395
Weighted-average exercise price - options outstanding	\$ 20.81
Options exercisable	409,146
Weighted-average remaining contractual term - options exercisable	4.7 years
Aggregate intrinsic value - options exercisable (in thousands)	\$ 4,590
Weighted-average exercise price - options exercisable	\$ 18.12

The intrinsic value represents the amount by which the market price of the stock on the measurement date exceeds the exercise price of the option. The intrinsic value of options exercised in 2010, 2009 and 2008 was \$1.5 million, \$0.3 million and \$2.3 million, respectively. The Company currently has an open stock repurchase plan, which would enable the Company to repurchase shares as needed. Historically the Company has issued shares related to option exercises and RSAs from treasury stock; however, since 2007 the Company has issued shares from its authorized pool of available common stock.

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:

	2010	2009	2008
Expected option term	6.5 years	6.5 years	6.5 years
Expected volatility	46.1%	47.7%	41.2%
Risk-free interest rate	3.2%	2.0%	3.2%
Expected dividend yield	3.3%	2.2%	1.8%
Per share fair value of options granted	\$ 9.28	\$ 6.43	\$ 9.64

The expected term of options granted represents the period of time that option grants are expected to be outstanding. In predicting the life of option grants, all stock options meet the definition of “plain vanilla” options and therefore, the “simplified” method was used to calculate the term for grants. Forfeitures of options are estimated based upon historical data and are adjusted based upon actual occurrences. The cumulative effect of restricted stock forfeitures was immaterial. The volatility assumption is based on the historical daily price data of the Company’s stock over a period equivalent to the weighted-average expected term of the options. Management evaluates whether there were factors during that period that were unusual and would distort the volatility figure if used to estimate future volatility and concluded that there were no such factors. The Company relies only on historical volatility since future volatility is expected to be consistent with historical volatility.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued
For the Years Ended December 31, 2010, 2009 and 2008

20. SHARE-BASED ARRANGEMENTS (CONTINUED)

Stock Incentive Plan – Continued

The risk-free interest rate assumption is based upon the interpolation of various U.S. Treasury rates determined at the date of option grant. Expected dividends are based upon a historical analysis of our dividend yield over the past year.

Restricted Stock activity is as follows:

	Restricted Stock Awards	Weighted- average grant date fair value
Restricted Stock outstanding at December 31, 2009	270,288	\$ 21.80
Granted	105,080	26.05
Vested	(85,449)	23.53
Forfeited or expired	(2,158)	20.97
Restricted Stock outstanding at December 31, 2010	<u>287,761</u>	<u>\$ 22.84</u>

The grant date fair value for restricted stock is the average market price of the unrestricted shares on the date of grant. The total fair value of restricted stock awards vested during 2010, 2009 and 2008 was \$2.5 million, \$1.2 million and \$1.0 million, respectively.

Stock Appreciation Rights activity is as follows:

	Stock Appreciation Rights	Weighted- average exercise price
SARs outstanding at December 31, 2009	21,700	\$ 10.66
Granted	-	-
Exercised	-	-
Forfeited or expired	-	-
SARs outstanding at December 31, 2010	<u>21,700</u>	<u>\$ 10.66</u>

Total cash paid to settle stock appreciation rights (at intrinsic value) for 2009 and 2008 was \$0.1 million and \$0.5 million, respectively. SARs are re-evaluated on a quarterly basis using the Black-Scholes valuation model. No cash was paid to settle stock appreciation rights during 2010.

We record a tax benefit and associated deferred tax asset for compensation expense recognized on non-qualified stock options and restricted stock for which we are allowed a tax deduction. For 2010, 2009 and 2008, respectively, we recorded a tax benefit of \$1.5 million, \$1.1 million and \$1.0 million for these two types of compensation expense.

The windfall tax benefit is the tax benefit realized on the exercise of non-qualified stock options and disqualifying dispositions of stock acquired by exercise of incentive stock options and Employee Stock Purchase Plan stock purchases in excess of the deferred tax asset originally recorded. The total windfall tax benefit realized in 2010 and 2008 was \$0.3 million and \$0.3 million, respectively. In 2009 the Company recorded a windfall tax expense of \$0.1 million.

As of December 31, 2010, future compensation costs related to non-vested stock options and restricted stock grants is \$7.8 million. The Company anticipates that this cost will be recognized over a weighted-average period of 3.0 years.

20. SHARE-BASED ARRANGEMENTS (CONTINUED)

Employees Stock Purchase Plan

The Kaman Corporation Employees Stock Purchase Plan (“ESPP”) allows employees to purchase common stock of the Company, through payroll deductions, at 85% of the market value of shares at the time of purchase. The plan provides for the grant of rights to employees to purchase a maximum of 1,500,000 shares of common stock.

Effective October 13, 2009, the Company’s Board of Directors amended the ESPP. In general, the amendment increased the total number of shares of common stock that may be purchased by participating employees by 500,000. On April 5, 2010, the ESPP was further amended to expressly provide that the maximum duration of the “offering periods” contemplated by the ESPP shall not exceed twenty-seven (27) months, which is consistent with the Company’s current practice. These amendments required shareholder approval, which was received at the Company’s 2010 annual shareholders’ meeting. On October 12, 2010 the ESPP was further amended by the Company to incorporate new regulations.

During 2010, 71,627 shares were issued to employees at prices ranging from \$18.76 to \$25.36. During 2009, 88,683 shares were issued to employees at prices ranging from \$9.58 to \$20.49. During 2008, 51,664 shares were issued to employees at prices ranging from \$17.02 to \$27.35. At December 31, 2010, there were 709,303 shares available for purchase under the plan.

21. SEGMENT AND GEOGRAPHIC INFORMATION

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

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

The Industrial Distribution segment is the third largest power transmission/motion control industrial distributor in North America. The segment provides products including bearings, mechanical power transmission, electrical, fluid power, motion control, automation, material handling components, and MRO supplies to a broad spectrum of industrial markets throughout North America. Locations consist of more than 200 branches, distribution centers and call centers across the United States (including Puerto Rico) and in Canada and Mexico. The segment offers approximately 4.0 million items, as well as value-added services, to a base of more than 50,000 customers representing a highly diversified cross-section of North American industry.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued
For the Years Ended December 31, 2010, 2009 and 2008

21. SEGMENT AND GEOGRAPHIC INFORMATION (CONTINUED)

Summarized financial information by business segment is as follows:

<i>In thousands</i>	For the year ended December 31,		
	2010	2009	2008
Net sales:			
Industrial Distribution	\$ 831,997	\$ 645,535	\$ 776,970
Aerospace (a)	486,516	500,696	476,625
Net sales	<u>\$ 1,318,513</u>	<u>\$ 1,146,231</u>	<u>\$ 1,253,595</u>
Operating income:			
Industrial Distribution	\$ 30,252	\$ 12,612	\$ 35,397
Aerospace (b)	67,151	74,996	61,608
Net gain (loss) on sale of assets	447	(4)	221
Corporate expense	(35,033)	(33,662)	(31,960)
Operating income from continuing operations	62,817	53,942	65,266
Interest expense, net (c)	3,487	5,700	4,110
Other expense (income), net	(1,042)	1,232	1,990
Earnings from continuing operations before income taxes	60,372	47,010	59,166
Income tax expense	22,048	14,361	24,059
Net earnings from continuing operations	38,324	32,649	35,107
Gain on disposal of discontinued operations, net of taxes	-	-	492
Net earnings	<u>\$ 38,324</u>	<u>\$ 32,649</u>	<u>\$ 35,599</u>

(a) Net sales by the Aerospace segment under contracts with U.S. Government agencies (including sales to foreign governments through foreign military sales contracts with U.S. Government agencies) totaled \$287.1 million, \$292.3 million and \$254.6 million in 2010, 2009 and 2008, respectively.

(b) Operating income for 2010 includes a non-cash non-tax-deductible impairment charge of \$6.4 million and a \$2.0 million contract loss resulting from finalization of the contract price negotiations for the Sikorsky Canadian MH-92 program. Operating income in 2008 includes a non-cash non-tax-deductible impairment charge of \$7.8 million. No such charge was recorded in 2009.

(c) Includes \$6.6 million of interest income related to look-back interest received from the Internal Revenue Service on July 21, 2010 in response to a claim we filed in connection with the Australian SH-2G(A) Super Seasprite Helicopter program.

<i>In thousands</i>	At December 31,		
	2010	2009	2008
Identifiable assets (a):			
Industrial Distribution	\$ 301,031	\$ 203,845	\$ 229,460
Aerospace	471,266	458,475	421,650
Corporate (b)	123,460	110,747	111,503
Total assets	<u>\$ 895,757</u>	<u>\$ 773,067</u>	<u>\$ 762,613</u>
Capital expenditures:			
Industrial Distribution	\$ 7,831	\$ 3,139	\$ 4,216
Aerospace	10,520	8,884	9,872
Corporate	3,156	1,544	1,912
Total capital expenditures	<u>\$ 21,507</u>	<u>\$ 13,567</u>	<u>\$ 16,000</u>
Depreciation and amortization:			
Industrial Distribution	\$ 6,130	\$ 3,536	\$ 3,096
Aerospace	10,992	10,930	8,833
Corporate	3,362	1,638	913
Total depreciation and amortization	<u>\$ 20,484</u>	<u>\$ 16,104</u>	<u>\$ 12,842</u>

(a) Identifiable assets are year-end assets at their respective net carrying values segregated as to segment and corporate use.

(b) For the periods presented, the corporate identifiable assets are principally comprised of cash, short-term and long-term deferred income tax assets, cash surrender value of life insurance policies and fixed assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – Continued
For the Years Ended December 31, 2010, 2009 and 2008

21. SEGMENT AND GEOGRAPHIC INFORMATION (CONTINUED)

Sales are attributed to geographic regions based on their location of origin. Geographic distribution of sales from continuing operations is as follows:

	For the year ended December 31,		
	2010	2009	2008
<i>In thousands</i>			
United States	\$ 1,158,397	\$ 975,501	\$ 1,070,041
United Kingdom	41,944	57,308	41,884
Canada	28,053	25,063	36,026
Mexico	24,858	16,773	20,271
Germany	13,191	17,128	15,597
Australia/New Zealand	10,031	11,537	20,980
Other	42,039	42,921	48,796
Total	\$ 1,318,513	\$ 1,146,231	\$ 1,253,595

Geographic distribution of long-lived assets is as follows:

	At December 31,	
	2010	2009
<i>In thousands</i>		
United States	\$ 196,381	\$ 126,030
United Kingdom	62,425	73,279
Germany	11,941	13,377
Mexico	3,016	913
Canada	329	95
Total	\$ 274,092	\$ 213,694

22. SUBSEQUENT EVENTS

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

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

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 the Chief Financial Officer, of the effectiveness of the design and operation of the company's disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of December 31, 2010, the disclosure controls and procedures were effective.

Management's Report on Internal Controls Over Financial Reporting

The company's management is responsible for establishing and maintaining an adequate system of internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Management has assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2010, with the exception of Fawick, Allied, Minarik and Global, all of which were acquired during 2010. While we are beginning the process of incorporating our controls and procedures into these businesses, management has not yet performed documentation, evaluation and testing of internal controls over financial reporting at these businesses. Therefore, Fawick, Allied, Minarik and Global were not included in our assessment of internal controls over financial reporting as of December 31, 2010.

In making its assessment, management has utilized the criteria set forth by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission in Internal Control—Integrated Framework. Management concluded that based on its assessment, the company's internal control over financial reporting was effective as of December 31, 2010. The effectiveness of internal control over financial reporting as of December 31, 2010 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report, which is included in this Form 10-K.

Changes in Internal Control Over Financial Reporting

Management of the company has evaluated, with the participation of the company's Chief Executive Officer and Chief Financial Officer, changes in the company's internal controls over financial reporting during 2010.

During the fourth quarter ended December 31, 2010, management made no changes to the internal controls over financial reporting that materially affected our internal controls over financial reporting.

Inherent Limitations of Disclosure Controls and Procedures and Inherent Control over Financial Reporting

The company's evaluation described in this item was undertaken acknowledging that 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.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Other than the list of executive officers of the company set forth in Item 1, Executive Officers of the Registrant, all information under this caption may be found in the company's proxy statement to be delivered to stockholders in connection with the Annual Meeting of Shareholders, which is scheduled for April 27, 2011 (the "Proxy Statement"), in the following sections: "Class 3 Director Nominees for Election at the 2011 Annual Meeting," "Continuing Directors," "Section 16(a) Beneficial Ownership Reporting Compliance," "Director Nominees," and "Audit Committee." Those portions of the Proxy Statement are incorporated by reference into this Item 10.

ITEM 11. EXECUTIVE COMPENSATION

Information about compensation of Kaman's named executive officers appears under "Executive Compensation" in the Proxy Statement. Information about compensation of Kaman's directors appears under "Non-Employee Director Compensation" in the Proxy Statement. Those portions of the Proxy Statement are incorporated by reference into this Item 11.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information about security ownership of certain beneficial owners and management appears under "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" in the Proxy Statement. That portion of the Proxy Statement is incorporated by reference into this Item 12.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information about certain relationships and related transactions appears under "Transactions With Related Persons" and "Board and Committee Independence Requirements" in the Proxy Statement. That portion of the Proxy Statement is incorporated by reference into this Item 13.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information regarding audit fees and all other fees, in addition to the Audit Committee's pre-approval policies and procedures appears under "Principal Accounting Fees and Services" in the Proxy Statement. That portion of the Proxy Statement is incorporated by reference into this Item 14.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

- (a)(1) FINANCIAL STATEMENTS.
See Item 8 of this Form 10-K setting forth our Consolidated Financial Statements.
- (a)(2) FINANCIAL STATEMENT SCHEDULES.
An index to the financial statement schedule immediately precedes such schedule.
- (a)(3) EXHIBITS.
An index to the exhibits filed or incorporated by reference immediately precedes such exhibits.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, in the Town of Bloomfield, State of Connecticut, on this 28th day of February 2011.

KAMAN CORPORATION
(Registrant)

By: /s/ Neal J. Keating

Neal J. Keating
Chairman, President and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title:	Date:
<u>/s/ Neal J. Keating</u> Neal J. Keating	Chairman, President and Chief Executive Officer	February 28, 2011
<u>/s/ William C. Denninger</u> William C. Denninger	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	February 28, 2011
<u>/s/ John J. Tedone</u> John J. Tedone	Vice President – Finance and Chief Accounting Officer	February 28, 2011
<u>/s/ Neal J. Keating</u> Neal J. Keating Attorney-in-Fact for:		February 28, 2011
Brian E. Barents	Director	
E. Reeves Callaway III	Director	
Karen M. Garrison	Director	
A. William Higgins	Director	
Edwin A. Huston	Director	
Eileen S. Kraus	Director	
George E. Minnich	Director	
Thomas W. Rabaut	Director	
Richard J. Swift	Director	

Report of Independent Registered Public Accounting Firm

Financial Statement Schedule:

Schedule II - Valuation and Qualifying Accounts

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Kaman Corporation:

Under date of February 28, 2011, we reported on the consolidated balance sheets of Kaman Corporation and subsidiaries (Kaman Corporation) as of December 31, 2010 and 2009, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2010, and the effectiveness of internal controls over financial reporting as of December 31, 2010, as contained in the annual report on Form 10-K for the year 2010. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related consolidated financial statement schedule as listed in the accompanying index. The financial statement schedule is the responsibility of Kaman Corporation's management. Our responsibility is to express an opinion on the financial statement schedule based on our audits.

In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP

Hartford, Connecticut
February 28, 2011

KAMAN CORPORATION AND SUBSIDIARIES
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008
(Dollars in Thousands)

DESCRIPTION	Balance Beginning of Period	Additions		Deductions (B)	Balance End of Period
		Charged to Costs and Expenses	Others (A)		
2010					
Allowance for doubtful accounts	\$ 2,407	\$ 2,127	\$ 502	\$ 1,205	\$ 3,831
2009					
Allowance for doubtful accounts	\$ 2,172	\$ 1,547	\$ 0	\$ 1,312	\$ 2,407
2008					
Allowance for doubtful accounts	\$ 1,811	\$ 910	\$ 266	\$ 815	\$ 2,172

(A) Additions to allowance for doubtful accounts attributable to acquisitions.

(B) Write-off of bad debts, net of recoveries.

DESCRIPTION	Balance Beginning of Period	Additions		Balance End of Period
		Current Year Provision (Benefit)	Others	
2010				
Valuation allowance on deferred tax assets	\$ 5,221	\$ (998)	\$ (6)	\$ 4,217
2009				
Valuation allowance on deferred tax assets	\$ 5,000	\$ 236	\$ (15)	\$ 5,221
2008				
Valuation allowance on deferred tax assets	\$ 3,946	\$ 1,308	\$ (254)	\$ 5,000

KAMAN CORPORATION
INDEX TO EXHIBITS

Exhibit 3a	The Amended and Restated Certificate of Incorporation of the company, was filed as Exhibit 3.1 to Form 8-K on November 4, 2005, Document No. 0001341004-05-000188.	by reference
Exhibit 3b	The Amended and Restated Bylaws of the company dated February 26, 2008 were filed as Exhibit 3.1 to Form 8-K on February 28, 2008, Document No. 0000054381-08-000011.	by reference
Exhibit 4.1	Amended and Restated Indenture dated as of February 23, 2011, by and between Kaman Corporation and The Bank of New York Mellon Trust Company, as Trustee.	attached
Exhibit 10a	Kaman Corporation 2003 Stock Incentive Plan, as amended effective October 13, 2009 filed as Exhibit 10a(i) on Form 10-Q on November 5, 2009, Document No. 0000054381-09-000052 as amended on February 23, 2010. Amendments to the Plan were filed as Exhibit 99.1 on Form 8-K on April 7, 2010, Document No. 0000054381-10-000023; and as Exhibit 10(b) on Form 10-Q on November 1, 2010, Document No. 0000054381-10-000051.*	by reference
Exhibit 10b	Kaman Corporation Employees Stock Purchase Plan as amended effective October 13, 2009 was filed as Exhibit 10b(i) to Form 10-Q on November 5, 2009, Document No. 0000054381-09-000052. Amendments to the Plan were filed as Exhibit 99.2 on Form 8-K on April 7, 2010, Document No. 0000054381-10-000023 and as Exhibit 10(a) on Form 10-Q on November 1, 2010, Document No. 0000054381-10-000051.*	by reference
Exhibit 10c	Kaman Corporation Supplemental Employees' Retirement Plan was filed as Exhibit 10c to Form 10-K on March 15, 2001, Document No. 0000054381-02-000005, and the Plan as amended was filed as Exhibit 10c to Form 10-K on March 5, 2004, Document No. 0000054381-04-000032 and as Exhibit 10.10 to Form 8-K on February 26, 2007, Document No. 0000054381-07-000015.*	by reference
Exhibit 10c(i)	Post-2004 Supplemental Employees' Retirement Plan was filed as Exhibit 10.11 to Form 8-K on February 26, 2007, Document No. 000054381-07-000015.*	by reference
Exhibit 10c(ii)	First Amendment to Kaman Corporation Post-2004 Supplemental Employees' Retirement Plan effective January 1, 2005 filed as Exhibit 10.1 to Form 8-K on February 28, 2008, Document No. 0000054381-08-000011.*	by reference
Exhibit 10c(iii)	Second Amendment to Kaman Corporation Post-2004 Supplemental Employees' Retirement Plan effective generally March 1, 2010 filed as Exhibit 10c(iii) on Form 10-K on February 25, 2010, Document No. 0001144204-10-009923.*	by reference
Exhibit 10d	Kaman Corporation Amended and Restated Deferred Compensation Plan (Effective as of November 12, 2002, except where otherwise indicated) was filed as Exhibit 10d to Form 10-K, Document No. 0000054381-03-000079, filed with the Securities and Exchange Commission on March 26, 2003. Amendments to the Plan were filed as Exhibit 10d to Form 10-K, Document No. 0000054381-04-000032, filed with the Securities and Exchange Commission on March 5, 2004, and Exhibit 10(a) on Form 10-Q, Document No. 0000054381-04-000059, filed with the Securities and Exchange Commission on August 3, 2004.*	by reference

Exhibit 10d(i)	Kaman Corporation Post-2004 Deferred Compensation Plan filed as Exhibit 10.2 to Form 8-K on February 28, 2008, Document No. 0000054381-08-000011.*	by reference
Exhibit 10e(i)	Kaman Corporation Cash Bonus Plan (Amended and Restated effective as of January 1, 2008) filed as Exhibit 10e(i) to Form 10-K on February 28, 2008, Document No. 0001193125-08-041841 as amended effective February 22, 2011.*	attached
Exhibit 10g(iv)	Executive Employment Agreement between Candace A. Clark and Kaman Corporation, dated as of January 1, 2007, as amended and restated November 11, 2008 filed as Exhibit 10g(iv) to Form 10-K on February 26, 2009, Document No. 0001193805-19-000523. An amendment to the Agreement was filed as Exhibit 10.2 to Form 8-K on December 21, 2010, Document No. 0000054381-10-000070.*	by reference
Exhibit 10g (v)	Executive Employment Agreement between Ronald M. Galla and Kaman Corporation, dated as of January 1, 2007, as amended and restated November 11, 2008 filed as Exhibit 10g(v) to Form 10-K on February 26, 2009, Document No. 0001193805-19-000523. An amendment to the Agreement was filed as Exhibit 10.1 to Form 8-K on December 21, 2010, Document No. 0000054381-10-000070.*	by reference
Exhibit 10g (x)	Amended and Restated Change in Control Agreement between Candace A. Clark and Kaman Corporation, dated as of January 1, 2007, as amended and restated November 11, 2008 filed as Exhibit 10g(x) to Form 10-K on February 26, 2009, Document No. 0001193805-19-000523. An amendment to the Agreement was filed as Exhibit 10.5 on Form 8-K on March 16, 2010, Document No. 0000054381-10-000015.*	by reference
Exhibit 10g (xi)	Amended and Restated Change in Control Agreement between Ronald M. Galla and Kaman Corporation, dated as of January 1, 2007, as amended and restated November 11, 2008 filed as Exhibit 10g(xi) to Form 10-K on February 26, 2009, Document No. 0001193805-19-000523. An Amendment to the Agreement was filed as Exhibit 10.6 on Form 8-K on March 16, 2010, Document No. 0000054381-10-000015.*	by reference
Exhibit 10g (xviii)	Executive Employment Agreement between Kaman Corporation and Neal J. Keating dated August 7, 2007 (as amended) as further amended on February 23, 2010 filed as Exhibit 10.1 to Form 8-K on February 25, 2010. Amendments to the Agreement were filed as Exhibit 10.1 to Form 8-K on February 25, 2010, Document No. 0000054381-10-000010 and as Exhibit 10.1 to Form 8-K on September 20, 2010, Document No. 0000054381-10-000047.*	by reference
Exhibit 10g (xix)	Change in Control Agreement between Kaman Corporation and Neal J. Keating dated August 7, 2007 (as amended) as further amended on February 23, 2010 and filed as Exhibit 10.2 to Form 8-K on February 25, 2010. Amendments to the Agreement were filed as Exhibit 10.2 on Form 8-K on February 25, 2010, Document No. 0000054381-10-000010 and as Exhibit 10.1 on Form 8-K on March 16, 2010, Document No. 0000054381-10-000015.*	by reference
Exhibit 10g (xx)	Executive Employment Agreement dated July 7, 2008 between Kaman Aerospace Group, Inc. and Gregory L. Steiner, as amended and restated November 11, 2008 filed as Exhibit 10g(xx) to Form 10-Q on May 11, 2009, Document No. 0000054381-09-000015.*	by reference

Exhibit 10g (xxi)	Change in Control Agreement dated July 7, 2008 between Kaman Aerospace Group, Inc. and Gregory L. Steiner, as amended and restated November 11, 2008 filed as Exhibit 10g(xxii) to Form 10-Q on May 11, 2009, Document No. 0000054381-09-000015. An Amendment to the Agreement was filed as Exhibit 10.3 on Form 8-K on March 16, 2010, Document No. 0000054381-10-000015.*	by reference
Exhibit 10g (xxii)	Executive Employment Agreement dated November 17, 2008 between Kaman Corporation and William C. Denninger and Offer Letter dated November 11, 2008 as amended on February 23, 2010 and filed as Exhibit 10.3 to Form 8-K on February 25, 2010. Amendments to the Agreement were filed as Exhibit 10.3 to Form 8-K on February 25, 2010, Document No. 0000054381-10-000010 and as Exhibit 10.1 to Form 8-K on November 10, 2010, Document No. 0000054381-10-000053.*	by reference
Exhibit 10g (xxiii)	Change in Control Agreement dated November 17, 2008 between Kaman Corporation and William C. Denninger dated November 12, 2008 as amended on February 23, 2010 and filed as Exhibit 10.4 to Form 8-K on February 25, 2010. Amendments to the Agreement were filed as Exhibit 10.4 on Form 8-K on February 25, 2010, Document No. 0000054381-10-000010 and as Exhibit 10.2 on Form 8-K on March 16, 2010, Document No. 0000054381-10-000015.*	by reference
Exhibit 10g (xxiv)	Executive Employment Agreement dated as of September 1, 2010 between Kaman Industrial Technologies Corporation and Steven J. Smidler, filed as Exhibit 10.1 to Form 8-K on September 10, 2010, Document No. 0000054381-10-000045.*	by reference
Exhibit 10g (xxv)	Change in Control Agreement dated as of September 1, 2010 between Kaman Industrial Technologies Corporation and Steven J. Smidler, filed as Exhibit 10.2 to Form 8-K on September 10, 2010, Document No. 0000054381-10-000045.*	by reference
Exhibit 10h (i)	Form of Incentive Stock Option Agreement under the Kaman Corporation 2003 Stock Incentive Plan filed as Exhibit 10h(i) to Form 10-K on February 26, 2009, Document No. 0001193805-19-000523.*	by reference
Exhibit 10h (ii)	Form of Non-Statutory Stock Option Agreement under the Kaman Corporation 2003 Stock Incentive Plan filed as Exhibit 10h(ii) to Form 10-K on February 26, 2009, Document No. 0001193805-19-000523.*	by reference
Exhibit 10h (iii)	Form of Stock Appreciation Rights Agreement under the Kaman Corporation 2003 Stock Incentive Plan filed as Exhibit 10h(iii) to Form 10-K on February 26, 2009, Document No. 0001193805-19-000523.*	by reference
Exhibit 10h (iv)	Form of Restricted Stock Agreement under the Kaman Corporation 2003 Stock Incentive Plan was filed as Exhibit 10h(iv) to Form 10-Q on August 2, 2007, Document No. 0000054381-07-000092.*	by reference
Exhibit 10h(v)	Form of Long Term Performance Award Agreement (Under the Kaman Corporation 2003 Stock Incentive Plan) was filed as Exhibit 10.2 to Form 8-K filed on November 10, 2005, Document No. 0000054381-05-000090.*	by reference
Exhibit 10h(vi)	Form of Restricted Stock Unit Agreement (Under the Kaman Corporation 2003 Stock Incentive Plan) filed as Exhibit 10h(vi) on Form 10-K on February 25, 2010, Document No. 0001144204-10-009923.*	by reference

Exhibit 10h(vii)	Deferred Compensation Agreement between Kaman Corporation and Eileen S. Kraus dated August 8, 1995 and First Amendment dated December 8, 2005 was filed as Exhibit 10h(vii) to Form 10-K on February 27, 2006, Document No. 0000054381-06-000036.*	by reference
Exhibit 10.1	Amended and Restated Revolving Credit Agreement dated as of September 20, 2010 among Kaman Corporation, and certain subsidiaries, as Borrower, Bank of America, N.A., as Administrative Agent and Collateral Agent, RBS Citizens, N.A. and JPMorgan Chase Bank, N.A. as Co-Syndication Agents, and Banc of America Securities LLC, RBS Citizens, N.A. and J.P. Morgan Securities LLC as Co-Lead Arrangers and Book Managers, and various Lenders signatory thereto, filed as Exhibit 10.1 to Form 8-K on September 21, 2010, Document No. 0001193125-10-213945.	by reference
Exhibit 10.2	Second Amended and Restated Term Loan Credit Agreement dated as of September 20, 2010 among Kaman Corporation, as Borrower, Bank of America, N.A. as the Administrative Agent and Collateral Agent, RBS Citizens, N.A. as the Syndication Agent, Banc of America Securities LLC and RBS Citizens, N.A. as Co-Lead Arrangers and Book Managers, and various Lenders signatory thereto, filed as Exhibit 10.2 to Form 8-K on September 21, 2010, Document No. 0001193125-10-213945.	by reference
Exhibit 10.3	Purchase Agreement, dated November 15, 2010, by and among Kaman Corporation, Merrill Lynch, Pierce, Fenner & Smith Incorporated, and RBS Securities Inc., as representatives of the several Initial Purchasers, filed as Exhibit 10.1 to Form 8-K on November 19, 2010, Document No. 0001193125-10-265343.	by reference
Exhibit 10.4(a)	Base Convertible Bond Hedging Transaction Confirmation dated November 15, 2010, by and between Kaman Corporation and The Royal Bank of Scotland plc, acting through RBS Securities Inc., as its agent, filed as Exhibit 10.2(a) to Form 8-K on November 19, 2010, Document No. 0001193125-10-265343.	by reference
Exhibit 10.4(b)	Base Convertible Bond Hedging Transaction Confirmation dated November 15, 2010, by and between Kaman Corporation and Goldman, Sachs & Co., filed as Exhibit 10.2(b) to Form 8-K on November 19, 2010, Document No. 0001193125-10-265343.	by reference
Exhibit 10.4(c)	Base Convertible Bond Hedging Transaction Confirmation dated November 15, 2010, by and between Kaman Corporation and Bank of America, N.A., filed as Exhibit 10.2(c) to Form 8-K on November 19, 2010, Document No. 0001193125-10-265343.	by reference
Exhibit 10.5(a)	Confirmation of Base Warrants dated November 15, 2010, by and between Kaman Corporation and The Royal Bank of Scotland plc, acting through RBS Securities Inc., as its agent, filed as Exhibit 10.3(a) to Form 8-K on November 19, 2010, Document No. 0001193125-10-265343.	by reference
Exhibit 10.5(b)	Confirmation of Base Warrants dated November 15, 2010, by and between Kaman Corporation and Goldman, Sachs & Co., filed as Exhibit 10.3(b) to Form 8-K on November 19, 2010, Document No. 0001193125-10-265343.	by reference
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Exhibit 10.6(a)	Additional Convertible Bond Hedging Transaction Confirmation dated November 17, 2010, by and between Kaman Corporation and The Royal Bank of Scotland plc, acting through RBS Securities Inc., as its agent, filed as Exhibit 10.4(a) to Form 8-K on November 19, 2010, Document No. 0001193125-10-265343.	by reference
Exhibit 10.6(b)	Additional Convertible Bond Hedging Transaction Confirmation dated November 17, 2010, by and between Kaman Corporation and Goldman, Sachs & Co., filed as Exhibit 10.4(b) to Form 8-K on November 19, 2010, Document No. 0001193125-10-265343.	by reference
Exhibit 10.6(c)	Additional Convertible Bond Hedging Transaction Confirmation dated November 17, 2010, by and between Kaman Corporation and Bank of America, N.A., filed as Exhibit 10.4(c) to Form 8-K on November 19, 2010, Document No. 0001193125-10-265343.	by reference
Exhibit 10.7(a)	Confirmation of Additional Warrants dated November 17, 2010, by and between Kaman Corporation and The Royal Bank of Scotland plc, acting through RBS Securities Inc., as its agent, filed as Exhibit 10.5(a) to Form 8-K on November 19, 2010, Document No. 0001193125-10-265343.	by reference
Exhibit 10.7(b)	Confirmation of Additional Warrants dated November 17, 2010, by and between Kaman Corporation and Goldman, Sachs & Co., filed as Exhibit 10.5(b) to Form 8-K on November 19, 2010, Document No. 0001193125-10-265343.	by reference
Exhibit 10.7(c)	Confirmation of Additional Warrants dated November 17, 2010, by and between Kaman Corporation and Bank of America, N.A., filed as Exhibit 10.5(c) to Form 8-K on November 19, 2010, Document No. 0001193125-10-265343.	by reference
Exhibit 14	Kaman Corporation Code of Business Conduct dated October 13, 2009 filed as Exhibit 14 on Form 10-K on February 25, 2010, Document No. 0001144204-10-009923.	by reference
Exhibit 21	List of Subsidiaries	attached
Exhibit 23	Consent of Independent Registered Public Accounting Firm	attached
Exhibit 24	Power of attorney under which this report was signed on behalf of certain directors	attached
Exhibit 31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14 under the Securities and Exchange Act of 1934.	attached
Exhibit 31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14 under the Securities and Exchange Act of 1934.	attached
Exhibit 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
Exhibit 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

* Management contract or compensatory plan

**AMENDED AND RESTATED
AS OF FEBRUARY 23, 2011**

KAMAN CORPORATION

as Issuer

AND

THE BANK OF NEW YORK

MELLON TRUST COMPANY, N.A.

as Trustee

INDENTURE

Dated as of November 19, 2010

3.25% Convertible Senior Notes due 2017

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CROSS-REFERENCE TABLE

TIA Section	Indenture Section
310(a)(1)	6.09
(a)(2)	6.09
(a)(3)	N.A.
(a)(4)	N.A.
(a)(5)	6.09
(b)	6.08
311(a)	6.13
(b)	6.13
312(a)	6.17
(b)	6.17
(c)	6.17
313(a)	6.18
(b)(1)	N.A.
(b)(2)	N.A.
(c)	14.03
(d)	6.18(b)
314(a)	4.06; 4.08
(b)	N.A.
(c)(1)	14.05
(c)(2)	14.05
(c)(3)	N.A.
(d)	N.A.
(e)	14.05
(f)	N.A.
315(a)	6.01; 6.02
(b)	5.10
(c)	6.01
(d)	6.01
(e)	5.04
316(a)(last sentence)	7.04
(a)(1)(A)	5.09
(a)(1)(B)	5.09
(a)(2)	N.A.
(b)	9.02
(c)	7.01
317(a)(1)	5.04; 5.07
(a)(2)	5.04
(b)	4.04
318(a)	14.08

“N.A.” means not applicable

Note: This Cross-Reference table shall not, for any purpose, be deemed to be part of this Indenture.

INDENTURE dated as of November 19, 2010 between Kaman Corporation, a Connecticut corporation, as issuer (the “**Company**”) and The Bank of New York Mellon Trust Company, N.A., as trustee (the “**Trustee**”), as amended and restated by the FIRST SUPPLEMENTAL INDENTURE dated as of February 23, 2011 between the Company and the Trustee.

WITNESSETH:

WHEREAS, for its lawful corporate purposes, the Company has duly authorized the issue of its 3.25% Convertible Senior Notes due 2017 (hereinafter sometimes called the “**Notes**”), initially in an aggregate principal amount not to exceed \$100,000,000 (or \$115,000,000 if the Initial Purchasers exercise their option to purchase additional Notes in full as set forth in the Purchase Agreement), and in order to provide the terms and conditions upon which the Notes are to be authenticated, issued and delivered, the Company has duly authorized the execution and delivery of this Indenture;

WHEREAS, the Form of Note, the certificate of authentication to be borne by each Note, the Form of Notice of Conversion, the Form of Fundamental Change Purchase Notice and the Form of Assignment and Transfer to be borne by the Notes are to be substantially in the forms hereinafter provided for; and

WHEREAS, all acts and things necessary to make the Notes, when executed by the Company and authenticated and delivered by the Trustee or a duly authorized authenticating agent, the valid, binding and legal obligations of the Company, and to constitute a valid agreement according to its terms, have been done and performed, and the execution of this Indenture and the issue hereunder of the Notes have in all respects been duly authorized.

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

That in order to declare the terms and conditions upon which the Notes are, and are to be, authenticated, issued and delivered, and in consideration of the premises and of the purchase and acceptance of the Notes by the holders thereof, the Company covenants and agrees with the Trustee for the equal and proportionate benefit of the respective holders from time to time of the Notes (except as otherwise provided below), as follows:

ARTICLE I DEFINITIONS

SECTION 1.01 Definitions. The terms defined in this Section 1.01 (except as herein otherwise expressly provided) for all purposes of this Indenture and of any indenture supplemental hereto shall have the respective meanings specified in this Section 1.01. All other terms used in this Indenture that are defined in the Trust Indenture Act or that are by reference therein defined in the Securities Act (except as herein otherwise expressly provided) shall have the meanings assigned to such terms in said Trust Indenture Act and in said Securities Act as in force at the date of the execution of this Indenture. The words “herein,” “hereof,” “hereunder,” and words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision. The terms defined in this Article Include the plural as well as the singular.

“**Additional Interest**” means all amounts, if any, payable pursuant to Sections 4.06(b) and 5.03, as applicable, hereof.

“**Affiliate**” of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, “control,” when used with respect to any specified Person means the power to direct or cause the direction of the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms “controlling” and “controlled” have meanings correlative to the foregoing.

“**Agent Members**” shall have the meaning specified in Section 2.12(e).

“**Applicable Procedures**” means, with respect to any transfer or transaction involving a Global Note or any beneficial interest therein, the rules and procedures of the Depository for such Note, in each case to the extent applicable to such transfer or transaction and as in effect from time to time.

“**Bankruptcy Law**” means Title 11, U.S. Code, or any similar federal or state law for the relief of debtors.

“**Board of Directors**” means the board of directors of the Company.

“**Board Resolution**” means a copy of a resolution certified by the Secretary or an Assistant Secretary of the Company to have been duly adopted by the Board of Directors, and to be in full force and effect on the date of such certification, and delivered to the Trustee.

“**Business Day**” means each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which the banking institutions in The City of New York are authorized or obligated by law or executive order to close or be closed.

“**Capital Stock**” means, for any entity, any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) stock issued by that entity.

“**Cash Election**” shall have the meaning specified in Section 12.03(a)(2).

“**Cash Percentage**” shall have the meaning specified in Section 12.03(a)(2)(i).

“**Cash Percentage Notice**” shall have the meaning specified in Section 12.03(a)(2)(i).

“**Certificated Notes**” means Notes that are in registered definitive form.

“**close of business**” means 5:00 p.m. (New York City time).

“**Commission**” means the U.S. Securities and Exchange Commission.

“**Common Equity**” of any Person means Capital Stock of such Person that is generally entitled (a) to vote in the election of directors of such Person or (b) if such Person is not a corporation, to vote or otherwise participate in the selection of the governing body, partners, managers or others that will control the management or policies of such Person.

“**Common Stock**” means, subject to Section 12.07, shares of common stock of the Company, par value \$1 per share, at the date of this Indenture or shares of any class or classes resulting from any reclassification or reclassifications thereof and that have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company and that are not subject to redemption by the Company; *provided* that if at any time there shall be more than one such resulting class, the shares of each such class then so issuable shall be substantially in the proportion that the total number of shares of such class resulting from all such reclassifications bears to the total number of shares of all such classes resulting from all such reclassifications.

“**Company**” means Kaman Corporation, a Connecticut corporation, and subject to the provisions of Article 10, shall include its successors and assigns.

“**Company Order**” means a written request or order signed in the name of the Company (i) by its Chairman, its President, Chief Executive Officer or a Vice President—Finance and (ii) by its Chief Financial Officer, its Treasurer or an Assistant Treasurer and delivered to the Trustee; *provided, however*, that such written request or order may be signed by any two of the officers or directors listed in clause (i) above in lieu of being signed by one of such officers or directors listed in such clause (i) and one of the officers listed in clause (ii) above.

“**Continuing Director**” means a director who either was a member of the Board of Directors on November 19, 2010 or who becomes a member of the Board of Directors subsequent to that date and whose election, re-election, appointment or nomination for election by the stockholders of the Company is duly approved by a majority of the Continuing Directors on the Board of Directors at the time of such approval, either by a specific vote or by approval of the proxy statement issued by the Company on behalf of the entire Board of Directors in which such individual is named as nominee for director.

“**Conversion Agent**” shall have the meaning specified in Section 2.03.

“**Conversion Date**” shall have the meaning specified in Section 12.02(a)(i).

“**Conversion Obligation**” shall have the meaning specified in Section 12.01(a).

“**Conversion Price**” means as of any date, \$1,000, divided by the Conversion Rate as of such date.

“**Conversion Rate**” means 29.4499 shares of Common Stock, per \$1,000 principal amount of Notes, subject to adjustment as set forth in Sections 12.04 and 12.05.

“**Corporate Trust Office**” means the office of the Trustee at which at any time its corporate trust business shall be administered, which office at the date hereof is located at 525 William Penn Place, 38th Floor, Pittsburgh, PA 15259, Attention: Corporate Trust Department, or such other address as the Trustee may designate from time to time by notice to the Noteholders and the Company, or the principal corporate trust office of any successor Trustee (or such other address as such successor Trustee may designate from time to time by notice to the Noteholders and the Company).

“**Custodian**” means the Trustee, as custodian for the Depository, with respect to the Global Notes, or any successor entity thereto.

“**Daily Conversion Value**” means, for each of the 40 consecutive VWAP Trading Days in an Observation Period, one fortieth (1/40th) of the product of (i) the Conversion Rate in effect on such VWAP Trading Day and (ii) the Daily VWAP on such VWAP Trading Day.

“**Daily Settlement Amount**” means, for each of the 40 consecutive VWAP Trading Days in an Observation Period:

(a) an amount of cash equal to the lesser of (i) one fortieth (1/40th) of \$1,000 and (ii) the Daily Conversion Value (such minimum, the “**Daily Principal Portion**”); and

(b) to the extent the Daily Conversion Value for such VWAP Trading Day exceeds one fortieth (1/40th) of \$1,000, a number of shares of the Common Stock (the “**Daily Share Amount**”), subject to the Company’s right to pay cash in lieu of all or a portion of such number of shares of the Common Stock pursuant to Section 12.03(a)(2), equal to the fraction, the numerator of which equals the excess of (i) the Daily Conversion Value for such VWAP Trading Day over (ii) the Daily Principal Portion for such Trading Day, and the denominator of which equals the Daily VWAP for such VWAP Trading Day.

“**Daily Share Amount**” has the meaning specified in the definition of “Daily Settlement Amount.”

“**Daily VWAP**” means, for each of the 40 consecutive VWAP Trading Days in an Observation Period, the per share volume-weighted average price of the Common Stock as displayed under the heading “Bloomberg VWAP” on Bloomberg page “KAMN <equity> AQR” (or any successor thereto if such page is not available) in respect of the period from the scheduled open of trading until the scheduled close of trading of the primary trading session on such VWAP Trading Day (or if such volume-weighted average price is unavailable, the market value of one share of the Common Stock on such VWAP Trading Day, using a volume-weighted average method, determined in a commercially reasonable manner by the Board of Directors). The Daily VWAP will be determined without regard to after hours trading or any other trading outside of the regular trading session trading hours.

“**Default**” means any event that is, or after notice or passage of time, or both, would be, an Event of Default.

“Defaulted Interest” means any interest (including any Additional Interest) on any Note that is payable, but is not punctually paid or duly provided for, on any May 15 or November 15 of each year, beginning May 15, 2011.

“Depository” means, with respect to the Global Notes, the Person specified in Section 2.01(a) as the Depository with respect to such Notes, until a successor shall have been appointed and become such pursuant to the applicable provisions of this Indenture, and thereafter, “Depository” shall mean or include such successor.

“Distributed Property” shall have the meaning specified in Section 12.05(c).

“DTC” means The Depository Trust Company, a limited purpose trust company organized under the laws of the State of New York.

“Effective Date” shall have the meaning specified in Section 12.04(a).

“Event of Default” shall have the meaning specified in Section 5.01.

“Ex-Dividend Date” means the first date on which shares of the Common Stock trade on the applicable exchange or in the applicable market regular way without the right to receive the issuance, dividend or distribution in question from the Company or, if applicable, from the seller of the shares of the Common Stock on such exchange or market (in the form of due bills or otherwise) as determined by such exchange or market.

“Exchange Act” means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

“Expiration Date” shall have the meaning specified in Section 12.05(e).

“Expiration Time” shall have the meaning specified in Section 12.05(e).

“Fiscal Quarter” means a fiscal quarter of any Fiscal Year.

“Fiscal Year” means a fiscal year of the Company.

“Freely Tradable” means, with respect to the Notes and the shares of Common Stock issuable upon conversion of the Notes, if any, that such Notes or such shares of Common Stock, if any, (i) are eligible to be sold by a Person who has not been an Affiliate of the Company during the preceding three months without any volume or manner of sale restrictions under the Securities Act, (ii) do not bear a Restricted Securities Legend or Restricted Stock Legend and (iii) with respect to Global Notes only, are identified by an unrestricted CUSIP number in the facilities of the Depository.

“Free Trade Date” means the date that is one year after the last date of original issuance of the Notes.

“Fundamental Change” means the occurrence after the original issuance of the Notes of any of the following events:

(a) any “person” or “group” within the meaning of Section 13(d) of the Exchange Act, other than the Company or its Subsidiaries, files a Schedule TO or any schedule, form or report under the Exchange Act disclosing that such person or group has become the direct or indirect ultimate “beneficial owner,” as defined in Rule 13d-3 under the Exchange Act, of the Company’s Common Equity representing more than 50% of the voting power of the Company’s Common Equity;

(b) consummation of any binding share exchange, exchange offer, tender offer, consolidation or merger of the Company pursuant to which the Common Stock will be converted into cash, securities or other property or any sale, lease or other transfer in one transaction or a series of transactions of all or substantially all of the consolidated assets of the Company and its Subsidiaries, taken as a whole, to any Person other than one or more of the Company’s Subsidiaries (any such exchange, offer, consolidation, merger, transaction or series of transactions being referred to herein as an “event”); *provided, however*, that any such event where the holders of more than 50% of shares of Common Stock immediately prior to such event, own, directly or indirectly, more than 50% of all classes of Common Equity of the continuing or surviving person or transferee or the parent thereof immediately after such event shall not be a Fundamental Change;

(c) the first day on which Continuing Directors cease to constitute at least a majority of the Board of Directors;

(d) the stockholders of the Company approve any plan or proposal for the liquidation or dissolution of the Company; or

(e) the Common Stock (or other common stock into which the Notes are then convertible) ceases to be listed on the NASDAQ Global Select Market, the NASDAQ Global Market or the New York Stock Exchange,

provided, however, in the case of an event described in clause (b) above, a Fundamental Change will not be deemed to have occurred if at least 90% of the consideration, excluding cash payments for fractional shares and cash payments made pursuant to dissenters’ appraisal rights, in the transaction or event constituting the Fundamental Change consists of shares of Publicly Traded Securities, and as a result of the transaction or event, the Daily Share Amount the holder of a Note is entitled to receive upon conversion is deliverable solely in such Publicly Traded Securities (subject to the Company’s right to pay cash in lieu of all or a portion of such Publicly Traded Securities) and the Daily Conversion Value is based solely on the Daily VWAP of such Publicly Traded Securities.

For purposes of this definition, whether a “person” is a “beneficial owner” shall be determined in accordance with Rule 13d-3 under the Exchange Act and “person” includes any syndicate or group that would be deemed to be a “person” under Section 13(d)(3) of the Exchange Act.

“**Fundamental Change Company Notice**” shall have the meaning specified in Section 13.01(b).

“**Fundamental Change Expiration Time**” shall have the meaning specified in Section 13.01(b)(ix).

“**Fundamental Change Purchase Date**” shall have the meaning specified in Section 13.01(a).

“**Fundamental Change Purchase Notice**” shall have the meaning specified in Section 13.01(a)(i).

“**Fundamental Change Purchase Price**” shall have the meaning specified in Section 13.01(a).

“**Global Note**” shall have the meaning specified in Section 2.01(a).

“**Global Securities Legend**” means a legend set forth in Exhibit A.

“**Indenture**” means this instrument as originally executed or, if amended or supplemented as herein provided, as so amended or supplemented.

“**Initial Dividend Threshold**” shall have the meaning specified in Section 12.05(d).

“**Initial Purchasers**” means Merrill Lynch, Pierce, Fenner & Smith Incorporated, RBS Securities Inc. and the several initial purchasers named in Schedule A to the Purchase Agreement.

“**Interest Payment Date**” means each May 15 and November 15 of each year, beginning on May 15, 2011;

“**Interest Record Date,**” with respect to any Interest Payment Date, shall mean the May 1 or November 1 (whether or not such day is a Business Day) immediately preceding the relevant Interest Payment Date, respectively.

“**Last Reported Sale Price**” of the Common Stock on any date means the closing sale price per share (or if no closing sale price is reported, the average of the last bid price and last ask price or, if more than one in either case, the average of the average last bid prices and the average last ask prices) on that date as reported in composite transactions for the principal United States national or regional securities exchange on which the Common Stock is listed for trading. The Last Reported Sale Price will be determined without reference to after-hours or extended market trading. If the Common Stock is not listed for trading on a United States national or regional securities exchange on the relevant date, then the Last Reported Sale Price of the Common Stock will be the last quoted bid price for the Common Stock in the over-the-counter market on the relevant date as reported by the Pink OTC Markets Inc. or similar organization. If the Common Stock is not so quoted, the Last Reported Sale Price of the Common Stock will be determined by a United States nationally recognized independent investment banking firm selected by the Company for this purpose.

“**Make-Whole Conversion Rate Adjustment**” shall have the meaning specified in Section 12.04(a).

“**Make-Whole Fundamental Change**” means any transaction or event that constitutes a Fundamental Change under clause (a) or (b) of the definition thereof (in the case of any Fundamental Change described in clause (b) of the definition thereof, determined without regard to the proviso in such clause (b), but subject to the paragraph immediately following clause (e) of the definition thereof).

“**Make-Whole Fundamental Change Period**” shall have the meaning specified in Section 12.04(a).

“**Market Disruption Event**” means, (i) a failure by the principal United States national or regional securities exchange or market on which the Common Stock is listed or admitted for trading to open for trading during its regular trading session or (ii) on any Scheduled Trading Day for the Common Stock, the occurrence or existence prior to 1:00 p.m., New York City time, for more than a one half-hour period in the aggregate during regular trading hours, of any suspension or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the relevant stock exchange or otherwise) in the Common Stock or in any options, contracts or future contracts relating to the Common Stock.

“**Maturity Date**” means November 15, 2017.

“**Measurement Period**” shall have the meaning specified in Section 12.01(a)(ii).

“**Merger Event**” shall have the meaning specified in Section 12.07(a).

“**Note**” or “**Notes**” shall mean any note or notes, as the case may be, authenticated and delivered under this Indenture.

“**Noteholder**” or “**holder**,” as applied to any Note, or other similar terms (but excluding the term “beneficial holder”), shall mean any person in whose name at the time a particular Note is registered on the Note Register.

“**Note Register**” means the register maintained at the Corporate Trust Office pursuant to Section 4.02.

“**Note Registrar**” means the Trustee for the purpose of registering Notes and Transfers of Notes as herein provided.

“**Notice of Conversion**” shall have the meaning specified in Section 12.02(a).

“**Observation Period**” means, with respect to any Note, (i) if the Conversion Date of such Note occurs prior to the 60th Scheduled Trading Day immediately preceding the Maturity Date, the 40 consecutive VWAP Trading Day period beginning on and including the second Scheduled Trading Day (or, if such Scheduled Trading Day is not a VWAP Trading Day, the immediately following VWAP Trading Day) after such Conversion Date, and (ii) if the Conversion Date of such Note occurs on or after the 60th Scheduled Trading Day immediately preceding the Maturity Date, the 40 consecutive VWAP Trading Day period beginning on and including the 42nd Scheduled Trading Day (or, if such Scheduled Trading Day is not a VWAP Trading Day, the immediately following VWAP Trading Day) immediately preceding November 15, 2017.

“**Offering Memorandum**” means the final offering memorandum dated November 15, 2010 relating to the offering and sale of the Notes.

“**Officer**” means, with respect to the Company, (i) the Chairman of the Board, the Chief Executive Officer, the President, any Vice President or the Chief Financial Officer, and (ii) the Treasurer or any Assistant Treasurer or the Secretary or any Assistant Secretary.

“**Officers’ Certificate**” means a certificate signed by two officers of the Company, one of whom must be the principal executive officer, the principal financial officer or the principal accounting officer of the Company. Each Officers’ Certificate (other than certificates provided pursuant to TIA Section 314(a)(4)) shall include the statements provided for in TIA Section 314(e).

“**open of business**” or “**opening of business**” means 9:00 a.m. (New York City time).

“**Opinion of Counsel**” means an opinion in writing signed by legal counsel, who may be an employee of or counsel to the Company, or other counsel acceptable to the Trustee, that is delivered to the Trustee. Each such opinion shall include the statements provided for in Section 14.05 if and to the extent required by the provisions of such Section.

“**outstanding**,” when used with reference to Notes, shall, subject to the provisions of Section 7.04, mean, as of any particular time, all Notes authenticated and delivered by the Trustee under this Indenture, except:

(f) Notes theretofore canceled by the Trustee or accepted by the Trustee for cancellation;

(g) Notes that have been paid pursuant to Section 2.09 or Notes in lieu of which, or in substitution for which, other Notes shall have been authenticated and delivered pursuant to the terms of Section 2.07 unless proof satisfactory to the Trustee is presented that any such Notes are held by protected purchasers in due course;

(h) Notes that have become due and payable, whether at the Maturity Date, any Fundamental Change Purchase Date, upon conversion or otherwise, for which the Company has deposited with the Trustee or delivered to Noteholders, as applicable, cash or cash and shares of Common Stock, if any (solely to satisfy the Company’s Conversion Obligation, if applicable), sufficient to pay all of the outstanding Notes and all other sums due payable under this Indenture by the Company; and

(i) Notes converted pursuant to Article 12.

“**Paying Agent**” shall have the meaning specified in Section 2.03.

“**Person**” means an individual, a corporation, a limited liability company, an association, a partnership, a joint venture, a joint stock company, a trust, an unincorporated organization or a government or an agency or a political subdivision thereof.

“**Predecessor Note**” of any particular Note means every previous Note evidencing all or a portion of the same debt as that evidenced by such particular Note; and, for the purposes of this definition, any Note authenticated and delivered under Section 2.07 in lieu of or in exchange for a mutilated, lost, destroyed or stolen Note shall be deemed to evidence the same debt as the mutilated, lost, destroyed or stolen Note that it replaces.

“**Publicly Traded Securities**” means shares of common stock or depositary receipts evidencing interests in ordinary shares or common equity that are traded on the NASDAQ Global Select Market, the NASDAQ Global Market or the New York Stock Exchange or that will be so traded when issued or exchanged in connection with a Fundamental Change described in clause (b) of the definition thereof.

“**Purchase Agreement**” means that certain Purchase Agreement, dated as of November 15, 2010, among the Company and Merrill Lynch, Pierce, Fenner & Smith Incorporated and RBS Securities Inc., as representatives of the Initial Purchasers.

“**QIBs**” shall have the meaning specified in Section 2.01(a).

“**Record Date**” shall mean, with respect to any dividend, distribution or other transaction or event in which the holders of Common Stock (or other security) have the right to receive any cash, securities or other property or in which the Common Stock (or other applicable security) is exchanged for or converted into any combination of cash, securities or other property, the date fixed for determination of stockholders entitled to receive such cash, securities or other property (whether such date is fixed by the Board of Directors or by statute, contract or otherwise).

“**Reference Property**” shall have the meaning specified in Section 12.07.

“**Register**” shall have the meaning specified in Section 2.03.

“**Registrar**” shall have the meaning specified in Sections 2.03.

“**Resale Restriction Termination Date**” shall have the meanings set forth in Exhibit A and Exhibit E.

“**Responsible Officer**” means, when used with respect to the Trustee, any officer within the corporate trust department of the Trustee with direct responsibility for the administration of this Indenture or any other officer of the Trustee to whom any corporate trust matter is referred because of such person’s knowledge of and familiarity with the particular subject.

“**Restricted Note**” shall have the meaning specified in Section 2.06(f)(i).

“Restricted Securities Legend” means a legend in the form set forth in Exhibit A, or any other substantially similar legend indicating the restricted status of the Notes under Rule 144.

“Restricted Stock Legend” means a legend in the form set forth in Exhibit E, or any other substantially similar legend indicating the restricted status of the shares of Common Stock under Rule 144.

“Rule 144” means Rule 144 under the Securities Act.

“Rule 144A” means Rule 144A under the Securities Act.

“Rule 144A Information” shall be such information as is specified pursuant to Rule 144A(d)(4) under the Securities Act.

“Scheduled Trading Day” means a day that is scheduled to be a Trading Day on the principal United States national or regional securities exchange or market on which the Common Stock is listed or admitted for trading. If the Common Stock is not so listed or admitted for trading, “Scheduled Trading Day” means a Business Day.

“Securities Act” means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

“Significant Subsidiary” means, at any date of determination, any Subsidiary that would constitute a “significant subsidiary” within the meaning of Article 1 of Regulation S-X promulgated under the Securities Act as in effect on November 15, 2010.

“Specified Corporate Transaction” has the meaning specified in Section 12.01(a)(iv).

“Specified Corporate Transaction Notice” has the meaning specified in Section 12.01(a)(iv).

“Spin-off” shall have the meaning specified in Section 12.05(c).

“Stock Price” means (a) in the case of a Make-Whole Fundamental Change described in clause (b) of the definition of Fundamental Change in which holders of Common Stock receive solely cash consideration in connection with such Make-Whole Fundamental Change, the amount of cash paid per share of the Common Stock and (b) in the case of any other Make-Whole Fundamental Change, the average of the Last Reported Sale Prices per share of Common Stock over the period of five consecutive Trading Days ending on, and including, the Trading Day immediately preceding the Effective Date of such Make-Whole Fundamental Change. The Board of Directors will make appropriate adjustments, in its good faith judgment, to account for any adjustment to the Conversion Rate that becomes effective, or any event requiring an adjustment to the Conversion Rate where the Ex-Dividend Date of the event occurs, during such five consecutive Trading Day period.

“**Subsidiary**” means, with respect to any Person, any corporation, association, partnership or other business entity of which more than 50% of the total voting power of shares of Capital Stock or other interests (including partnership interests) entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers, general partners or trustees thereof is at the time owned or controlled, directly or indirectly, by (i) such Person; (ii) such Person and one or more Subsidiaries of such Person; or (iii) one or more Subsidiaries of such Person.

“**Successor Company**” shall have the meaning specified in Section 10.01(a).

“**Temporary Notes**” shall have the meaning specified in Section 2.09.

“**Trading Day**” means a day on which (i) trading in the Common Stock generally occurs on the NASDAQ Global Select Market or, if the Common Stock is not then listed on the NASDAQ Global Select Market, on the principal other United States national or regional securities exchange on which the Common Stock is then listed or, if the Common Stock is not then listed on a United States national or regional securities exchange, on the principal other market on which the Common Stock is then traded, and (ii) a Last Reported Sale Price for our Common Stock is available on such securities exchange or market. If the Common Stock (or other security for which a Last Reported Sale Price must be determined) is not so listed or traded, “Trading Day” means a Business Day.

“**Trading Price**” of the Notes on any date of determination means the average of the bona fide secondary market bid quotations obtained by the Company for \$5.0 million principal amount of Notes (expressed as a price per \$1,000 principal amount) at approximately 3:30 p.m., New York City time, on such determination date from three independent United States nationally recognized securities dealers selected by the Company; *provided* that if three such bids cannot reasonably be obtained by the Company, but two such bids are obtained, then the average of the two bids shall be used, and if only one such bid can reasonably be obtained by the Company, that one bid shall be used. If the Company cannot reasonably obtain at least one bid for \$5.0 million principal amount of Notes from a United States nationally recognized securities dealer, then the Trading Price per \$1,000 principal amount of Notes will be deemed to be less than 98% of the product of the Last Reported Sale Price of the Common Stock and the applicable Conversion Rate.

“**Trading Price Product**” shall have the meaning specified in Section 12.01(a)(ii).

“**transfer**” shall have the meaning specified in Section 2.06(i).

“**Trust Indenture Act**” or “**TIA**” means the Trust Indenture Act of 1939, as amended, as it was in force at the date of execution of this Indenture, except as provided in Section 9.03 and Section 12.07; *provided, however*, that in the event the Trust Indenture Act of 1939 is amended after the date hereof, the term “Trust Indenture Act” shall mean, to the extent required by such amendment, the Trust Indenture Act of 1939, as so amended.

“**Trustee**” means the Person named as the “Trustee” in the first paragraph of this Indenture until a successor Trustee shall have become such pursuant to the applicable provisions of this Indenture, and thereafter “Trustee” shall mean or include each Person who is then a Trustee hereunder.

“**Unit of Reference Property**” shall have the meaning specified in Section 12.07(a).

“**Valuation Period**” shall have the meaning specified in Section 12.05(c).

“**VWAP Trading Day**” means a day on which (i) there is no Market Disruption Event and (ii) trading in the Common Stock generally occurs on the NASDAQ Global Select Market or, if the Common Stock is not then listed on the NASDAQ Global Select Market, on the principal other United States national or regional securities exchange on which the Common Stock is then listed or, if the Common Stock is not then listed on a United States national or regional securities exchange, on the principal other market on which the Common Stock is then traded. If the Common Stock (or any other security for which a Daily VWAP must be determined) is not so listed or traded, “VWAP Trading Day” means a “Business Day.”

“**Weighted Average Consideration**” shall have the meaning specified in Section 12.07(a).

ARTICLE II ISSUE, DESCRIPTION, EXECUTION, REGISTRATION AND EXCHANGE OF NOTES

SECTION 2.01 Form and Dating. The Notes and the Trustee’s certificate of authentication shall be substantially in the form of Exhibit A, which is a part of this Indenture. The Notes may have notations, legends or endorsements required by law, stock exchange rule or usage. The Company shall provide any such notations, legends or endorsements to the Trustee in writing. Each Note shall be dated the date of its authentication. Except as otherwise expressly permitted in this Indenture, all Notes shall be identical in all respects. Notwithstanding any differences among them, all Notes issued under this Indenture shall vote and consent together on all matters as one class.

(a) *Initial Notes*. The Notes initially shall be offered and sold only to qualified institutional buyers as defined in Rule 144A (“**QIBs**”) in reliance on Rule 144A and shall be issued in global form (a “**Global Note**”) that shall be deposited with the Trustee at its Corporate Trust Office, as custodian for the Depository and registered in the name of DTC or the nominee thereof (DTC, or any successor thereto, and any such nominee being hereinafter referred to as the “**Depository**”), duly executed by the Company and authenticated by the Trustee as hereinafter provided.

(b) *Global Notes in General*. Each Global Note shall represent the outstanding Notes as shall be specified therein and each Global Note shall provide that it shall represent the aggregate principal amount of outstanding Notes from time to time endorsed thereon and that the aggregate principal amount of outstanding Notes represented thereby may from time to time be reduced or increased, as appropriate, to reflect exchanges, purchases by the Company and conversions.

Any adjustment of the aggregate principal amount of a Global Note to reflect the amount of any increase or decrease in the amount of outstanding Notes represented thereby shall be made by the Trustee in accordance with instructions given by the holder thereof as required by Section 2.12 hereof and shall be made on the records of the Trustee and the Depository. Payment of the principal, accrued and unpaid interest (including Additional Interest), if any, or payment of the Fundamental Change Purchase Price on the Global Note shall be made to the holder of such Note on the date of payment, unless a record date or other means of determining holders eligible to receive payment is provided for herein.

(c) *Book-Entry Provisions.* This Section 2.01(c) shall apply only to Global Notes deposited with or on behalf of the Depository. The Company shall execute and the Trustee shall, in accordance with Section 2.02, authenticate and deliver Global Notes that (a) shall be registered in the name of the Depository or the nominee of the Depository and (b) shall be delivered by the Trustee to the Depository or pursuant to the Depository's instructions.

(d) *Legends.*

(i) Each Global Note shall bear the Global Securities Legend set forth in Exhibit A unless otherwise directed by the Company.

(ii) Each Restricted Note shall bear the Restricted Securities Legend set forth in Exhibit A. Each Note that bears or is required to bear the Restricted Securities Legend shall be subject to the restrictions on transfer set forth therein, and each holder of such Note, by such holder's acceptance thereof, agrees to be bound by all such restrictions on transfer.

(iii) Every stock certificate representing the shares of Common Stock issued in the circumstances described in Section 2.06(g) hereof shall bear the Restricted Stock Legend set forth in Exhibit E unless removed in accordance with the provisions of Section 2.06(j) or otherwise at the direction of the Company.

SECTION 2.02 Execution and Authentication. The Notes shall be executed on behalf of the Company by any Officer. The signature of the Officer on the Notes may be manual or facsimile. If an Officer whose signature is on a Note no longer holds that office at the time the Trustee authenticates the Note, the Note shall be valid nevertheless.

At any time on and after the original issuance of the Notes, the Company may deliver Notes executed by the Company to the Trustee for authentication, together with a written order of the Company in the form of an Officer's Certificate for the authentication and delivery of such Notes, and the Trustee, in accordance with such written order of the Company, shall authenticate and deliver such Notes.

A Note shall not be valid until an authorized signatory of the Trustee manually signs the certificate of authentication on the Note. The signature shall be conclusive evidence that the Note has been authenticated under this Indenture.

The Notes shall originally be issued only in registered form without coupons and only in denominations of \$1,000 of principal amount and any integral multiple thereof.

The aggregate principal amount of Notes that may be authenticated by the Trustee under this Indenture is initially limited to \$115,000,000, subject to Section 2.14 and except for Notes authenticated and delivered upon registration or transfer of, or in exchange for, or in lieu of other Notes pursuant to Sections 2.06, 2.07, 2.09, 2.12, 9.04, 12.02 and 13.03 hereof.

The Trustee may appoint authenticating agents. The Trustee may at any time on and after the original issuance of the Notes appoint an authenticating agent acceptable to the Company to authenticate Notes. An authenticating agent may authenticate Notes whenever the Trustee may do so, except any Notes issued pursuant to Section 2.07 hereof. Each reference in this Indenture to authentication by the Trustee includes authentication by such agent. An authenticating agent shall have the same right to deal with the Company as the Trustee with respect to such matters for which it has been appointed.

SECTION 2.03 Registrar Paying Agent and Conversion Agent. The Company shall maintain an office or agency where Notes may be presented for registration of transfer or for exchange ("**Registrar**"), an office or agency where Notes may be presented for payment ("**Paying Agent**"), an office or agency where Notes may be presented for conversion ("**Conversion Agent**") and an office or agency where notices to or upon the Company in respect of the Notes and this Indenture may be served. The Registrar shall keep a register for the recording of, and shall record, the names and addresses of holders of the Notes, the Notes held by each holder and the transfer, exchange and conversion of Notes (the "**Register**"). The entries in the Register shall be conclusive, and the parties may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a holder hereunder for all purposes of this Indenture. The Company may have one or more co-registrars, one or more additional paying agents and one or more additional conversion agents. The term Paying Agent includes any additional paying agent, including any named pursuant to Section 4.02. The term Conversion Agent includes any additional conversion agent, including any named pursuant to Section 4.02.

The Company shall enter into an appropriate agency agreement with any Registrar, Paying Agent, Conversion Agent or co-registrar not a party to this Indenture, which shall incorporate the terms of the TIA. Any such agreement shall implement the provisions of this Indenture that relate to such agent. The Company shall notify the Trustee of the name and address of any such agent. If the Company fails to maintain a Registrar, Paying Agent or Conversion Agent, the Trustee may agree to act as such and shall be entitled to appropriate compensation therefor pursuant to Section 6.06. The Company or any of its domestically incorporated wholly owned Subsidiaries may act as Paying Agent, Registrar, Conversion Agent or co-registrar.

The Company initially appoints the Trustee as the Paying Agent, the Conversion Agent, and the Registrar, in connection with the Notes, and the Corporate Trust Office to be such office or agency of the Company for the aforesaid purposes. The Company may at any time rescind the designation of the Paying Agent, Conversion Agent or the Registrar or approve a change in the location through which any of them acts.

SECTION 2.04 Paying Agent and Conversion Agent to Hold Money and Shares in Trust. Except as otherwise provided herein, on or prior to each due date of payment or delivery of conversion consideration in respect of any Note, the Company shall deposit with the Paying Agent or Conversion Agent, as the case may be, a sum of money (in immediately available funds if deposited on the due date) and shares of Common Stock, if applicable, sufficient to make such payments or satisfy such conversion obligations when so becoming due. The Paying Agent and Conversion Agent shall (or, if the Paying Agent or Conversion Agent is not a party hereto, the Company shall require each Paying Agent or Conversion Agent to agree in writing that such Paying Agent or Conversion Agent shall) hold in trust for the benefit of holders or the Trustee (if the Trustee is not the Paying Agent or Conversion Agent) all money and shares of Common Stock, if any, held by the Paying Agent or Conversion Agent for the making of payments or satisfaction of conversion obligations in respect of the Notes and shall notify the Trustee (if the Trustee is not the Paying Agent or Conversion Agent) of any default by the Company in making any such payment or conversion obligation. At any time during the continuance of any such default, the Paying Agent or Conversion Agent (if not the Trustee) shall, upon the written request of the Trustee, forthwith pay to the Trustee all money and shares of Common Stock, if any, so held in trust. If the Company or a wholly owned Subsidiary acts as Paying Agent or Conversion Agent, it shall segregate the money and shares of Common Stock, if any, held by it as Paying Agent or Conversion Agent and hold it as a separate trust fund. The Company at any time may require a Paying Agent or Conversion Agent to pay all money and shares of Common Stock, if any, held by it to the Trustee and to account for any funds and shares of Common Stock, if any, disbursed by the Paying Agent or Conversion Agent. Upon complying with this Section 2.04, the Paying Agent or Conversion Agent shall have no further liability for the money delivered to the Trustee.

SECTION 2.05 Holder Lists. The Trustee shall preserve in as current a form as is reasonably practicable the most recent list available to it of the names and addresses of holders. If the Trustee is not the Registrar, the Company shall furnish to the Trustee, promptly after each Record Date, and at such other times as the Trustee may request in writing, a list in such form and as of such date as the Trustee may reasonably require of the names and addresses of holders.

SECTION 2.06 Transfer and Exchange.

(a) Subject to Section 2.12 hereof, upon surrender for registration of transfer of any Note, together with a written instrument of transfer satisfactory to the Registrar duly executed by the holder or such holder's attorney-in-fact duly authorized in writing, at the office or agency of the Company-designated Registrar or co-Registrar pursuant to Section 2.03, (i) the Company shall execute, and the Trustee (or any authenticating agent) shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Notes of any authorized denomination or denominations, of a like aggregate principal amount and bearing such restrictive legends as may be required by this Indenture and (ii) the Registrar shall record the information required pursuant to Section 2.03 regarding the designated transferee or transferees in the Register. The Company shall not charge a service charge for any registration of transfer or exchange, but the Company and the Trustee may require payment of a sum sufficient to pay all taxes, assessments or other governmental charges that may be imposed in connection with the registration of, transfer or exchange of the Notes from the holder requesting such transfer or exchange.

At the option of the holder, Notes may be exchanged for other Notes of any authorized denomination or denominations, of a like aggregate principal amount, upon surrender of the Notes to be exchanged, at such office or agency, together with a written instrument of transfer satisfactory to the Registrar duly executed by the holder or such holder's attorney-in-fact duly authorized in writing, and documents of identity and title satisfactory to Registrar. Whenever any Notes are so surrendered for exchange, the Company shall execute, and the Trustee shall authenticate and deliver, the Notes that the holder making the exchange is entitled to receive, bearing registration numbers not contemporaneously outstanding.

The Company shall not be required to make, and the Registrar need not register, transfers or exchanges of Notes in respect of which a Fundamental Change Purchase Notice has been given and not validly withdrawn by the holder thereof in accordance with the terms of this Indenture (except, in the case of Notes to be repurchased in part, the portion of such Notes not to be repurchased).

(b) Notwithstanding any provision to the contrary herein, so long as a Global Note remains outstanding and is held by or on behalf of the Depository, transfers of a Global Note, in whole or in part, shall be made only in accordance with Section 2.12 and this Section 2.06(b). Transfers of a Global Note shall be limited to transfers of such Global Note to the Depository, to nominees of the Depository or to a successor of the Depository or such successor's nominee.

(c) Successive registrations and registrations of transfers and exchanges as aforesaid may be made from time to time as desired, and each such registration shall be noted on the Register.

(d) Any Registrar appointed pursuant to Section 2.03 shall provide to the Trustee such information as the Trustee may reasonably require in connection with the delivery by such Registrar of Notes upon transfer or exchange of Notes.

(e) No Registrar shall be required to make registrations of transfer or exchange of Notes during any periods designated in Section 13.03 or otherwise in this Indenture as periods during which such registration of transfers and exchanges need not be made.

(f) *Transfer Restrictions.*

(i) Every Note that bears or is required under this Section 2.06(f) to bear the Restricted Securities Legend required by Section 2.01(d) (the "**Restricted Notes**") shall be subject to the restrictions on transfer set forth in this Section 2.06(f) unless such restrictions on transfer shall be eliminated or otherwise waived by written consent of the Company, and the holder of each such Restricted Note, by such holder's acceptance thereof, agrees to be bound by all such restrictions on transfer. As used in this Section 2.06(f), and Sections 2.06(g), 2.12(b) and 2.12(c), the term "**transfer**" encompasses any sale, pledge, transfer, loan, hypothecation or other disposition whatsoever of any Restricted Note. Except as otherwise provided in this Indenture with respect to any Restricted Notes (including, without limitation, Section 2.06(i) below) or as permitted under the terms of such Restricted Securities Legend, if a request is made to remove the legend on any Restricted Note, the legend shall not be removed unless there is delivered to the Company and the Registrar such satisfactory evidence that neither the Restricted Securities Legend nor the restrictions on transfer set forth therein are required to ensure that transfers thereof comply with the provisions of Rule 144A or Rule 144, that such Notes are not "restricted" within the meaning of Rule 144 or that transfers thereof comply with all other applicable securities laws and regulations. In such a case, upon (i) provision of such satisfactory evidence, or (ii) notification by the Company to the Trustee and Registrar of the sale of such Note pursuant to a registration statement that is effective at the time of such sale, the Trustee, pursuant to a Company Order, shall authenticate and deliver a Note that does not bear the Restricted Securities Legend.

(ii) Except as provided elsewhere in this Indenture (including, without limitation, Section 2.06(i) below), until the later of (x) the date that is one year after the last date of original issuance of the Notes and (y) the date that is three months after the holder ceases to be an Affiliate of the Company, any certificate evidencing such Notes (and all securities issued in exchange therefor or substitution thereof, other than Common Stock, if any, issued upon conversion thereof, which shall bear the Restricted Stock Legend, if applicable) shall bear the Restricted Securities Legend unless such Notes have been transferred (A) to the Company, (B) under a registration statement that has been declared effective under the Securities Act, (C) to a Person the seller reasonably believes is a QIB that is purchasing for its own account or for the account of another QIB and to whom notice is given that the transfer is being made in reliance on Rule 144A, all in compliance with Rule 144A, or (D) under any other available exemption from the registration requirements of the Securities Act.

(iii) No transfer of any Note prior to the Free Trade Date will be registered by the Registrar unless the applicable box on the Form of Assignment and Transfer has been checked.

(g) *Legends on the Common Stock.*

(i) Except as provided elsewhere in this Indenture (including, without limitation, Section 2.06(j) below), until the later of (x) the date that is one year after the last date of original issuance of the Notes and (y) the date that is three months after the holder of such shares of Common Stock ceases to be an Affiliate of the Company, any stock certificate representing shares of the Common Stock issued upon conversion of such Notes shall bear the Restricted Stock Legend unless the Notes or such Common Stock, as applicable, has been transferred (a) to the Company; (b) under a registration statement that has been declared effective under the Securities Act; (c) to a Person the holder reasonably believes is a QIB that is purchasing for its own account or for the account of another QIB pursuant to a valid private placement exemption under the Securities Act and to whom notice is given that the transfer is being made in reliance on such an exemption; or (d) under any other available exemption from the registration requirements of the Securities Act.

(ii) Any such shares of Common Stock as to which such restrictions on transfer shall have expired in accordance with their terms may, subject to applicable securities laws and regulations and upon surrender of the certificates representing such shares of Common Stock for exchange in accordance with the procedures of the transfer agent for the Common Stock, be exchanged for a new certificate or certificates for a like aggregate number of shares of Common Stock which shall not bear the Restricted Stock Legend.

(h) The Company shall not permit any Note that is purchased or owned by the Company or any Affiliate thereof to be resold by the Company or such Affiliate unless registered under the Securities Act or resold pursuant to an exemption from the registration requirements of the Securities Act in a transaction that results in such Notes, as the case may be, no longer being “restricted securities” (as defined under Rule 144). If the legend is removed from the face of a Note and the Note is subsequently held by the Company or an Affiliate of the Company, the legend shall be reinstated.

(i) So long as and to the extent that any Notes are represented by one or more Global Notes held by or on behalf of the Depository only, the Company may cause the removal of the Restricted Securities Legend from such Notes at any time on or after the Free Trade Date by:

(i) providing to the Trustee written notice stating that the Free Trade Date has occurred and instructing the Trustee to remove the Restricted Securities Legend from such Notes;

(ii) providing to the holders of such Notes written notice that the Restricted Securities Legend has been removed or deemed removed;

(iii) providing to the Trustee and the Depository written notice to change the CUSIP number for the Notes to the applicable unrestricted CUSIP number; and

(iv) complying with any Applicable Procedures for delegending;

whereupon the Restricted Securities Legend shall be deemed removed from any Global Notes without further action on the part of holders.

(j) On and after the Free Trade Date, the Company shall also (i) instruct the transfer agent for the Common Stock to remove the Restricted Stock Legend from any shares of Common Stock issued upon conversion of the Notes that bear the Restricted Stock Legend; (ii) notify the holders of any shares of Common Stock issued upon conversion of the Notes (to the extent any shares of Common Stock have been issued upon conversion of the Notes) that such Restricted Stock Legend has been removed; (iii) if relevant, notify the transfer agent for the Common Stock to change the CUSIP number for any shares of Common Stock issued upon conversion of the Notes to the applicable unrestricted CUSIP number; and (iv) comply with any Applicable Procedures that apply to the delegending of any shares of Common Stock issued upon conversion of a Note.

SECTION 2.07 Replacement Notes. If a mutilated Note is surrendered to the Registrar or if the holder of a Note claims that such Note has been lost, destroyed or stolen and the holder provides evidence of the loss, theft or destruction satisfactory to the Company and the Trustee, the Company shall issue, and the Trustee shall authenticate, a replacement Note if the requirements of Section 8-405 of the Uniform Commercial Code are met and the holder satisfies any other reasonable requirements of the Trustee. If required by the Trustee or the Company, such holder shall furnish an indemnity bond sufficient in the judgment of the Company and the Trustee to protect the Company, the Trustee, the Paying Agent, the Registrar and any co-registrar from any loss that any of them may suffer if a Note is replaced. The Company and the Trustee may charge the holder for their expenses in replacing a Note.

Upon the issuance of any new Notes under this Section 2.07, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee) connected therewith.

Every new Note issued pursuant to this Section 2.07 in exchange for any mutilated Note, or in lieu of any destroyed, lost or stolen Note, shall constitute an original additional contractual obligation of the Company and any other obligor upon the Notes, whether or not the mutilated, destroyed, lost or stolen Note shall be at any time enforceable by anyone, and shall be entitled to all benefits of (and shall be subject to all the limitations set forth in) this Indenture equally and proportionately with any and all other Notes duly issued hereunder.

The provisions of this Section 2.07 are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Notes.

SECTION 2.08 Outstanding Notes. Notes outstanding at any time include and are limited to all Notes authenticated by the Trustee except (i) those cancelled by it, (ii) those delivered to it for cancellation and (iii) those deemed not outstanding under this Section 2.08. If the Company or an Affiliate of the Company holds the Note, a Note does not cease to be outstanding; provided, however, that for purposes of determining whether the holders of the requisite principal amount of Notes have given or concurred in any request, demand, authorization, direction, notice, consent, waiver or other action hereunder, Notes owned by the Company or any other obligor upon the Notes or any Affiliate of the Company or such other obligor shall be disregarded and deemed not to be outstanding. Subject to the foregoing, only Notes outstanding at the time of such determination shall be considered in any such determination (including, without limitation, determinations pursuant to Article 7).

If a Note is replaced pursuant to Section 2.07, it ceases to be outstanding unless the Trustee and the Company receive proof satisfactory to them that the replaced Note is held by a protected purchaser.

If the Paying Agent holds, in accordance with this Indenture, on a Fundamental Change Purchase Date or on the Maturity Date, money sufficient to pay Notes payable on that date, then immediately after such Fundamental Change Purchase Date or Maturity Date, as the case may be, such Notes shall cease to be outstanding, interest (including Additional Interest), if any, on such Notes shall cease to accrue and such Notes shall cease to be convertible.

If a Note is converted in accordance with Article 12, then from and after the time of conversion on the Conversion Date, such Note shall cease to be outstanding and interest (including any Additional Interest), if any, shall cease to accrue on such Note.

SECTION 2.09 Temporary Notes. Until Certificated Notes are ready for delivery, the Company may execute and the Trustee or an authenticating agent appointed by the Trustee shall, upon written request of the Company, authenticate and deliver temporary Notes (printed or lithographed) (“**Temporary Notes**”). Temporary Notes shall be issuable in any authorized denomination, and substantially in the form of Certificated Notes but with such omissions, insertions and variations as may be appropriate for temporary Notes, all as may be determined by the Company. Every such Temporary Note shall be executed by the Company and authenticated by the Trustee or such authenticating agent upon the same conditions and in substantially the same manner, and with the same effect, as the Certificated Notes. Without unreasonable delay the Company will prepare, execute and deliver to the Trustee or such authenticating agent Certificated Notes (other than any Global Note) and thereupon any or all Temporary Notes (other than any Global Note) may be surrendered in exchange therefor, at each office or agency maintained by the Company pursuant to Section 4.02 and the Trustee or such authenticating agent shall authenticate and deliver in exchange for such Temporary Notes an equal aggregate principal amount of Certificated Notes. Such exchange shall be made by the Company at its own expense and without any charge therefor. Until so exchanged, the Temporary Notes shall in all respects be entitled to the same benefits and subject to the same limitations under this Indenture as Certificated Notes authenticated and delivered hereunder.

SECTION 2.10 Cancellation. The Company at any time may deliver Notes to the Trustee for cancellation. The Registrar, Conversion Agent and the Paying Agent shall forward to the Trustee any Notes surrendered to them for registration of transfer, exchange, conversion, purchase, or payment. The Trustee and no one else shall cancel all Notes surrendered for registration of transfer, exchange, conversion, purchase, payment or cancellation and shall dispose of such Notes in its customary manner. The Company may not issue new Notes to replace Notes it has purchased, paid or delivered to the Trustee for cancellation or that any holder has converted pursuant to Article 12.

SECTION 2.11 Persons Deemed Owners. Prior to due presentment of a Note for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name such Note is registered in the Register as the owner of such Note for the purpose of receiving payment of principal, interest (including Additional Interest), if any, or payment of the Fundamental Change Purchase Price, for the purpose of conversion and for all other purposes whatsoever, whether or not such Note be overdue, and neither the Company, the Trustee nor any agent of the Company or the Trustee shall be affected by notice to the contrary.

SECTION 2.12 Transfer of Notes.

(a) Notwithstanding any other provisions of this Indenture or the Notes, (A) transfers of a Global Note, in whole or in part, shall be made only in accordance with Sections 2.06 and 2.12(a)(i); (B) transfers of a beneficial interest in a Global Note for a Certificated Note shall comply with Sections 2.06 and 2.12(a)(ii), and (C) transfers of a Certificated Note shall comply with Sections 2.06 and 2.12(a)(iii) and (iv) below. All such transfers shall comply with the Applicable Procedures to the extent so required.

(i) *Transfer of Global Note.* A Global Note may not be transferred, in whole or in part, to any Person other than the Depository or a nominee or any successor thereof, and no transfer of a Global Note to any other Person may be registered; provided that this clause (i) shall not prohibit any transfer of a Note that is issued in exchange for a Global Note but is not itself a Global Note. No transfer of a Note to any Person shall be effective under this Indenture or the Notes unless and until such Note has been registered in the name of such Person. Nothing in this Section 2.12(a)(i) shall prohibit or render ineffective any transfer of a beneficial interest in a Global Note effected in accordance with the other provisions of this Section 2.12(a).

(ii) *Restrictions on Transfer of a Beneficial Interest in a Global Note for a Certificated Note.*

(A) A beneficial interest in a Global Note may not be exchanged for a Certificated Note unless:

(1) DTC notifies the Company that it is unwilling or unable to continue as Depository for such Global Note and a successor Depository is not appointed by the Company within 90 days of such notice;

(2) DTC ceases to be registered as a clearing agency under the Exchange Act and a successor Depository is not appointed by the Company within 90 days of such cessation, in which case Certificated Notes shall be issued to all owners of beneficial interests in a Global Note in exchange for their beneficial interests; or

(3) An Event of Default has occurred and is continuing, in which case, the owner of a beneficial interest in a Global Note will be entitled to receive a Certificated Note in exchange for its beneficial interest in such Global Note.

In connection with the exchange of an entire Global Note for Certificated Notes pursuant to this Section 2.12(a)(ii), such Global Note shall be deemed to be surrendered to the Trustee for cancellation, and the Company shall execute, and upon Company Order the Trustee shall authenticate and deliver, to each beneficial owner identified by DTC in exchange for its beneficial interest in such Global Note, an equal aggregate principal amount of Certificated Notes of authorized denominations.

(B) Upon receipt by the Registrar of instructions from the holder of a Global Note directing the Registrar to (x) issue one or more Certificated Notes in the amounts specified to the owner of a beneficial interest in such Global Note and (y) debit or cause to be debited an equivalent amount of beneficial interest in such Global Note, subject to the Applicable Procedures:

(1) the Registrar shall notify the Company and the Trustee of such instructions and identify the owner of and the amount of such beneficial interest in such Global Note;

(2) the Company shall promptly execute, and upon Company Order, the Trustee shall authenticate and deliver, to such beneficial owner Certificated Note(s) in an equivalent amount to such beneficial interest in such Global Note; and

(3) the Registrar shall decrease such Global Note by such amount in accordance with the foregoing.

(iii) *Transfer and Exchange of Certificated Notes.* When Certificated Notes are presented to the Registrar with a request: (x) to register the transfer of such Certificated Notes; or (y) to exchange such Certificated Notes for an equal principal amount of Certificated Notes of other authorized denominations, the Registrar shall register the transfer or make the exchange as requested if its reasonable requirements for such transaction are met; provided, however, that the Certificated Notes surrendered for transfer or exchange:

(A) must be duly endorsed or accompanied by a written instrument of transfer in form reasonably satisfactory to the Company and the Registrar, duly executed in writing by the holder thereof or its duly authorized attorney-in-fact; and

(B) so long as such Notes are “restricted securities” (as defined under Rule 144), such Notes are being transferred or exchanged pursuant to an effective registration statement under the Securities Act or pursuant to clause (1), (2) or (3) below, and are accompanied by the following additional information and documents, as applicable:

(1) if such Certificated Notes are being delivered to the Registrar by a holder for registration in the name of such holder, without transfer, a certification from such holder to that effect; or

(2) if such Certificated Notes are being transferred to the Company, a certification from such holder to that effect;
or

(3) if such Certificated Notes are being transferred pursuant to an exemption from registration, (i) a certification from such holder to that effect (in the form set forth in Exhibit D, if applicable) and (ii) if the Company so requests, an Opinion of Counsel in form and substance reasonably satisfactory to the Company or any other evidence as to the compliance with the restrictions set forth in the legend thereon that is reasonably satisfactory to the Company.

(iv) *Restrictions on Transfer of a Certificated Note for a Beneficial Interest in a Global Note.* (a) A Certificated Note may not be exchanged for a beneficial interest in a Global Note except upon satisfaction of the requirements set forth below.

Upon receipt by the Trustee of a Certificated Note, duly endorsed or accompanied by appropriate instruments of transfer, in form satisfactory to the Trustee, together with:

(A) so long as the Notes are Restricted Notes, certification, in the form set forth in Exhibit D, that such Certificated Note is being transferred to a QIB in accordance with Rule 144A; and

(B) written instructions directing the Trustee to make, or to direct the Registrar to make, an adjustment on its books and records with respect to such Global Note to reflect an increase in the aggregate principal amount of the Notes represented by the Global Note, such instructions to contain information regarding the Depository account to be credited with such increase, then the Trustee shall cancel such Certificated Note and cause, or direct the Registrar to cause, in accordance with the standing instructions and procedures existing between the Depository and the Registrar, the aggregate principal amount of Notes represented by the Global Note to be increased by the aggregate principal amount of the Certificated Note to be exchanged, and shall credit or cause to be credited to the account of the Person specified in such instructions a beneficial interest in the Global Note equal to the principal amount of the Certificated Note so cancelled. If no Global Notes are then outstanding, the Company shall issue and the Trustee shall authenticate, upon written order of the Company in the form of an Officer's Certificate, a new Global Note in the appropriate principal amount.

(b) Subject to the succeeding Section 2.12(c), every Note shall be subject to the restrictions on transfer provided in Section 2.06(f), including the delivery of an opinion of counsel, if so required. Whenever any Restricted Note is presented or surrendered for registration of transfer or for exchange for a Note registered in a name other than that of the holder, such Note must be accompanied by a certificate in substantially the form set forth in Exhibit D, dated the date of such surrender and signed by the holder of such Note, as to compliance with such restrictions on transfer. The Registrar shall not be required to accept for such registration of transfer or exchange any Note not so accompanied by a properly completed certificate.

(c) The restrictions imposed by Section 2.06(f) upon the transferability of any Note shall cease and terminate when such Note has been sold pursuant to an effective registration statement under the Securities Act or transferred in compliance with Rule 144. Any Note as to which such restrictions on transfer shall have expired in accordance with their terms or shall have terminated may, upon a surrender of such Note for exchange to the Registrar in accordance with the provisions of this Section 2.12 (accompanied, if such restrictions on transfer have terminated by reason of a transfer in compliance with Rule 144 or any successor provision, by an opinion of counsel having substantial experience in practice under the Securities Act and otherwise reasonably acceptable in form and substance to the Company, addressed to the Company, to the effect that the transfer of such Note has been made in compliance with Rule 144), be exchanged for a new Note, of like tenor and aggregate principal amount, which shall not bear the legends required by Section 2.01(d). The Company shall inform the Trustee upon the occurrence of the Free Trade Date and promptly after a registration statement with respect to the Notes or any shares of Common Stock issued upon conversion of the Notes has been declared effective under the Securities Act. The Trustee shall not be liable for any action taken or omitted to be taken by it in good faith in accordance with the aforementioned opinion of counsel or registration statement.

(d) The provisions of clauses (i), (ii), (iii) and (iv) below shall apply only to Global Notes:

(i) Notwithstanding any other provisions of this Indenture or the Notes, a Global Note shall not be exchanged in whole or in part for a Note registered in the name of any Person other than the Depositary or one or more nominees thereof, provided that a Global Note may be exchanged for Notes registered in the name of any Person designated by the Depositary if (A) the Depositary has notified the Company that it is unwilling or unable to continue as Depositary for such Global Note or such Depositary has ceased to be a “clearing agency” registered under the Exchange Act, and a successor Depositary is not appointed by the Company within 90 days or (B) an Event of Default has occurred and is continuing with respect to the Notes. Any Global Note exchanged pursuant to clause (A) above shall be so exchanged in whole and not in part, and any Global Note exchanged pursuant to clause (B) above may be exchanged in whole or, from time to time, in part as directed by the Depositary. Any Note issued in exchange for a Global Note or any portion thereof shall be a Global Note; provided that any such Note so issued that is registered in the name of a Person other than the Depositary or a nominee thereof shall not be a Global Note.

(ii) Notes issued in exchange for a Global Note or any portion thereof shall be issued in definitive, fully registered form, without interest coupons, shall have an aggregate principal amount equal to that of such Global Note or portion thereof to be so exchanged, shall be registered in such names and be in such authorized denominations as the Depositary shall designate and shall bear the applicable legends provided for herein. Any Global Note to be exchanged in whole shall be surrendered by the Depositary to the Trustee, as Registrar. With regard to any Global Note to be exchanged in part, either such Global Note shall be so surrendered for exchange or, if the Trustee is acting as custodian for the Depositary or its nominee with respect to such Global Note, the principal amount thereof shall be reduced, by an amount equal to the portion thereof to be so exchanged, by means of an appropriate adjustment made on the records of the Trustee. Upon any such surrender or adjustment, the Trustee shall authenticate and deliver the Note issuable on such exchange to or upon the order of the Depositary or an authorized representative thereof.

(iii) Subject to the provisions of Section 2.12(e), a holder may grant proxies and otherwise authorize any Person, including Agent Members and Persons that may hold interests through Agent Members, to take any action which such holder is entitled to take under this Indenture or the Notes.

(iv) In the event of the occurrence of any of the events specified in clause (i) above, the Company will promptly make available to the Trustee a reasonable supply of Certificated Notes in definitive, fully registered form, without interest coupons.

(e) Neither any members of, or participants in, the Depository (collectively, the “**Agent Members**”) nor any other Persons on whose behalf any Agent Member may act shall have any rights under this Indenture with respect to any Global Note registered in the name of the Depository or any nominee thereof, or under any such Global Note, and the Depository or such nominee, as the case may be, may be treated by the Company, the Trustee and any agent of the Company or the Trustee as the absolute owner and holder of such Global Note for all purposes whatsoever. The Trustee shall have no responsibility or obligation to any Agent Members or any other Person on whose behalf Agent Members may act with respect to (i) any ownership interests in the Global Note, (ii) the accuracy of the records of the Depository or its nominee (iii) any notice required hereunder or (iv) any payments, under or with respect to, the Global Note. Notwithstanding the foregoing, nothing herein shall prevent the Company, the Trustee or any agent of the Company or the Trustee from giving effect to any written certification, proxy or other authorization furnished by the Depository or such nominee, as the case may be, or impair, as between the Depository, its Agent Members and any other Person on whose behalf an Agent Member may act, the operation of customary practices of such Persons governing the exercise of the rights of a holder of any Note. The registered holder of a Global Note may grant proxies and otherwise authorize any Person, including Agent Members and persons that may hold interests through Agent Members, to take any action that a holder is entitled to take under this Indenture or the Notes.

SECTION 2.13 CUSIP and ISIN Numbers.

(a) The Company, in issuing the Notes, shall use restricted CUSIP and ISIN numbers for such Notes (if then generally in use) until such time as the Restricted Securities Legend is removed pursuant to Section 2.06(i). At such time as the legend is removed from such Notes pursuant to Section 2.06(i), the Company will use an unrestricted CUSIP number for such Note, but only with respect to the Notes where so removed. The Trustee may use CUSIP and ISIN numbers in notices as a convenience to holders; provided, however, that neither the Company nor the Trustee shall have any responsibility for any defect in the CUSIP or ISIN number that appears on any Note, check, advice of payment or notice, and any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Notes or as contained in any notice and that reliance may be placed only on the other identification numbers printed on the Notes, and any action taken in connection with such a notice shall not be affected by any defect in or omission of such numbers. The Company shall promptly notify the Trustee in writing in the event of any change in the CUSIP or ISIN numbers.

(b) Until such time as the Restricted Stock Legend is no longer required to be borne by any shares of Common Stock issued upon the conversion of the Notes pursuant to Section 2.06(g) or otherwise, any shares of Common Stock issued upon conversion of the Notes shall bear a restricted CUSIP number. At such time as the Restrictive Stock Legend is no longer required to be borne by any shares of Common Stock issued upon the conversion of the Notes pursuant to Section 2.06(g) or otherwise, any shares of Common Stock issued upon conversion of the Notes shall bear an unrestricted CUSIP number.

SECTION 2.14 Additional Notes; Repurchases. The Company may, without the consent of the Noteholders and notwithstanding Section 2.02, reopen this Indenture and increase the principal amount of the Notes by issuing additional Notes in the future pursuant to this Indenture with the same terms and with the same CUSIP number as the Notes initially issued hereunder in an unlimited aggregate principal amount, *provided that* the Company may use a temporary CUSIP number for securities law purposes and *provided further* that no such additional Notes may be issued unless they will be fungible with the original Notes for United States federal income tax purposes. Prior to the issuance of any such additional Notes, the Company shall deliver to the Trustee a Company Order, an Officers' Certificate and an Opinion of Counsel, such Officers' Certificate and Opinion of Counsel to cover such matters, in addition to those required by Section 14.05, as the Trustee shall reasonably request. The Company may also from time to time repurchase the Notes in open market purchases or negotiated transactions without prior notice to Noteholders.

The Trustee shall have the right to decline to authenticate and deliver any Additional Securities under this Section 2.14 if the Trustee, determines that such action may not lawfully be taken by the relevant Issuer or if the Trustee in good faith by its board of directors or board of trustee, executive committee, or a trust committee of directors or trustees or Responsible Officers shall determine that such action would expose the Trustee to personal liability to existing Noteholders.

ARTICLE III SATISFACTION AND DISCHARGE

SECTION 3.01 Satisfaction and Discharge. This Indenture shall upon request of the Company contained in an Officers' Certificate cease to be of further effect, and the Trustee, at the expense of the Company, shall execute proper instruments acknowledging satisfaction and discharge of this Indenture, when (a) (i) all Notes theretofore authenticated and delivered (other than (x) Notes which have been destroyed, lost or stolen and which have been replaced or paid as provided in Section 2.07 and (y) Notes for whose payment money has theretofore been deposited in trust or segregated and held in trust by the Company and thereafter repaid to the Company or discharged from such trust, as provided in Section 4.04(d)) have been delivered to the Trustee for cancellation; or (ii) the Company has deposited with the Trustee or delivered to Noteholders, as applicable, after the Notes have become due and payable, whether at the Maturity Date, any Fundamental Change Purchase Date, upon conversion or otherwise, cash or cash and shares of Common Stock, if any (solely to satisfy the Company's Conversion Obligation, if applicable), sufficient to pay all of the outstanding Notes and all other sums due and payable under this Indenture by the Company; and (b) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent herein provided for relating to the satisfaction and discharge of this Indenture have been complied with. Notwithstanding the satisfaction and discharge of this Indenture, the obligations of the Company to the Trustee under Section 6.06 shall survive.

ARTICLE IV
PARTICULAR COVENANTS OF THE COMPANY

SECTION 4.01 Payment of Principal, Interest and Additional Interest.

(a) The Company shall promptly make all payments on the Notes and satisfy all conversion obligations on the dates, in the manner and as otherwise required under the Notes or this Indenture. If the Company is required to deliver any amounts of cash and/or shares of Common Stock to the Trustee, the Paying Agent or the Conversion Agent, such amounts of cash and/or shares of Common Stock shall be deposited by the Company with the Trustee, the Paying Agent or the Conversion Agent by 10:00 a.m., New York City time, on the Business Day prior to the required date. The Company may, at its option, make payments on any Certificated Notes by check mailed to a Noteholder's registered address; *provided, however*, that if a Noteholder of more than \$5,000,000 principal amount of Certificated Notes requests in writing that the Company make payments on its Certificated Notes by wire transfer to an account in the United States, the Company shall, beginning with the interest payment corresponding to the next Record Date, make all subsequent payments due to such Noteholder to such account until such Noteholder notifies the Registrar in writing that the Company should no longer make payments by wire transfer to such account. If the Notes are held in book-entry form, the Company shall make all payments by wire transfer.

(b) The Company shall make any required interest payments (including of Additional Interest), if any, to the Person in whose name each Note is registered at the close of business on the Record Date for such interest payment. The principal, accrued and unpaid interest (including Additional Interest), if any, or payment of the Fundamental Change Purchase Price shall be considered paid on the applicable date due if on such date (or, in the case of a Fundamental Change Purchase Price, on the Business Day following the applicable Fundamental Change Purchase Date) the Trustee or the Paying Agent holds, in accordance with this Indenture, cash sufficient to pay all such amounts then due.

(c) The Company shall pay interest on the Notes at a rate of 3.25% per annum, payable semi-annually in arrears on each Interest Payment Date or, if any such day is not a Business Day, the immediately following Business Day. Interest on a Note shall be paid to the holder of such Note at the Close of Business on May 1 or November 1 (each, an "**Interest Record Date**"), as the case may be, immediately preceding the related Interest Payment Date, and shall be computed on the basis of a 360-day year comprised of twelve 30-day months. In the event of the maturity, conversion, or repurchase of a Note by the Company at the option of the holder, interest shall cease to accrue on such Note. If the Conversion Date for a Note occurs after an Interest Record Date but on or before the corresponding Interest Payment Date, the interest payable on such Interest Payment Date will be paid to the holder of such Note on such Interest Record Date notwithstanding the conversion of such Note.

(d) Any Defaulted Interest shall forthwith cease to be payable to the Noteholder on the relevant Interest Record Date by virtue of its having been such Noteholder, and such Defaulted Interest shall be paid by the Company, at its election in each case, as provided in clause (1) or (2) below:

(1) The Company may elect to make payment of any Defaulted Interest to the Persons in whose names the Notes (or their respective Predecessor Notes) are registered at the close of business on a special record date for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Company shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each Note and the date of the proposed payment (which shall be not less than twenty-five days after the receipt by the Trustee of such notice, unless the Trustee shall consent to an earlier date), and at the same time the Company shall deposit with the Trustee an amount of money equal to the aggregate amount to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit on or prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Persons entitled to such Defaulted Interest as in this clause provided. Thereupon the Company shall fix a special record date for the payment of such Defaulted Interest which shall be not more than fifteen days and not less than ten days prior to the date of the proposed payment, and not less than ten days after the receipt by the Trustee of the notice of the proposed payment (unless the Trustee shall consent to an earlier date). The Company shall promptly notify the Trustee of such special record date and the Trustee, in the name and at the expense of the Company, shall cause notice of the proposed payment of such Defaulted Interest and the special record date therefor to be mailed, first-class postage prepaid, to each holder at its address as it appears in the Note Register, not less than seven days prior to such special record date. Notice of the proposed payment of such Defaulted Interest and the special record date therefor having been so mailed, such Defaulted Interest shall be paid to the Persons in whose names the Notes (or their respective Predecessor Notes) are registered at the close of business on such special record date and shall no longer be payable pursuant to the following clause (2) of this Section 4.01(d).

(2) The Company may make payment of any Defaulted Interest in any other lawful manner not inconsistent with the requirements of any securities exchange or automated quotation system on which the Notes may be listed or designated for issuance, and upon such notice as may be required by such exchange or automated quotation system.

SECTION 4.02 Maintenance of Office or Agency. The Company will maintain, in the continental United States, an office or agency of the Trustee, Registrar, Paying Agent and Conversion Agent where Notes may be presented or surrendered for payment, where Notes may be surrendered for registration of transfer, exchange, repurchase, or conversion and where notices and demands to or upon the Company in respect of the Notes and this Indenture may be served. The Corporate Trust Office of the Trustee shall initially be such office or agency for all of the aforesaid purposes. The Company shall give prompt written notice to the Trustee of the location, and of any change in the location, of any such office or agency (other than a change in the location of the Corporate Trust Office of the Trustee). If at any time the Company shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the address of the Corporate Trust Office.

The Company may also from time to time designate one or more other offices or agencies where the Notes may be presented or surrendered for any or all such purposes and may from time to time rescind such designations.

SECTION 4.03 Appointments to Fill Vacancies in Trustee's Office. The Company, whenever necessary to avoid or fill a vacancy in the office of Trustee, will appoint, in the manner provided in Section 6.10, a Trustee, so that there shall at all times be a Trustee hereunder.

SECTION 4.04 Provisions as to Paying Agent.

(a) If the Company shall appoint a Paying Agent other than the Trustee, the Company will cause such Paying Agent to execute and deliver to the Trustee an instrument in which such agent shall agree with the Trustee, subject to the provisions of this Section 4.04:

(i) that it will hold all sums held by it as such agent for the payment of the principal of and accrued and unpaid interest (including any Additional Interest) on the Notes in trust for the benefit of the holders of the Notes;

(ii) that it will give the Trustee prompt notice of any failure by the Company to make any payment of the principal of and accrued and unpaid interest (including any Additional Interest), on the Notes when the same shall be due and payable; and

(iii) that at any time during the continuance of an Event of Default, upon request of the Trustee, it will forthwith pay to the Trustee all sums so held in trust.

Subject to Section 13.03, the Company shall, on or before each due date of the principal of (including the Fundamental Change Purchase Price), or accrued and unpaid interest or Additional Interest, if any, on the Notes, deposit with the Paying Agent a sum sufficient to pay such principal (including the Fundamental Change Purchase Price), or accrued and unpaid interest or Additional Interest, if any, and (unless such Paying Agent is the Trustee) the Company will promptly notify the Trustee of any failure to take such action, *provided* that if such deposit is made on the due date, such deposit must be received by the Paying Agent by 11:00 a.m., New York City time, on such date.

(b) If the Company shall act as its own Paying Agent, it will, on or before each due date of the principal of (including the Fundamental Change Purchase Price), accrued and unpaid interest (including any Additional Interest) on the Notes, set aside, segregate and hold in trust for the benefit of the holders of the Notes a sum sufficient to pay such principal (including the Fundamental Change Purchase Price), accrued and unpaid interest (including any Additional Interest) so becoming due and will promptly notify the Trustee in writing of any failure to take such action and of any failure by the Company to make any payment of the principal of (including the Fundamental Change Purchase Price), accrued and unpaid interest (including any Additional Interest) on the Notes when the same shall become due and payable.

(c) Anything in this Section 4.04 to the contrary notwithstanding, the Company may, at any time, for the purpose of obtaining a satisfaction and discharge of this Indenture, or for any other reason, pay or cause to be paid to the Trustee all sums held in trust by the Company or any Paying Agent hereunder as required by this Section 4.04, such sums to be held by the Trustee upon the trusts herein contained, and upon such payment by the Company or any Paying Agent to the Trustee, the Company or such Paying Agent shall be released from all further liability with respect to such sums.

(d) Any money deposited with the Trustee or any Paying Agent, or then held by the Company, in trust for the payment of the principal of (including the Fundamental Change Purchase Price), accrued and unpaid interest (including any Additional Interest) on any Note and remaining unclaimed for two years after such principal (including the Fundamental Change Purchase Price), interest or Additional Interest has become due and payable shall be paid to the Company on request of the Company contained in an Officers' Certificate, or (if then held by the Company) shall be discharged from such trust; and the holder of such Note shall thereafter, as an unsecured general creditor, look only to the Company for payment thereof, and all liability of the Trustee or such Paying Agent with respect to such trust money, and all liability of the Company as trustee thereof, shall thereupon cease; *provided, however*, that the Trustee or such Paying Agent, before being required to make any such repayment, may at the expense of the Company cause to be published once, in a newspaper published in the English language, customarily published on each Business Day and of general circulation in The Borough of Manhattan, The City of New York, New York, notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than thirty days from the date of such publication, any unclaimed balance of such money then remaining will be repaid to the Company.

SECTION 4.05 Existence. Subject to Article 10, the Company will do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence.

SECTION 4.06 SEC and Other Reports; Additional Interest.

(a) For so long as the Notes are outstanding, the Company shall deliver to the Trustee within fifteen days after the same is required to be filed with the Commission, the Company's annual and quarterly reports, information, documents and other reports which the Company is required to file with the Commission pursuant to Section 13 or 15(d) of the Exchange Act (or copies of such portions of any of the foregoing as the Commission may by rules and regulations prescribe) (giving effect to any grace period provided by Rule 12b-25 under the Exchange Act) and the Company shall otherwise comply with the requirements of TIA Section 314(a), to the extent applicable. Documents filed by the Company with the Commission via the EDGAR filing system will be deemed to be filed with the Trustee as of the time such documents are filed via the EDGAR filing system. Delivery of such reports, information and documents to the Trustee is for informational purposes only and the Trustee's receipt of such shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Company's compliance with any of its covenants hereunder (as to which the Trustee is entitled to rely conclusively on Officers' Certificates).

(b) If, at any time during the six-month period beginning on, and including, the date which is six months after the last date of original issuance of the Notes and ending on the Free Trade Date, the Company fails to timely file (giving effect to any grace period provided by Rule 12b-25 under the Exchange Act) any periodic report that the Company is required to file with the Commission pursuant to Section 13 or 15(d) of the Exchange Act, as applicable (other than current reports on Form 8-K), and the Company does not cure such failure to file within 14 calendar days, the Company shall pay interest (such interest, and any interest payable pursuant to Section 5.03, “**Additional Interest**”) on the Notes, accruing from and including the due date of the first missed filing that gives rise to such obligation (giving effect to any grace period provided by Rule 12b-25 under the Exchange Act) and continuing until the earlier of (i) the Free Trade Date and (ii) the date all such filings have been made. During the first 90 days on which such Additional Interest is payable, such Additional Interest shall accrue at a rate of 0.25% per annum; thereafter, such Additional Interest shall accrue at a rate of 0.50% per annum.

(c) In addition, if the Notes or any shares of the Common Stock issuable upon conversion of the Notes do not become Freely Tradable on and at all times after the Free Trade Date (or the next succeeding Business Day if the Free Trade Date is not a Business Day), the Company will pay Additional Interest on the Notes accruing from and including the Free Trade Date and continuing until the date on which the Notes and any shares of Common Stock issuable upon the conversion of the Notes become Freely Tradable. During the first 90 days on which such Additional Interest is payable, such Additional Interest will accrue at a rate of 0.25% per annum; thereafter, such Additional Interest will accrue at a rate of 0.50% per annum.

(d) Notwithstanding anything else in this Indenture, in no event will (i) the combined rate of any Additional Interest payable under this Section 4.06 and of any Additional Interest payable under Section 5.03 exceed 0.50% per annum; or (ii) Additional Interest accrue on any day in which (A)(1) the Company has filed a shelf registration statement for the resale of the Notes, (2) such shelf registration statement is effective and usable by Noteholders for the resale of the Notes, and (3) the Noteholders may register the resale of their Notes under such shelf registration statement on terms customary for the resale of convertible securities offered in reliance on Rule 144A; or (B) conditions (A)(1) through (A)(3) of this sentence have been satisfied for a period of two years.

(e) Whenever Additional Interest is accruing on a Record Date, the Company will pay all accrued and unpaid Additional Interest to the Noteholders of record on such Record Date on the corresponding Interest Payment Date. If Additional Interest is not accruing on a Record Date, but has accrued since the immediately preceding Record Date, the Company shall pay any accrued and unpaid Additional Interest on the Interest Payment Date corresponding to the latter Record Date to Noteholders of record on the latter Record Date.

If the Company is required to pay Additional Interest to Noteholders, the Company shall provide a direction or order in the form of a written notice to the Trustee (and if the Trustee is not the Paying Agent, to the Paying Agent) of the Company’s obligation to pay such Additional Interest no later than three Business Days prior to the date on which any such Additional Interest is scheduled to be paid. Such notice shall set forth the amount of Additional Interest to be paid by the Company on such payment date and direct the Trustee (or, if the Trustee is not the Paying Agent, to the Paying Agent) to make payment to the extent it receives funds from the Company to do so. The Trustee shall not at any time be under any duty or responsibility to any Noteholder to determine whether the Additional Interest is payable, or with respect to the nature, extent, or calculation of the amount of the Additional Interest, or with respect to the method employed in such calculation of the Additional Interest.

SECTION 4.07 Stay, Extension and Usury Laws. The Company covenants (to the extent that it may lawfully do so) that it shall not at any time insist upon, plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay, extension or usury law or other law that would prohibit or forgive the Company from paying all or any portion of the principal of or interest on the Notes as contemplated herein, wherever enacted, now or at any time hereafter in force, or that may affect the covenants or the performance of this Indenture; and the Company (to the extent it may lawfully do so) hereby expressly waives all benefit or advantage of any such law, and covenants that it will not, by resort to any such law, hinder, delay or impede the execution of any power herein granted to the Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

SECTION 4.08 Compliance Certificate; Statements as to Defaults. The Company shall deliver to the Trustee within 120 days after the end of each Fiscal Year (beginning with the Fiscal Year ending on December 31, 2010) an Officers' Certificate stating whether or not the signer thereof has knowledge of any failure by the Company to comply with all conditions and covenants then required to be performed under this Indenture and, if so, specifying each such failure and the nature thereof.

In addition, the Company shall deliver to the Trustee, as soon as possible, and in any event within thirty days after the Company becomes aware of the occurrence of any Event of Default or Default, an Officers' Certificate setting forth the details of such Event of Default or Default, its status and the action that the Company proposes to take with respect thereto.

SECTION 4.09 Further Instruments and Acts. Upon request of the Trustee, the Company will execute and deliver such further instruments and do such further acts as may be reasonably necessary or proper to carry out more effectively the purposes of this Indenture.

ARTICLE V DEFAULTS AND REMEDIES

SECTION 5.01 Events of Default. Each of the following shall be an "Event of Default":

- (a) default in the payment in respect of the principal of any Note at its maturity, upon required repurchase, upon declaration of acceleration or otherwise;
- (b) default in the payment of any interest (including any Additional Interest) upon any Note when it becomes due and payable, and continuance of such default for a period of 30 days;
- (c) the Company's failure to deliver the consideration due upon the conversion of any Notes in the manner and within the time periods described herein;

(d) the Company's failure to timely issue a Fundamental Change Notice as required under Section 13.01(a)(i) or a Specified Corporate Transaction Notice in accordance with Section 12.01(a)(4);

(e) default in the performance, or breach, of any covenant or agreement of the Company in this Indenture (other than a covenant or agreement a default in the performance or breach of which is specifically dealt with in clauses (a), (b), (c) or (d) of this Section 5.01), and continuance of such default or breach for a period of 60 days after written notice thereof has been given to the Company by the Trustee or to the Company and the Trustee by the holders of at least 25% in aggregate principal amount of the outstanding Notes;

(f) a default or defaults under any bonds, debentures, notes or other evidences of indebtedness (other than the Notes) by the Company or any Subsidiary that is a Significant Subsidiary (or any group of Subsidiaries that, taken as a whole, would constitute a Significant Subsidiary) having, individually or in the aggregate, a principal or similar amount outstanding of at least \$15.0 million, whether such indebtedness now exists or shall hereafter be created, which default or defaults shall have resulted in the acceleration of the maturity of such indebtedness prior to its express maturity or shall constitute a failure to pay at least \$15.0 million of such indebtedness when due and payable after the expiration of any applicable grace period with respect thereto;

(g) the entry against the Company or any Subsidiary that is a Significant Subsidiary (or any group of Subsidiaries that, taken as a whole, would constitute a Significant Subsidiary) of a final judgment or final judgments for the payment of money in an aggregate amount in excess of \$15.0 million, by a court or courts of competent jurisdiction, which judgments remain undischarged, unwaived, unstayed, unbonded, unappealed or unsatisfied for a period of 60 consecutive days;

(h) the Company, any Subsidiary that is a Significant Subsidiary or any group of Subsidiaries that, taken as a whole, would constitute a Significant Subsidiary, pursuant to or within the meaning of any Bankruptcy Law:

- (i) commences a voluntary case;
- (ii) consents to the entry of an order for relief against it in an involuntary case;
- (iii) consents to the appointment of a custodian of it or for all or substantially all of its property;
- (iv) makes a general assignment for the benefit of its creditors;
- (v) generally is not paying its debts as they become due; or

(vi) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that:

(1) is for relief against the Company or any Subsidiary that is a Significant Subsidiary or any group of Subsidiaries that, taken together, would constitute a Significant Subsidiary, in an involuntary case;

(2) appoints a Custodian of the Company or any Subsidiary that is a Significant Subsidiary or any group of Subsidiaries that, taken together, would constitute a Significant Subsidiary or for all or substantially all of the property of the Company or any of its Subsidiaries; or

(3) orders the liquidation of the Company or any Subsidiary that is a Significant Subsidiary or any group of Subsidiaries that, taken together, would constitute a Significant Subsidiary;

and the order or decree remains unstayed and in effect for 60 consecutive days.

SECTION 5.02 Acceleration. (a) In case one or more Events of Default shall have occurred and be continuing (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body), then, and in each and every such case (other than an Event of Default specified in Section 5.01(h), unless the principal of all of the Notes shall have already become due and payable (or waived), either the Trustee or the holders of at least 25% in aggregate principal amount of the Notes then outstanding, determined in accordance with Section 7.04, by notice in writing to the Company (and to the Trustee if given by Noteholders), may declare 100% of the principal of and accrued and unpaid interest (including any accrued and unpaid Additional Interest) on all the Notes to be due and payable immediately, and upon any such declaration the same shall become and shall automatically be immediately due and payable, anything in this Indenture or in the Notes contained to the contrary notwithstanding.

(b) If an Event of Default specified in Section 5.01(h) occurs and is continuing, the principal of all the Notes and accrued and unpaid interest (including any accrued and unpaid Additional Interest) shall be immediately due and payable. This provision, however, is subject to the conditions that if, at any time after the principal of the Notes shall have been so declared due and payable, and before any judgment or decree for the payment of the monies due shall have been obtained or entered as hereinafter provided, the Company shall pay or shall deposit with the Trustee a sum sufficient to pay installments of accrued and unpaid interest (including any accrued and unpaid Additional Interest) upon all Notes and the principal of any and all Notes that shall have become due otherwise than by acceleration (with interest on overdue installments of accrued and unpaid interest (including any accrued and unpaid Additional Interest) (to the extent that payment of such interest is enforceable under applicable law), and on such principal at the rate borne by the Notes at such time) and amounts due to the Trustee pursuant to Section 6.06, and if (1) rescission would not conflict with any judgment or decree of a court of competent jurisdiction and (2) any and all Events of Defaults under this Indenture, other than the nonpayment of principal of and accrued and unpaid interest (including any accrued and unpaid Additional Interest) on Notes that shall have become due solely by such acceleration, shall have been cured or waived pursuant to Section 5.09, then and in every such case the holders of a majority in aggregate principal amount of the Notes then outstanding, by written notice to the Company and to the Trustee, may waive all Defaults or Events of Default with respect to the Notes (other than a Default or an Event of Default resulting from a failure to repurchase any Notes when required upon a Fundamental Change or a failure to deliver, upon conversion, cash, shares of Common Stock or a combination of cash and shares of Common Stock, as applicable, due upon conversion) and rescind and annul such declaration and its consequences (other than a declaration or consequences, as the case may be, resulting from a failure to repurchase any Notes when required upon a Fundamental Change or a failure to deliver, upon conversion, cash, shares of Common Stock or a combination of cash and shares of Common Stock, as applicable, due upon conversion) and such Default (other than a Default resulting from a failure to repurchase any Notes when required upon a Fundamental Change or a failure to deliver, upon conversion, cash, shares of Common Stock or a combination of cash and shares of Common Stock, as applicable, due upon conversion) shall cease to exist, and any Event of Default arising therefrom (other than a Default resulting from a failure to repurchase any Notes when required upon a Fundamental Change or a failure to deliver, upon conversion, cash, shares of Common Stock or a combination of cash and shares of Common Stock, as applicable, due upon conversion) shall be deemed to have been cured for every purpose of this Indenture; but no such waiver or rescission and annulment shall extend to or shall affect any subsequent Default or Event of Default, or shall impair any right consequent thereon.

SECTION 5.03 Additional Interest. Notwithstanding anything in this Indenture or in the Notes to the contrary (except as provided in Section 4.06(d)), if the Company so elects, the sole remedy of Noteholders for an Event of Default relating to any obligation to file reports as required under Section 4.06(a) shall, for the first 180 days after the occurrence of such an Event of Default (which will be the 60th day after written notice is provided to the Company in accordance with Section 5.01(e)), consist exclusively of the right to receive Additional Interest on the Notes at an annual rate equal to (x) 0.25% of the outstanding principal amount of the Notes for the first 90 days an Event of Default is continuing in such 180-day period and (y) 0.50% of the outstanding principal amount of the Notes for the remaining 90 days an Event of Default is continuing in such 180-day period. Additional Interest shall be payable in arrears on each Interest Payment Date following the occurrence of such Event of Default in the same manner as regular interest on the Notes. The Company may elect to pay Additional Interest as the sole remedy under this Section 5.03 by giving notice to the holders, the Trustee and Paying Agent of such election on or before the close of business on the 5th Business Day after the date on which such Event of Default otherwise would occur. If the Company fails to timely give such notice or pay Additional Interest, the Notes will be immediately subject to acceleration as provided in Section 5.02. On the 181st day after such Event of Default (if such violation is not cured or waived prior to such 181st day), the Notes will be subject to acceleration as provided in Section 5.02. This Section 5.03 shall not affect the rights of the Noteholders in the event of the occurrence of any other Event of Default. In the event the Company does not elect to pay Additional Interest upon an Event of Default in accordance with this Section, the Notes will be subject to acceleration as provided in Section 5.02. Whenever in this Indenture there is mentioned, in any context, the payment of interest on, or in respect of, any Note, such mention shall be deemed to include mention of the payment of "Additional Interest" provided for in this Section 5.03 and Section 4.06 to the extent that, in such context, Additional Interest is, was or would be payable in respect thereof pursuant to the provisions of such sections, and express mention of the payment of Additional Interest (if applicable) in any provision shall not be construed as excluding Additional Interest in those provisions where such express mention is not made.

SECTION 5.04 Payments of Notes on Default; Suit Therefor.

(a) If an Event of Default under clause (a) or (b) of Section 5.01 shall have occurred and be continuing, the Company shall, upon demand of the Trustee, pay to it, for the benefit of the holders of the Notes, the whole amount then due and payable on the Notes for principal and interest and Additional Interest, if any, with interest on any overdue principal, interest and Additional Interest, if any, at the rate borne by the Notes at such time, and, in addition thereto, such further amount as shall be sufficient to cover any amounts due to the Trustee under Section 6.06. If the Company shall fail to pay such amounts forthwith upon such demand, the Trustee, in its own name and as trustee of an express trust, may institute a judicial proceeding for the collection of the sums so due and unpaid, may prosecute such proceeding to judgment or final decree and may enforce the same against the Company or any other obligor upon the Notes and collect the monies adjudged or decreed to be payable in the manner provided by law out of the property of the Company or any other obligor upon the Notes, wherever situated.

(b) In the event there shall be pending proceedings for the bankruptcy or for the reorganization of the Company or any other obligor on the Notes under any Bankruptcy Law, or in case a receiver, assignee or trustee in bankruptcy or reorganization, liquidator, sequestrator or similar official shall have been appointed for or taken possession of the Company or such other obligor, the property of the Company or such other obligor, or in the event of any other judicial proceedings relative to the Company or such other obligor upon the Notes, or to the creditors or property of the Company or such other obligor, the Trustee, irrespective of whether the principal of the Notes shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Trustee shall have made any demand pursuant to the provisions of this Section 5.04, shall be entitled and empowered, by intervention in such proceedings or otherwise, to file and prove a claim or claims for the whole amount of principal and accrued and unpaid interest (including any accrued and unpaid Additional Interest) in respect of the Notes, and, in case of any judicial proceedings, to file such proofs of claim and other papers or documents and to take such other actions as it may deem necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel) and of the Noteholders allowed in such judicial proceedings relative to the Company or any other obligor on the Notes, its or their creditors, or its or their property, and to collect and receive any monies or other property payable or deliverable on any such claims, and to distribute the same after the deduction of any amounts due the Trustee under Section 6.06; and any receiver, assignee or trustee in bankruptcy or reorganization, liquidator, custodian or similar official is hereby authorized by each of the Noteholders to make such payments to the Trustee, as administrative expenses, and, in the event that the Trustee shall consent to the making of such payments directly to the Noteholders, to pay to the Trustee any amount due it for reasonable compensation, expenses, advances and disbursements, including agent's and counsel fees, and including any other amounts due to the Trustee under Section 6.06 hereof, incurred by it up to the date of such distribution. To the extent that such payment of reasonable compensation, expenses, advances and disbursements out of the estate in any such proceedings shall be denied for any reason, payment of the same shall be secured by a lien on, and shall be paid out of, any and all distributions, dividends, monies, securities and other property that the holders of the Notes may be entitled to receive in such proceedings, whether in liquidation or under any plan of reorganization or arrangement or otherwise.

(c) Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Noteholder any plan of reorganization, arrangement, adjustment or composition affecting the Noteholder or the rights of any Noteholder thereof, or to authorize the Trustee to vote in respect of the claim of any Noteholder in any such proceeding.

(d) All rights of action and of asserting claims under this Indenture, or under any of the Notes, may be enforced by the Trustee without the possession of any of the Notes, or the production thereof at any trial or other proceeding relative thereto, and any such suit or proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the holders of the Notes.

(e) In any proceedings brought by the Trustee (and in any proceedings involving the interpretation of any provision of this Indenture to which the Trustee shall be a party) the Trustee shall be held to represent all the holders of the Notes, and it shall not be necessary to make any holders of the Notes parties to any such proceedings.

(f) In case the Trustee shall have proceeded to enforce any right under this Indenture and such proceedings shall have been discontinued or abandoned because of such waiver or rescission and annulment or for any other reason or shall have been determined adversely to the Trustee, then and in every such case the Company, the Noteholders, and the Trustee shall, subject to any determination in such proceeding, be restored respectively to their several positions and rights hereunder, and all rights, remedies and powers of the Company, the Noteholders, and the Trustee shall continue as though no such proceeding had been instituted.

SECTION 5.05 Application of Monies Collected by Trustee. Any monies collected by the Trustee pursuant to this Article 5 with respect to the Notes shall be applied in the order following, at the date or dates fixed by the Trustee for the distribution of such monies, upon presentation of the several Notes, and stamping thereon the payment, if only partially paid, and upon surrender thereof, if fully paid:

First, to the payment of all amounts due the Trustee under Section 6.06;

Second, in case the principal of the outstanding Notes shall not have become due and be unpaid, to the payment of interest on the Notes (including any Additional Interest) in default, in the order of the date due of the installments of such interest, with interest (to the extent that such interest has been collected by the Trustee) upon the overdue installments of interest at the rate borne by the Notes at such time, such payments to be made ratably to the Persons entitled thereto;

Third, in case the principal of the outstanding Notes shall have become due, by declaration or otherwise, and be unpaid to the payment of the whole amount including the payment of the Fundamental Change Purchase Price and the cash component of the Conversion Obligation, if any, then owing and unpaid upon the Notes for principal and interest (including any Additional Interest) with interest on the overdue principal and (to the extent that such interest has been collected by the Trustee) upon overdue installments of interest at the rate borne by the Notes at such time, and in case such monies shall be insufficient to pay in full the whole amounts so due and unpaid upon the Notes, then to the payment of such principal and interest without preference or priority of principal over interest, or of interest over principal or of any installment of interest over any other installment of interest, or of any Note over any other Note, ratably to the aggregate of such principal and accrued and unpaid interest (including any accrued and unpaid Additional Interest); and

Fourth, to the payment of the remainder, if any, to the Company.

SECTION 5.06 Proceedings by Noteholders. (a) No holder of any Note shall have any right by virtue of or by availing of any provision of this Indenture to institute any suit, action or proceeding in equity or at law upon or under or with respect to this Indenture, or for the appointment of a receiver, trustee, liquidator, custodian or other similar official, or for any other remedy hereunder, unless such holder previously shall have given to the Trustee written notice of an Event of Default and of the continuance thereof, as hereinbefore provided, and unless also the holders of not less than 25% in aggregate principal amount of the Notes then outstanding determined in accordance with Section 7.04 shall have made written request to the Trustee to institute such action, suit or proceeding in its own name as Trustee hereunder and shall have offered to the Trustee such security or indemnity reasonably satisfactory to it against any loss, liability or expense to be incurred therein or thereby, and the Trustee for sixty days after its receipt of such notice, request and offer of indemnity, shall have neglected or refused to institute any such action, suit or proceeding and no direction that, in the opinion of the Trustee, is inconsistent with such written request shall have been given to the Trustee by the holders of a majority in principal amount of the Notes outstanding within such sixty-day period pursuant to Section 5.09; it being understood and intended, and being expressly covenanted by the taker and holder of every Note with every other taker and holder and the Trustee that no one or more Noteholders shall have any right in any manner whatever by virtue of or by availing of any provision of this Indenture to affect, disturb or prejudice the rights of any other Noteholder, or to obtain or seek to obtain priority over or preference to any other such holder, or to enforce any right under this Indenture, except in the manner herein provided and for the equal, ratable and common benefit of all Noteholders (except as otherwise provided herein). For the protection and enforcement of this Section 5.06, each and every Noteholder and the Trustee shall be entitled to such relief as can be given either at law or in equity.

(b) Notwithstanding any other provision of this Indenture and any provision of any Note, the right of any Noteholder to receive payment of the principal of (including the consideration due upon conversion pursuant to Article 12 and the Fundamental Change Purchase Price upon purchase pursuant to Article 11), and accrued and unpaid interest (including any accrued and unpaid Additional Interest) on such Note, on or after the respective due dates expressed or provided for in such Note or in this Indenture, or to institute suit for the enforcement of any such payment on or after such respective dates against the Company shall not be impaired or affected without the consent of such Noteholder.

(c) Anything in this Indenture or the Notes to the contrary notwithstanding, the holder of any Note, without the consent of either the Trustee or the holder of any other Note, in its own behalf and for its own benefit, may enforce, and may institute and maintain any proceeding suitable to enforce, its rights of conversion as provided herein.

SECTION 5.07 Proceedings by Trustee. In case of an Event of Default the Trustee may in its discretion proceed to protect and enforce the rights vested in it by this Indenture by such appropriate judicial proceedings as are necessary to protect and enforce any of such rights, either by suit in equity or by action at law or by proceeding in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement contained in this Indenture or in aid of the exercise of any power granted in this Indenture, or to enforce any other legal or equitable right vested in the Trustee by this Indenture or by law.

SECTION 5.08 Remedies Cumulative and Continuing. Except as provided in the second paragraph of Section 2.07 and Section 5.03, all powers and remedies given by this Article 5 to the Trustee or to the Noteholders shall, to the extent permitted by law, be deemed cumulative and not exclusive of any thereof or of any other powers and remedies available to the Trustee or the holders of the Notes, by judicial proceedings or otherwise, to enforce the performance or observance of the covenants and agreements contained in this Indenture, and no delay or omission of the Trustee or of any holder of any of the Notes to exercise any right or power accruing upon any Default or Event of Default shall impair any such right or power, or shall be construed to be a waiver of any such Default or any acquiescence therein; and, subject to the provisions of Section 5.06, every power and remedy given by this Article 5 or by law to the Trustee or to the Noteholders may be exercised from time to time, and as often as shall be deemed expedient, by the Trustee or by the Noteholders.

SECTION 5.09 Direction of Proceedings and Waiver of Defaults by Majority of Noteholders. The holders of a majority in aggregate principal amount of the Notes at the time outstanding determined in accordance with Section 7.04 shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee with respect to Notes; provided, however, that (a) such direction shall not be in conflict with any rule of law or with this Indenture, and (b) the Trustee may take any other action deemed proper by the Trustee that is not inconsistent with such direction. The Trustee may refuse to follow any direction that it determines is unduly prejudicial to the rights of any other holder or that would involve the Trustee in personal liability. The holders of a majority in aggregate principal amount of the Notes at the time outstanding determined in accordance with Section 7.04 may on behalf of the holders of all of the Notes waive any past Default or Event of Default hereunder and its consequences except (i) a default in the payment of accrued and unpaid interest or accrued and unpaid Additional Interest, if any, on, or the principal (including any Fundamental Change Purchase Price) of, the Notes when due that has not been cured pursuant to the provisions of Section 5.02, (ii) a failure by the Company to deliver any consideration due upon conversion of the Notes or (iii) a default in respect of a covenant or provision hereof which under Article 9 cannot be modified or amended without the consent of each holder of an outstanding Note affected. Upon any such waiver the Company, the Trustee and the holders of the Notes shall be restored to their former positions and rights hereunder; but no such waiver shall extend to any subsequent or other Default or Event of Default or impair any right consequent thereon. Whenever any Default or Event of Default hereunder shall have been waived as permitted by this Section 5.09, said Default or Event of Default shall for all purposes of the Notes and this Indenture be deemed to have been cured and to be not continuing; but no such waiver shall extend to any subsequent or other Default or Event of Default or impair any right consequent thereon.

SECTION 5.10 Notice of Defaults. The Trustee shall, within ninety days after the occurrence and continuance of a Default of which a Responsible Officer has actual knowledge, mail to all Noteholders as the names and addresses of such holders appear upon the Note Register, notice of all Defaults known to a Responsible Officer, unless such Defaults shall have been cured or waived before the giving of such notice; and *provided* that, except in the case of a Default in the payment of the principal of, accrued and unpaid interest or accrued and unpaid Additional Interest, if any, on any of the Notes, including without limiting the generality of the foregoing any Default in the payment of any Fundamental Change Purchase Price, then in any such event the Trustee shall be protected in withholding such notice if and so long as a committee of Responsible Officers of the Trustee in good faith determine that the withholding of such notice is in the interests of the Noteholders.

SECTION 5.11 Undertaking to Pay Costs. All parties to this Indenture agree, and each holder of any Note by its acceptance thereof shall be deemed to have agreed, that any court may, in its discretion, require, in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees and expenses, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; provided that the provisions of this Section 5.11 (to the extent permitted by law) shall not apply to any suit instituted by the Trustee, to any suit instituted by any Noteholder, or group of Noteholders, holding in the aggregate more than 10% in aggregate principal amount of the Notes at the time outstanding determined in accordance with Section 7.04, or to any suit instituted by any Noteholder for the enforcement of the payment of the principal of accrued and unpaid interest or accrued and unpaid Additional Interest, if any, on any Note (including, but not limited to, the Fundamental Change Purchase Price with respect to the Notes being repurchased as provided in this Indenture) on or after the due date expressed or provided for in such Note or to any suit for the enforcement of the right to convert any Note in accordance with the provisions of Article 12.

ARTICLE VI CONCERNING THE TRUSTEE

SECTION 6.01 Duties and Responsibilities of Trustee. The Trustee, prior to the occurrence of an Event of Default and after the curing or waiver of all Events of Default that may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in this Indenture. In case an Event of Default has occurred (which has not been cured or waived) the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs; provided that if an Event of Default occurs and is continuing, the Trustee will be under no obligation to exercise any of the rights or powers under this Indenture at the request or direction of any of the holders unless such holders have offered to the Trustee reasonable indemnity or security against the costs, expenses and liabilities that might be incurred by it in compliance with such request or direction.

No provision of this Indenture shall be construed to relieve the Trustee from liability for its own grossly negligent action, its own grossly negligent failure to act or its own willful misconduct, except that

(a) prior to the occurrence of an Event of Default and after the curing or waiving of all Events of Default that may have occurred:

(i) the duties and obligations of the Trustee shall be determined solely by the express provisions of this Indenture and, if applicable, after it has been qualified thereunder, the Trust Indenture Act, and the Trustee shall not be liable except for the performance of such duties and obligations as are specifically set forth in this Indenture and no implied covenants or obligations shall be read into this Indenture and the Trust Indenture Act against the Trustee; and

(ii) in the absence of bad faith or willful misconduct on the part of the Trustee, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture; but, in the case of any such certificates or opinions that by any provisions hereof are specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Indenture (but need not confirm or investigate the accuracy of any mathematical calculations or other facts stated therein);

(b) the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer or Officers of the Trustee, unless it shall be proved that the Trustee was grossly negligent in ascertaining the pertinent facts;

(c) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the holders of not less than a majority in principal amount of the Notes at the time outstanding determined as provided in Section 7.04 relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under this Indenture;

(d) whether or not therein provided, every provision of this Indenture relating to the conduct or affecting the liability of, or affording protection to, the Trustee shall be subject to the provisions of this Section 6.01;

(e) the Trustee shall not be liable in respect of any payment (as to the correctness of amount, entitlement to receive or any other matters relating to payment) or notice effected by the Company or any Paying Agent or any records maintained by any co-registrar with respect to the Notes;

(f) if any party fails to deliver a notice relating to an event the fact of which, pursuant to this Indenture, requires notice to be sent to the Trustee, the Trustee may conclusively rely on its failure to receive such notice as reason to act as if no such event occurred, unless such Responsible Officer of the Trustee had actual knowledge of such event;

(g) in the absence of written investment direction from the Company, all cash received by the Trustee shall be placed in a non-interest bearing trust account, and in no event shall the Trustee be liable for the selection of investments or for investment losses incurred thereon or for losses incurred as a result of the liquidation of any such investment prior to its maturity date or the failure of the party directing such investments prior to its maturity date or the failure of the party directing such investment to provide timely written investment direction, and the Trustee shall have no obligation to invest or reinvest any amounts held hereunder in the absence of such written investment direction from the Company; and

(h) in the event that the Trustee is also acting as Custodian, Note Registrar, Paying Agent, Conversion Agent or transfer agent hereunder, the rights and protections afforded to the Trustee pursuant to this Article 6 shall also be afforded to such Custodian, Note Registrar, Paying Agent, Conversion Agent or transfer agent.

None of the provisions contained in this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur personal financial liability in the performance of any of its duties or in the exercise of any of its rights or powers.

SECTION 6.02 Reliance on Documents, Opinions, Etc. Except as otherwise provided in Section 6.01:

(a) the Trustee may conclusively rely and shall be fully protected in acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, bond, note, coupon or other paper or document believed by it in good faith to be genuine and to have been signed or presented by the proper party or parties;

(b) any request, direction, order or demand of the Company mentioned herein shall be sufficiently evidenced by an Officers' Certificate (unless other evidence in respect thereof be herein specifically prescribed); and any Board Resolution may be evidenced to the Trustee by a copy thereof certified by the Secretary or an Assistant Secretary of the Company;

(c) the Trustee may consult with counsel and require an Opinion of Counsel and any advice of such counsel or Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken or omitted by it hereunder in good faith and in accordance with such advice or Opinion of Counsel;

(d) the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled, at a reasonable time on any Business Day, to examine the books, records and premises of the Company, personally or by agent or attorney at the expense of the Company and shall incur no liability of any kind by reason of such inquiry or investigation;

(e) the Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents, custodians, nominees or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent, custodian, nominee or attorney appointed by it with due care hereunder; and

(f) the permissive rights of the Trustee enumerated herein shall not be construed as duties.

The Trustee may request that the Company deliver an Officers' Certificate setting forth the name of the individuals and/or titles of Officers authorized at such time to take specific actions pursuant to this Indenture, which Officers' Certificate may be signed by any Person authorized to sign an Officers' Certificate, including any person specified as so authorized in any such Officers' Certificate previously delivered and not superseded.

The rights, privileges, protections, immunities and benefits given to the Trustee, including, without limitation, its right to be indemnified, are extended to, and shall be enforceable by, the Trustee in each of its capacities hereunder, and each agent, custodian and other Person employed to act hereunder.

In no event shall the Trustee be liable for any consequential loss or damage of any kind whatsoever (including but not limited to lost profits), even if the Trustee has been advised of the likelihood of such loss or damage and regardless of the form of action. The Trustee shall not be charged with knowledge of any Default or Event of Default with respect to the Notes, unless either (1) a Responsible Officer shall have actual knowledge of such Default or Event of Default or (2) written notice of such Default or Event of Default shall have been given to a Responsible Officer of the Trustee by the Company or by any holder of the Notes.

SECTION 6.03 No Responsibility for Recitals, Etc. The recitals contained herein and in the Notes (except in the Trustee's certificate of authentication) shall be taken as the statements of the Company, and the Trustee assumes no responsibility for the correctness of the same. The Trustee makes no representations as to the validity or sufficiency of this Indenture or of the Notes. The Trustee shall not be accountable for the use or application by the Company of any Notes or the proceeds of any Notes authenticated and delivered by the Trustee in conformity with the provisions of this Indenture.

SECTION 6.04 Trustee, Paying Agents, Conversion Agents or Registrar May Own Notes. The Trustee, any Paying Agent, any Conversion Agent or Note Registrar, in its individual or any other capacity, may become the owner or pledgee of Notes with the same rights it would have if it were not the Trustee, Paying Agent, Conversion Agent or Note Registrar.

SECTION 6.05 Monies to Be Held in Trust. All monies received by the Trustee shall, until used or applied as herein provided, be held in trust for the purposes for which they were received. Money held by the Trustee in trust hereunder need not be segregated from other funds except to the extent required by law. The Trustee shall be under no liability for interest on any money received by it hereunder except as may be agreed from time to time by the Company and the Trustee.

SECTION 6.06 Compensation and Expenses of Trustee. The Company covenants and agrees to pay to the Trustee from time to time, and the Trustee shall be entitled to, reasonable compensation for all services rendered by it hereunder in any capacity (which shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust) as mutually agreed to in writing between the Trustee and the Company, and the Company will pay or reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances reasonably incurred or made by the Trustee in accordance with any of the provisions of this Indenture in any capacity hereunder (including the reasonable compensation and the expenses and disbursements of its agents and counsel and of all Persons not regularly in its employ) except any such expense, disbursement or advance as shall have been caused by its gross negligence, willful misconduct or bad faith. The Company also covenants to indemnify the Trustee in any capacity under this Indenture and any other document or transaction entered into in connection herewith and its agents and any authenticating agent for, and to hold them harmless against, any loss, claim, damage, liability or expense incurred without gross negligence, willful misconduct or bad faith on the part of the Trustee, its officers, directors, agents or employees, or such agent or authenticating agent, as the case may be, and arising out of or in connection with the acceptance or administration of this trust or in any other capacity hereunder, including the costs and expenses of defending themselves against any claim of liability in the premises. The obligations of the Company under this Section 6.06 to compensate or indemnify the Trustee and to pay or reimburse the Trustee for expenses, disbursements and advances shall be secured (subject to Section 14.07 below) by a senior claim to which the Notes are hereby made subordinate on all money or property held or collected by the Trustee, except, subject to the effect of Section 5.05, funds held in trust herewith for the benefit of the holders of particular Notes. The obligation of the Company under this Section 6.06 shall survive the satisfaction and discharge of this Indenture and the earlier resignation or removal of the Trustee. The Company need not pay for any settlement made without its consent, which consent shall not be unreasonably withheld. The indemnification provided in this Section 6.06 shall extend to the officers, directors, agents and employees of the Trustee and shall survive the termination of this Indenture and the resignation or removal of the Trustee.

Without prejudice to any other rights available to the Trustee under applicable law, when the Trustee and its agents and any authenticating agent incur expenses or render services after an Event of Default specified in Section 5.01(h) occurs, the expenses and the compensation for the services are intended to constitute expenses of administration under any bankruptcy, insolvency or similar laws.

SECTION 6.07 Officers' Certificate as Evidence. Except as otherwise provided in Section 6.01, whenever in the administration of the provisions of this Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or omitting any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may, in the absence of gross negligence, willful misconduct or bad faith on the part of the Trustee, be deemed to be conclusively proved and established by an Officers' Certificate delivered to the Trustee, and such Officers' Certificate, in the absence of gross negligence, willful misconduct or bad faith on the part of the Trustee, shall be full warrant to the Trustee for any action taken or omitted by it under the provisions of this Indenture upon the faith thereof.

SECTION 6.08 Conflicting Interests of Trustee. After qualification of this Indenture under the Trust Indenture Act (if applicable), if the Trustee has or shall acquire a conflicting interest within the meaning of the Trust Indenture Act, the Trustee shall either (a) eliminate such interest within ninety days, (b) apply to the Commission for permission to continue as Trustee or (c) resign, to the extent and in the manner provided by, and subject to the provisions of, the Trust Indenture Act and this Indenture.

SECTION 6.09 Eligibility of Trustee. There shall at all times be a Trustee hereunder which shall be a Person that is eligible pursuant to the Trust Indenture Act to act as such and has a combined capital and surplus of at least \$50,000,000. If such Person publishes reports of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority, then for the purposes of this Section 6.09, the combined capital and surplus of such Person shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section 6.09, it shall resign immediately in the manner and with the effect hereinafter specified in this Article.

SECTION 6.10 Resignation or Removal of Trustee.

(a) The Trustee may at any time resign by giving written notice of such resignation to the Company and by mailing notice thereof to the Noteholders at their addresses as they shall appear on the Note Register. Upon receiving such notice of resignation, the Company shall promptly appoint a successor trustee by written instrument, in duplicate, executed by order of the Board of Directors, one copy of which instrument shall be delivered to the resigning Trustee and one copy to the successor trustee. If no successor trustee shall have been so appointed and have accepted appointment within sixty days after the mailing of such notice of resignation to the Noteholders, the resigning Trustee may, at the expense of the Company, petition any court of competent jurisdiction for the appointment of a successor trustee, or any Noteholder who has been a bona fide holder of a Note or Notes for at least six months may, subject to the provisions of Section 5.11, on behalf of himself and all others similarly situated, petition any such court for the appointment of a successor trustee. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, appoint a successor trustee.

(b) In case at any time any of the following shall occur:

(i) the Trustee shall fail to comply with Section 6.08 within a reasonable time after written request therefor by the Company or by any Noteholder who has been a bona fide holder of a Note or Notes for at least six months, or

(ii) the Trustee shall cease to be eligible in accordance with the provisions of Section 6.09 and shall fail to resign after written request therefor by the Company or by any such Noteholder, or

(iii) the Trustee shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or of its property shall be appointed, or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, the Company may by a Board Resolution remove the Trustee and appoint a successor trustee by written instrument, in duplicate, executed by order of the Board of Directors, one copy of which instrument shall be delivered to the Trustee so removed and one copy to the successor trustee, or, subject to the provisions of Section 5.11, any Noteholder who has been a bona fide holder of a Note or Notes for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor trustee. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, remove the Trustee and appoint a successor trustee.

(c) The holders of a majority in aggregate principal amount of the Notes at the time outstanding, as determined in accordance with Section 7.04, may at any time remove the Trustee and nominate a successor trustee that shall be deemed appointed as successor trustee unless within ten days after notice to the Company of such nomination the Company objects thereto, in which case the Trustee so removed or any Noteholder, upon the terms and conditions and otherwise as in Section 6.10(a) provided, may petition any court of competent jurisdiction for an appointment of a successor trustee.

(d) Any resignation or removal of the Trustee and appointment of a successor trustee pursuant to any of the provisions of this Section 6.10 shall become effective upon acceptance of appointment by the successor trustee as provided in Section 6.11.

SECTION 6.11 Acceptance by Successor Trustee. Any successor trustee appointed as provided in Section 6.10 shall execute, acknowledge and deliver to the Company and to its predecessor trustee an instrument accepting such appointment hereunder, and thereupon the resignation or removal of the predecessor trustee shall become effective and such successor trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, duties and obligations of its predecessor hereunder, with like effect as if originally named as trustee herein; but, nevertheless, on the written request of the Company or of the successor trustee, the trustee ceasing to act shall, upon payment of any amounts then due it pursuant to the provisions of Section 6.06, execute and deliver an instrument transferring to such successor trustee all the rights and powers of the trustee so ceasing to act.

Upon request of any such successor trustee, the Company shall execute any and all instruments in writing for more fully and certainly vesting in and confirming to such successor trustee all such rights and powers. Any trustee ceasing to act shall, nevertheless, retain a senior claim to which the Notes are hereby made subordinate on all money or property held or collected by such trustee as such, except for funds held in trust for the benefit of holders of particular Notes, to secure any amounts then due it pursuant to the provisions of Section 6.06, subject to Section 14.07 below.

No successor trustee shall accept appointment as provided in this Section 6.11 unless at the time of such acceptance such successor trustee shall be qualified under the provisions of Section 6.08 and be eligible under the provisions of Section 6.09.

Upon acceptance of appointment by a successor trustee as provided in this Section 6.11, each of the Company and the successor trustee, at the written direction and at the expense of the Company, shall mail or cause to be mailed notice of the succession of such trustee hereunder to the Noteholders at their addresses as they shall appear on the Note Register. If the Company fails to mail such notice within ten days after acceptance of appointment by the successor trustee, the successor trustee shall cause such notice to be mailed at the expense of the Company.

SECTION 6.12 Succession by Merger, Etc. Any corporation or other entity into which the Trustee may be merged or converted or with which it may be consolidated, or any corporation or other entity resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any corporation or other entity succeeding to all or substantially all of the corporate trust business of the Trustee (including the administration of this Indenture), shall be the successor to the Trustee hereunder without the execution or filing of any paper or any further act on the part of any of the parties hereto, provided that in the case of any corporation or other entity succeeding to all or substantially all of the corporate trust business of the Trustee, such corporation or other entity shall be qualified under the provisions of Section 6.08 and eligible under the provisions of Section 6.09.

In case at the time such successor to the Trustee shall succeed to the trusts created by this Indenture, any of the Notes shall have been authenticated but not delivered, any such successor to the Trustee may adopt the certificate of authentication of any predecessor trustee or authenticating agent appointed by such predecessor trustee, and deliver such Notes so authenticated; and in case at that time any of the Notes shall not have been authenticated, any successor to the Trustee or an authenticating agent appointed by such successor trustee may authenticate such Notes either in the name of any predecessor trustee hereunder or in the name of the successor trustee; and in all such cases such certificates shall have the full force which it is anywhere in the Notes or in this Indenture provided that the certificate of the Trustee shall have; provided, however, that the right to adopt the certificate of authentication of any predecessor Trustee or to authenticate Notes in the name of any predecessor Trustee shall apply only to its successor or successors by merger, conversion or consolidation.

SECTION 6.13 Limitation on Rights of Trustee as Creditor. If and when the Trustee shall be or become a creditor of the Company (or any other obligor upon the Notes), after qualification under the Trust Indenture Act (if applicable), the Trustee shall be subject to the provisions of the Trust Indenture Act regarding the collection of the claims against the Company (or any such other obligor).

SECTION 6.14 Trustee's Application for Instructions from the Company. Any application by the Trustee for written instructions from the Company (other than with regard to any action proposed to be taken or omitted to be taken by the Trustee that affects the rights of the holders of the Notes under this Indenture) may, at the option of the Trustee, set forth in writing any action proposed to be taken or omitted by the Trustee under this Indenture and the date on and/or after which such action shall be taken or such omission shall be effective. The Trustee shall not be liable for any action taken by, or omission of, the Trustee in accordance with a proposal included in such application on or after the date specified in such application (which date shall not be less than three Business Days after the date any officer that the Company has indicated to the Trustee should receive such application actually receives such application, unless any such officer shall have consented in writing to any earlier date), unless, prior to taking any such action (or the effective date in the case of any omission), the Trustee shall have received written instructions in accordance with this Indenture in response to such application specifying the action to be taken or omitted.

SECTION 6.15 Lists of Noteholders. The Company covenants and agrees that it will furnish or cause to be furnished to the Trustee, semi-annually, not more than fifteen days after each May 1 and November 1 in each year, beginning with May 1, 2011, and at such other times as the Trustee may request in writing, within thirty days after receipt by the Company of any such request (or such lesser time as the Trustee may reasonably request in order to enable it to timely provide any notice to be provided by it hereunder), a list in such form as the Trustee may reasonably require of the names and addresses of the Noteholders as of a date not more than fifteen days (or such other date as the Trustee may reasonably request in order to so provide any such notices) prior to the time such information is furnished, except that no such list need be furnished so long as the Trustee is acting as Note Registrar.

SECTION 6.16 Preservation and Disclosure of Lists.

(a) The Trustee shall preserve, in as current a form as is reasonably practicable, all information as to the names and addresses of the Noteholders contained in the most recent list furnished to it as provided in Section 6.15 or maintained by the Trustee in its capacity as Note Registrar, if so acting. The Trustee may destroy any list furnished to it as provided in Section 6.16 upon receipt of a new list so furnished.

(b) The rights of Noteholders to communicate with other Noteholders with respect to their rights under this Indenture or under the Notes and the corresponding rights and duties of the Trustee, shall be as provided by the Trust Indenture Act.

(c) Every Noteholder, by receiving and holding the same, agrees with the Company and the Trustee that neither the Company nor the Trustee nor any agent of either of them shall be held accountable by reason of any disclosure of information as to names and addresses of Noteholders made pursuant to the Trust Indenture Act.

SECTION 6.17 Reports by Trustee.

(a) The Trustee shall transmit to holders such reports concerning the Trustee and its actions under this Indenture as may be required pursuant to the Trust Indenture Act at the times and in the manner provided pursuant thereto. If required by Section 313(a) of the Trust Indenture Act, the Trustee shall, within sixty days after each February 15 following the date of this Indenture, deliver to holders a brief report, dated as of such February 15, that complies with the provisions of such Section 313(a).

(b) A copy of each such report shall, at the time of such transmission to Noteholders, be filed by the Trustee with each stock exchange and automated quotation system upon which the Notes are listed and with the Company. The Company will notify the Trustee in writing within a reasonable time when the Notes are listed on any stock exchange or automated quotation system and when any such listing is discontinued.

ARTICLE VII CONCERNING THE NOTEHOLDERS

SECTION 7.01 Action by Noteholders. Whenever in this Indenture it is provided that the holders of a specified percentage in aggregate principal amount of the Notes may take any action (including the making of any demand or request, the giving of any notice, consent or waiver or the taking of any other action), the fact that at the time of taking any such action, the holders of such specified percentage have joined therein may be evidenced (a) by any instrument or any number of instruments of similar tenor executed by Noteholders in person or by agent or proxy appointed in writing, or (b) by the record of the Noteholders voting in favor thereof at any meeting of Noteholders duly called and held in accordance with the provisions of Article 8, or (c) by a combination of such instrument or instruments and any such record of such a meeting of Noteholders. Whenever the Company or the Trustee solicits the taking of any action by the holders of the Notes, the Company or the Trustee may, but shall not be required to, fix in advance of such solicitation, a date as the record date for determining Noteholders entitled to take such action. The record date if one is selected shall be not more than fifteen days prior to the date of commencement of solicitation of such action.

SECTION 7.02 Proof of Execution by Noteholders. Subject to the provisions of Section 6.01, Section 6.02 and Section 8.05, proof of the execution of any instrument by a Noteholder or its agent or proxy shall be sufficient if made in accordance with such reasonable rules and regulations as may be prescribed by the Trustee or in such manner as shall be satisfactory to the Trustee. The holding of Notes shall be proved by the Note Register or by a certificate of the Note Registrar. The record of any Noteholders' meeting shall be proved in the manner provided in Section 8.06.

SECTION 7.03 Who Are Deemed Absolute Owners. The Company, the Trustee, any authenticating agent, any Paying Agent, any Conversion Agent and any Note Registrar may deem the Person in whose name a Note shall be registered upon the Note Register to be, and may treat it as, the absolute owner of such Note (whether or not such Note shall be overdue and notwithstanding any notation of ownership or other writing thereon made by any Person other than the Company or any Note Registrar) for the purpose of receiving payment of or on account of the principal of (including the payment of the Fundamental Change Purchase Price), and (subject to Section 4.01(d)) accrued and unpaid interest (including any accrued and unpaid Additional Interest) on such Note, for conversion of such Note and for all other purposes; and neither the Company nor the Trustee nor any Paying Agent nor any Conversion Agent nor any Note Registrar shall be affected by any notice to the contrary. All such payments so made to any holder for the time being, or upon its order, shall be valid and, to the extent of the sum or sums so paid, effectual to satisfy and discharge the liability for monies payable upon any such Note. Notwithstanding anything to the contrary in this Indenture or the Notes following an Event of Default, any holder of a beneficial interest in a Global Note may directly enforce against the Company, without the consent, solicitation, proxy, authorization or any other action of the Depositary or any other Person, such holder's right to exchange such beneficial interest for a Note in certificated form in accordance with the provisions of this Indenture.

SECTION 7.04 Company-Owned Notes Disregarded. In determining whether the holders of the requisite aggregate principal amount of Notes have concurred in any direction, consent, waiver or other action under this Indenture, Notes that are owned by the Company or by any Person directly or indirectly controlling or controlled by or under direct or indirect common control with the Company shall be disregarded and deemed not to be outstanding for the purpose of any such determination; provided that for the purposes of determining whether the Trustee shall be protected in relying on any such direction, consent, waiver or other action only Notes that a Responsible Officer knows are so owned shall be so disregarded. Notes so owned that have been pledged in good faith may be regarded as outstanding for the purposes of this Section 7.04 if the pledgee shall establish to the satisfaction of the Trustee the pledgee's right to so act with respect to such Notes and that the pledgee is not the Company or a Person directly or indirectly controlling or controlled by or under direct or indirect common control with the Company. In the case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel shall be full protection to the Trustee. Upon request of the Trustee, the Company shall furnish to the Trustee promptly an Officers' Certificate listing and identifying all Notes, if any, known by the Company to be owned or held by or for the account of any of the above described Persons; and, subject to Section 6.01, the Trustee shall be entitled to accept such Officers' Certificate as conclusive evidence of the facts therein set forth and of the fact that all Notes not listed therein are outstanding for the purpose of any such determination.

SECTION 7.05 Revocation of Consents; Future Noteholders Bound. At any time prior to (but not after) the evidencing to the Trustee, as provided in Section 7.01, of the taking of any action by the holders of the percentage in aggregate principal amount of the Notes specified in this Indenture in connection with such action, any holder of a Note that is shown by the evidence to be included in the Notes the holders of which have consented to such action may, by filing written notice with the Trustee at its Corporate Trust Office and upon proof of holding as provided in Section 7.02, revoke such action so far as concerns such Note. Except as aforesaid, any such action taken by the holder of any Note shall be conclusive and binding upon such holder and upon all future holders and owners of such Note and of any Notes issued in exchange or substitution therefor or upon registration of transfer thereof, irrespective of whether any notation in regard thereto is made upon such Note or any Note issued in exchange or substitution therefor or upon registration of transfer thereof.

ARTICLE VIII NOTEHOLDERS' MEETINGS

SECTION 8.01 Purpose of Meetings. A meeting of Noteholders may be called at any time and from time to time pursuant to the provisions of this Article 8 for any of the following purposes:

- (a) to give any notice to the Company or to the Trustee or to give any directions to the Trustee permitted under this Indenture, or to consent to the waiving of any Default or Event of Default hereunder and its consequences, or to take any other action authorized to be taken by Noteholders pursuant to any of the provisions of Article 5;
- (b) to remove the Trustee and nominate a successor trustee pursuant to the provisions of Article 6;
- (c) to consent to the execution of an indenture or indentures supplemental hereto pursuant to the provisions of Section 9.02; or
- (d) to take any other action authorized to be taken by or on behalf of the holders of any specified aggregate principal amount of the Notes under any other provision of this Indenture or under applicable law.

SECTION 8.02 Call of Meetings by Trustee. The Trustee may at any time call a meeting of Noteholders to take any action specified in Section 8.01, to be held at such time and at such place as the Trustee shall determine. Notice of every meeting of the Noteholders, setting forth the time and the place of such meeting and in general terms the action proposed to be taken at such meeting and the establishment of any record date pursuant to Section 7.01, shall be mailed to holders of such Notes at their addresses as they shall appear on the Note Register. Such notice shall also be mailed to the Company. Such notices shall be mailed not less than twenty nor more than ninety days prior to the date fixed for the meeting.

Any meeting of Noteholders shall be valid without notice if the holders of all Notes then outstanding are present in person or by proxy or if notice is waived before or after the meeting by the holders of all Notes outstanding, and if the Company and the Trustee are either present by duly authorized representatives or have, before or after the meeting, waived notice.

SECTION 8.03 Call of Meetings by Company or Noteholders. In case at any time the Company, pursuant to a Board Resolution, or the holders of at least 10% in aggregate principal amount of the Notes then outstanding (for the avoidance of doubt, excluding those Notes identified in Section 7.04), shall have requested the Trustee to call a meeting of Noteholders, by written request setting forth in reasonable detail the action proposed to be taken at the meeting, and the Trustee shall not have mailed the notice of such meeting within twenty days after receipt of such request, then the Company or such Noteholders may determine the time and the place for such meeting and may call such meeting to take any action authorized in Section 8.01, by mailing notice thereof as provided in Section 8.02.

SECTION 8.04 Qualifications for Voting. To be entitled to vote at any meeting of Noteholders a Person shall (a) be a holder of one or more Notes on the record date pertaining to such meeting or (b) be a Person appointed by an instrument in writing as proxy by a holder of one or more Notes on the record date pertaining to such meeting. The only Persons who shall be entitled to be present or to speak at any meeting of Noteholders shall be the Persons entitled to vote at such meeting and their counsel and any representatives of the Trustee and its counsel and any representatives of the Company and its counsel.

SECTION 8.05 Regulations. Notwithstanding any other provisions of this Indenture, the Trustee may make such reasonable regulations as it may deem advisable for any meeting of Noteholders, in regard to proof of the holding of Notes and of the appointment of proxies, and in regard to the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidence of the right to vote, and such other matters concerning the conduct of the meeting as it shall think fit.

The Trustee shall, by an instrument in writing, appoint a temporary chairman of the meeting, unless the meeting shall have been called by the Company or by Noteholders as provided in Section 8.03, in which case the Company or the Noteholders calling the meeting, as the case may be, shall in like manner appoint a temporary chairman. A permanent chairman and a permanent secretary of the meeting shall be elected by vote of the holders of a majority in principal amount of the Notes represented at the meeting and entitled to vote at the meeting.

Subject to the provisions of Section 7.04, at any meeting of Noteholders each Noteholder or proxyholder shall be entitled to one vote for each \$1,000 principal amount of Notes held or represented by him; provided, however, that no vote shall be cast or counted at any meeting in respect of any Note challenged as not outstanding and ruled by the chairman of the meeting to be not outstanding. The chairman of the meeting shall have no right to vote other than by virtue of Notes held by it or instruments in writing as aforesaid duly designating it as the proxy to vote on behalf of other Noteholders. Any meeting of Noteholders duly called pursuant to the provisions of Section 8.02 or Section 8.03 may be adjourned from time to time by the holders of a majority of the aggregate principal amount of Notes represented at the meeting, whether or not constituting a quorum, and the meeting may be held as so adjourned without further notice.

SECTION 8.06 Voting. The vote upon any resolution submitted to any meeting of Noteholders shall be by written ballot on which shall be subscribed the signatures of the Noteholders or of their representatives by proxy and the outstanding principal amount of the Notes held or represented by them. The permanent chairman of the meeting shall appoint two inspectors of votes who shall count all votes cast at the meeting for or against any resolution and who shall make and file with the secretary of the meeting their verified written reports in duplicate of all votes cast at the meeting. A record in duplicate of the proceedings of each meeting of Noteholders shall be prepared by the secretary of the meeting and there shall be attached to said record the original reports of the inspectors of votes on any vote by ballot taken thereat and affidavits by one or more Persons having knowledge of the facts setting forth a copy of the notice of the meeting and showing that said notice was mailed as provided in Section 8.02. The record shall show the principal amount of the Notes voting in favor of or against any resolution. The record shall be signed and verified by the affidavits of the permanent chairman and secretary of the meeting and one of the duplicates shall be delivered to the Company and the other to the Trustee to be preserved by the Trustee, the latter to have attached thereto the ballots voted at the meeting.

Any record so signed and verified shall be conclusive evidence of the matters therein stated.

SECTION 8.07 No Delay of Rights by Meeting. Nothing contained in this Article 8 shall be deemed or construed to authorize or permit, by reason of any call of a meeting of Noteholders or any rights expressly or impliedly conferred hereunder to make such call, any hindrance or delay in the exercise of any right or rights conferred upon or reserved to the Trustee or to the Noteholders under any of the provisions of this Indenture or of the Notes.

ARTICLE IX SUPPLEMENTAL INDENTURES

SECTION 9.01 Supplemental Indentures Without Consent of Noteholders. The Company and the Trustee, at the Company's expense, may from time to time and at any time enter into an indenture or indentures supplemental hereto for one or more of the following purposes:

- (a) to cure any ambiguity, omission, defect or inconsistency in this Indenture or the Notes;
- (b) to conform the terms of the Indenture or the Notes to the description thereof in the Offering Memorandum;
- (c) to provide for the assumption by a Successor Company of the obligations of the Company under this Indenture pursuant to Article 10;
- (d) to add guarantees with respect to the Notes;
- (e) to secure the Notes;
- (f) to add to the covenants of the Company further covenants, restrictions or conditions for the benefit of the Noteholders or surrender any right or power conferred upon the Company;
- (g) to make any change that does not materially adversely affect the rights of any holder;
- (h) to appoint a successor Trustee with respect to the Notes; or
- (i) to comply with any requirements of the Commission in connection with the qualification of this Indenture under the Trust Indenture Act.

Upon the written request of the Company, the Trustee is hereby authorized to join with the Company in the execution of any such supplemental indenture, to make any further appropriate agreements and stipulations that may be therein contained, but the Trustee shall not be obligated to, but may in its discretion, enter into any supplemental indenture that affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

Any supplemental indenture authorized by the provisions of this Section 9.01 may be executed by the Company and the Trustee without the consent of the holders of any of the Notes at the time outstanding, notwithstanding any of the provisions of Section 9.02.

SECTION 9.02 Supplemental Indentures With Consent of Noteholders. With the consent (evidenced as provided in Article 7) of the holders of at least a majority in aggregate principal amount of the Notes at the time outstanding (determined in accordance with Article 7 and including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes), the Company, when authorized by the resolutions of the Board of Directors, and the Trustee, at the Company's expense, may from time to time and at any time enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or any supplemental indenture or of modifying in any manner the rights of the holders of the Notes or waiving any past default; *provided, however*, that no such supplemental indenture shall:

- (a) reduce the percentage in aggregate principal amount of Notes outstanding necessary to modify or amend this Indenture or to waive any past Default or Event of Default;
- (b) reduce the rate or extend the stated time for payment of interest (including any Additional Interest), on any Note;
- (c) reduce the principal amount of, or change the Maturity Date of, any Note;
- (d) make any change that impairs or adversely affects the conversion rights of any Notes;
- (e) reduce the Fundamental Change Purchase Price of any Note or amend or modify in any manner adverse to the holders of the Notes the Company's obligation to make such payment, whether through an amendment or waiver of provisions in the covenants, definitions or otherwise;
- (f) make any Note payable in a currency other than that stated in the Note;
- (g) change the ranking of the Notes;
- (h) impair the right of any holder to receive payment of principal of and interest (including any Additional Interest) on such holder's Notes on or after the due dates therefor or to institute suit for the enforcement of any payment on or with respect to such holder's Note;
- (i) make any change in this Article 9 that requires each holder's consent or in the waiver provisions in Section 5.01 or Section 5.09;
or
- (j) reduce the quorum or voting requirements under this Indenture,

in each case without the consent of each holder of an outstanding Note affected.

Upon the written request of the Company, and upon the filing with the Trustee of evidence of the consent of Noteholders as aforesaid and subject to Section 9.05, the Trustee shall join with the Company in the execution of such supplemental indenture unless such supplemental indenture affects the Trustee's own rights, duties or immunities under this Indenture or otherwise, in which case the Trustee may in its discretion, but shall not be obligated to, enter into such supplemental indenture.

It shall not be necessary for the consent of the Noteholders under this Section 9.02 to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such consent shall approve the substance thereof. After an amendment under this Indenture becomes effective, the Company shall mail to the holders a notice briefly describing such amendment. However, the failure to give such notice to all the holders, or any defect in the notice, will not impair or affect the validity of the amendment.

SECTION 9.03 Effect of Supplemental Indentures. Any supplemental indenture executed pursuant to the provisions of this Article 9 shall comply with the Trust Indenture Act, as then in effect; provided that this Section 9.03 shall not require such supplemental indenture to be qualified under the Trust Indenture Act prior to the time such qualification is in fact required under the terms of the Trust Indenture Act or this Indenture has been qualified under the Trust Indenture Act, nor shall any such qualification constitute any admission or acknowledgment by any party to such supplemental indenture that any such qualification is required prior to the time such qualification is in fact required under the terms of the Trust Indenture Act or this Indenture has been qualified under the Trust Indenture Act. Upon the execution of any supplemental indenture pursuant to the provisions of this Article 9, this Indenture shall be and be deemed to be modified and amended in accordance therewith and the respective rights, limitation of rights, obligations, duties and immunities under this Indenture of the Trustee, the Company and the Noteholders shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modifications and amendments and all the terms and conditions of any such supplemental indenture shall be and be deemed to be part of the terms and conditions of this Indenture for any and all purposes.

SECTION 9.04 Notation on Notes. Notes authenticated and delivered after the execution of any supplemental indenture pursuant to the provisions of this Article 9 may, at the Company's expense, bear a notation as to any matter provided for in such supplemental indenture. If the Company shall so determine, new Notes so modified as to conform, in the opinion of the Board of Directors, to any modification of this Indenture contained in any such supplemental indenture may, at the Company's expense, be prepared and executed by the Company, authenticated by the Trustee (or an authenticating agent duly appointed by the Trustee pursuant to Section 14.11) and delivered in exchange for the Notes then outstanding, upon surrender of such Notes then outstanding.

SECTION 9.05 Evidence of Compliance of Supplemental Indenture to Be Furnished to Trustee. In addition to the documents required by Section 14.05, the Trustee shall receive an Officers' Certificate and an Opinion of Counsel each stating that and as conclusive evidence that any supplemental indenture executed pursuant hereto complies with the requirements of this Article 9 and is permitted or authorized by the Indenture.

ARTICLE X
CONSOLIDATION, MERGER, SALE, CONVEYANCE AND LEASE

SECTION 10.01 Company May Consolidate, Etc. on Certain Terms. Subject to the provisions of Section 10.02, the Company shall not consolidate with, merge with or into, or convey, transfer or lease all or substantially all of its properties and assets to another Person, unless:

(a) the resulting, surviving or transferee Person (the “**Successor Company**”), if not the Company, shall be a corporation organized and existing under the laws of the United States of America, any State thereof or the District of Columbia, and the Successor Company (if not the Company) shall expressly assume, by supplemental indenture, executed and delivered to the Trustee, in form satisfactory to the Trustee, all the obligations of the Company under the Notes and this Indenture; and

(b) immediately after giving effect to such transaction, no Default or Event of Default shall have occurred and be continuing under this Indenture.

Upon any such consolidation, merger, conveyance, transfer or lease the Successor Company (if not the Company) shall succeed to, and may exercise every right and power of, the Company under this Indenture.

For purposes of this Section 10.01, the conveyance, transfer or lease of all or substantially all of the properties and assets of one or more Subsidiaries of the Company to another Person, which properties and assets, if held by the Company instead of such Subsidiaries, would constitute all or substantially all of the properties and assets of the Company, shall be deemed to be the transfer of all or substantially all of the properties and assets of the Company to another Person.

SECTION 10.02 Successor Corporation to Be Substituted. In case of any such consolidation, merger, conveyance, transfer or lease and upon the assumption by the Successor Company, by supplemental indenture, executed and delivered to the Trustee and satisfactory in form to the Trustee, of the due and punctual payment of the principal of (including any Fundamental Change Purchase Price), accrued and unpaid interest (including any accrued and unpaid Additional Interest) on all of the Notes, the due and punctual delivery or payment, as the case may be, of any consideration due upon conversion of the Notes and the due and punctual performance of all of the covenants and conditions of this Indenture to be performed by the Company, such Successor Company shall succeed to and be substituted for the Company, with the same effect as if it had been named herein as the party of the first part. Such Successor Company thereupon may cause to be signed, and may issue in its own name any or all of the Notes issuable hereunder which theretofore shall not have been signed by the Company and delivered to the Trustee; and, upon the order of such Successor Company instead of the Company and subject to all the terms, conditions and limitations in this Indenture prescribed, the Trustee shall authenticate and shall deliver, or cause to be authenticated and delivered, any Notes that such Successor Company thereafter shall cause to be signed and delivered to the Trustee for that purpose. All the Notes so issued shall in all respects have the same legal rank and benefit under this Indenture as the Notes theretofore or thereafter issued in accordance with the terms of this Indenture as though all of such Notes had been issued at the date of the execution hereof. In the event of any such consolidation, merger, conveyance or transfer (but not in the case of a lease), the Person named as the “Company” in the first paragraph of this Indenture or any successor that shall thereafter have become such in the manner prescribed in this Article 10 may be dissolved, wound up and liquidated at any time thereafter and, except in the case of a lease, such Person shall be released from its liabilities as obligor and maker of the Notes and from its obligations under this Indenture.

In case of any such consolidation, merger, conveyance, transfer or lease, such changes in phraseology and form (but not in substance) may be made in the Notes thereafter to be issued as may be appropriate.

SECTION 10.03 Opinion of Counsel to Be Given to Trustee. The Company shall not effect any merger, consolidation, conveyance, transfer or lease referred to in Section 10.01 unless the Trustee shall receive an Officers' Certificate and an Opinion of Counsel each stating that and as conclusive evidence that any such consolidation, merger, conveyance, transfer or lease and any such assumption and, if a supplemental indenture is required in connection with such transaction, such supplemental indenture, complies with the provisions of this Article 10.

ARTICLE XI IMMUNITY OF INCORPORATORS, STOCKHOLDERS, OFFICERS AND DIRECTORS

SECTION 11.01 Indenture and Notes Solely Corporate Obligations. No recourse for the payment of the principal of (including any Fundamental Change Purchase Price) or accrued and unpaid interest (including any accrued and unpaid Additional Interest) on any Note, nor for any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of the Company in this Indenture or in any supplemental indenture or in any Note, nor because of the creation of any indebtedness represented thereby, shall be had against any incorporator, stockholder, employee, agent, officer or director or Subsidiary, as such, past, present or future, of the Company or of any successor corporation or entity, either directly or through the Company or any successor corporation or entity, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise; it being expressly understood that all such liability is hereby expressly waived and released as a condition of, and as a consideration for, the execution of this Indenture and the issuance of the Notes.

ARTICLE XII CONVERSION OF NOTES

SECTION 12.01 Conversion Privilege and Consideration.

(a) Subject to and upon compliance with the provisions of this Indenture, a Noteholder shall have the right, at such Noteholder's option, to convert the principal amount of its Notes, or any portion of such principal amount that is equal to \$1,000 or an integral multiple thereof, into an amount of cash and a number of shares of the Common Stock, if any, determined in accordance with Section 12.03, (x) prior to the close of business on the Business Day immediately preceding May 15, 2017, only upon the satisfaction of one or more of the conditions described in clauses (i) through (iv) below, and (y) on and after May 15, 2017, at any time until the close of business on the second Scheduled Trading Day immediately preceding the Maturity Date, without regard to the conditions described in clauses (i) through (iv) below (subject to the settlement provisions of Section 12.03, the "**Conversion Obligation**"):

(i) During any fiscal quarter (and only during any such fiscal quarter) after the fiscal quarter ending April 1, 2011 if, for at least 20 Trading Days (whether or not consecutive) during the 30 consecutive Trading Day period ending on the last Trading Day of the immediately preceding fiscal quarter, the Last Reported Sale Price of the Common Stock is greater than or equal to 130% of the Conversion Price on such Trading Day. If the Notes become convertible in accordance with this Section 12.01(a)(i), as promptly as practicable, the Company shall notify the Noteholders that the condition to conversion described in this Section 12.01(a)(i) has been satisfied.

(ii) During the five consecutive Business Day period immediately following any five consecutive Trading Day period (the "**Measurement Period**") in which, for each Trading Day of such Measurement Period, the Trading Price per \$1,000 principal amount of Notes, as determined following a request by a Noteholder in accordance with the procedures set forth in this Section 12.01(a)(ii), is less than 98% of the product of (x) the Last Reported Sale Price of the Common Stock on such Trading Day and (y) the Conversion Rate on such Trading Day (for any Trading Day, the "**Trading Price Product**").

(A) The Company shall have no obligation to determine the Trading Price of the Notes unless a Noteholder (x) provides the Company and the Trustee with reasonable evidence that the Trading Price per \$1,000 principal amount of Notes for the immediately following Trading Day will be less than 98% of the Trading Price Product for such Trading Day and (y) requests the Company to determine the Trading Price of the Notes on the immediately following Trading Day.

(B) Upon receipt from a Noteholder of such evidence and such a request, the Company shall promptly determine the Trading Price of the Notes beginning on the next Trading Day and on each successive Trading Day until a Trading Day occurs in which the Trading Price per \$1,000 principal amount of Notes for such Trading Day is greater than or equal to 98% of the Trading Price Product for such Trading Day.

(C) As promptly as practicable after the condition to conversion described in this Section 12.01(a)(ii) has been met, the Company shall notify the Noteholders and the Trustee of the Noteholders' rights to convert their Notes in accordance with this Section 12.01(a)(ii). On the first Trading Day thereafter on which the Trading Price per \$1,000 principal amount of Notes for such Trading Day is greater than or equal to 98% of the Trading Price Product for such Trading Day, as promptly as practicable, the Company shall notify the Noteholders that the condition to conversion described in this Section 12.01(a)(ii) is no longer satisfied.

(iii) If the Company elects to:

(A) issue to all or substantially all holders of its Common Stock rights, options or warrants that entitle them, for a period of not more than 60 calendar days after the record date for such issuance, to subscribe for or purchase shares of the Common Stock at a price per share of Common Stock less than the average of the Last Reported Sale Prices of the Common Stock for the ten consecutive Trading Day period ending on, and including, the Trading Day immediately preceding the date of the first public announcement of the terms of such issuance; or

(B) distribute to all or substantially all holders of the Common Stock the Company's assets, debt securities or rights to purchase securities of the Company, which distribution has a per share value, as determined by the Board of Directors, exceeding 10% of the Last Reported Sale Price of the Common Stock on the Trading Day immediately preceding the declaration date for such distribution,

then, in each case, at least 50 Scheduled Trading Days prior to the Ex-Dividend Date for such issuance or distribution, the Company shall provide notice to the Noteholders and the Trustee describing such issuance or distribution, the Noteholders' rights to convert their Notes in accordance with this Section 12.01(a)(iii), the Conversion Rate in effect on the date the Company mails such notice, any adjustments to the Conversion Rate that must be made pursuant to Section 12.05 as a result of such issuance or distribution, and the effective date for any such adjustments. Once the Company has given such notice, a Noteholder may surrender its Notes for conversion at any time until the earlier of (x) 5:00 p.m., New York City time, on the Business Day immediately preceding the Ex-Dividend Date for the issuance or distribution or (y) the date of Company's announcement that such issuance or distribution will not take place. No Noteholder may exercise this right to convert if such holder otherwise may participate in the distribution of cash or Common Stock without conversion based upon the Conversion Rate and upon the same terms as holders of our Common Stock.

(iv) If a transaction or event that constitutes a Fundamental Change without giving effect to the penultimate paragraph of the definition of Fundamental Change and regardless of whether the Noteholders have the right to require the Company to purchase their Notes pursuant to Section 13.01, or a Make-Whole Fundamental Change (a "**Specified Corporate Transaction**"), the Company shall provide notice (a "**Specified Corporate Transaction Notice**") of such Specified Corporate Transaction to the Noteholders as promptly as practicable after the Company first learns of the anticipated or actual effective date of such Specified Corporate Transaction; *provided* that, for any Specified Corporate Transaction, the Company will use commercially reasonable efforts to deliver the Specified Corporate Transaction Notice for such Specified Corporate Transaction at least 50 Scheduled Trading Days in advance of such anticipated effective date. The Specified Corporate Transaction Notice shall describe:

- (A) such Specified Corporate Transaction;
- (B) the anticipated effective date of such Specified Corporate Transaction;
- (C) the Noteholders' rights to convert their Notes in accordance with this Section 12.01(a)(iv);
- (D) the Conversion Rate in effect on the date the Company mails such notice;
- (E) any adjustments to the Conversion Rate that must be made pursuant to Section 12.05 as a result of such transaction;
- (F) whether such Specified Corporate Transaction also constitutes a Fundamental Change, and, if so, the Noteholders' rights to require the Company to purchase their Notes pursuant to Article 16; and
- (G) whether such Specified Corporate Transaction also constitutes a Make-Whole Fundamental Change, and, if so, the Noteholders' rights under Section 12.04 to receive Additional Shares if they convert their Notes in connection with such Make-Whole Fundamental Change.

Upon the Company's delivery of a Specified Corporate Transaction Notice for a Specified Corporate Transaction, a Noteholder may surrender its Notes for conversion at any time until the close of business on the earliest of (w) the 40th Trading Day immediately following the effective date of such Specified Corporate Transaction, (x) if such Specified Corporate Transaction constitutes a Fundamental Change, the Business Day immediately preceding the related Fundamental Change Purchase Date, (y) if the Company announces that such Specified Corporate Transaction will not occur, the date on which the Company makes such announcement, and (z) the second Scheduled Trading Day immediately preceding the Maturity Date.

SECTION 12.02 Conversion Procedure.

(a) To convert a Note, a Noteholder must (i) in the case of a Global Note, (A) comply with the procedures of the Depositary in effect on the date such Noteholder surrenders its Note for conversion and (B) if required, pay all funds required under Sections 12.02(e) and 12.02(f) below, and (ii) in the case of a Certificated Note, (A) complete and manually sign the conversion notice in the form of Exhibit B hereto (a "**Notice of Conversion**") or a facsimile of the Notice of Conversion, (B) deliver the Notice of Conversion, which is irrevocable, and the Certificated Note to the Conversion Agent, (C) if required, furnish appropriate endorsements and transfer documents, (D) if required, pay all transfer or similar taxes, and (E) if required, pay all funds required under Sections 12.02(e) and 12.02(f) below.

(i) On the first Business Day on which such Noteholder satisfies all of the requirements set forth in Section 12.02(a) above with respect to a Note (and the conversion of such Note is not otherwise prohibited by Article 12 hereof), such Note will be deemed converted and such Business Day will be the conversion date (the "**Conversion Date**") for such Note.

(ii) If the last day on which a Note may be converted is not a Business Day, the Note may be surrendered on the immediately following day that is a Business Day. Upon the conversion of a Note, the Conversion Agent, as promptly as possible, and in no event later than one Business Day immediately following the Conversion Date for the Note, will provide the Company with notice of the conversion of the Note, and the Company, as promptly as possible, and in no event later than two Business Days after such Conversion Date, will notify the Trustee, if other than the Conversion Agent, of the conversion of the Note.

(b) If a Noteholder converts the entire principal amount of a Note, such Person will no longer be a Noteholder of such Note.

(c) If a Noteholder surrenders only a portion of a Certificated Note for conversion, promptly after the Conversion Date for such portion, the Company shall execute and the Trustee shall authenticate and deliver to such Noteholder, a new Certificated Note in an authorized denomination equal to the aggregate principal amount of the unconverted portion of the surrendered Note. Upon the conversion of an interest in a Global Note, the Trustee shall promptly make a notation on the "Schedule of Increases and Decreases of Global Note" of such Global Note as to the reduction in the principal amount represented thereby. The Company shall notify the Trustee in writing upon any conversion of a Note effected through any Conversion Agent other than the Trustee.

(d) If any shares of Common Stock are issuable upon the conversion of a Note, the Person in whose name the certificate or certificates for such shares of Common Stock will be registered will become the holder of record of such shares at the close of business on the last VWAP Trading Day of the Observation Period corresponding to the Conversion Date for such Note.

(e) If a Noteholder surrenders a Note for conversion after 5:00 p.m., New York City time, on a Record Date and prior to 9:00 a.m., New York City time, on the corresponding Interest Payment Date, the Noteholder must accompany the Note with an amount of cash equal to the amount of interest (including any Additional Interest), that will be payable on the Note on such corresponding Interest Payment Date; *provided, however*, that a Noteholder need not make such a payment (i) if the Company has specified a Fundamental Change Purchase Date that is after the Record Date and on or prior to the corresponding Interest Payment Date, (ii) to the extent of any overdue interest on the Note, if any overdue interest exists at the time of conversion, or (iii) if the Noteholder surrenders the Note after the close of business on the last Record Date immediately preceding the Maturity Date.

(f) If a Noteholder surrenders a Note for conversion, the Company shall pay all stamp taxes and all other duties, if any, which may be imposed by the United States or any political subdivision thereof or taxing authority thereof or therein with respect to the issuance of shares of Common Stock, if any, upon the conversion. However, if any tax is due because the Noteholder requests that any shares of Common Stock issued upon conversion be issued in a name other than that of the Noteholder, the Noteholder shall pay such tax and the Conversion Agent, until having received a sum sufficient to pay such tax, may refuse to deliver any certificates representing shares of Common Stock being issued in a name other than that of the converting Noteholder. Nothing herein shall preclude any tax withholding required by law or regulations.

SECTION 12.03 Settlement Upon Conversion.

(a) (1) If a Noteholder surrenders a Note for conversion, the Company will satisfy its obligation to convert the Note by delivering, on the third Business Day immediately following the final VWAP Trading Day of the Observation Period corresponding to the Conversion Date for such Note, cash and shares of Common Stock, if any, equal to the sum of the Daily Settlement Amounts for each of the 40 VWAP Trading Days during the Observation Period for such Note.

(2) Notwithstanding the provisions of Section 12.03(a)(1), the Company may elect to settle all or a portion of the Daily Share Amounts for each VWAP Trading Day in the Observation Period relating to a Conversion Date in cash (a “**Cash Election**”).

(i) To make a Cash Election with respect to all or a portion of the Daily Share Amounts for each Trading Day in the Observation Period relating to a Conversion Date, on the Business Day immediately following such Conversion Date, the Company must deliver notice (a “**Cash Percentage Notice**”) to all Noteholders converting Notes on such Conversion Date. The Cash Percentage Notice for a Conversion Date must specify the single percentage of the Daily Share Amounts for each VWAP Trading Day in the Observation Period for such Conversion Date that the Company will settle in cash (the “**Cash Percentage**”); *provided* that to make a Cash Election with respect to a Conversion Date occurring on or after the 60th Scheduled Trading Day immediately preceding the Maturity Date, the Company must (A) irrevocably specify a single Cash Percentage that will apply to every Conversion Date occurring on or after the 60th Scheduled Trading Day immediately preceding the Maturity Date and (B) deliver a Cash Percentage Notice specifying such Cash Percentage to every Noteholder on or prior to the Scheduled Trading Day immediately preceding the 60th Scheduled Trading Day immediately preceding the Maturity Date.

(ii) If the Company timely delivers a Cash Percentage Notice for a Conversion Date, (x) the amount of cash that the Company will deliver in lieu of the applicable portion of the shares of Common Stock comprising the Daily Share Amount for a VWAP Trading Day in the Observation Period relating to such Conversion Date will equal the product of (A) the Cash Percentage specified in the Cash Percentage Notice for such Conversion Date, (B) the Daily Share Amount for such VWAP Trading Day (calculated as if the Company had not specified a Cash Percentage), and (C) the Daily VWAP for such VWAP Trading Day, and (y) the number of shares of Common Stock that the Company will deliver as part of the Daily Share Amount for such VWAP Trading Day will equal the product of (A) 100% minus the Cash Percentage for such Conversion Date and (B) the Daily Share Amount for such VWAP Trading Day (calculated as if the Company had not specified a Cash Percentage).

(iii) If, for any Conversion Date, the Company fails to deliver a Cash Percentage Notice in accordance with Section 12.03(a)(2)(i), the Company must instead settle the Daily Share Amount for each VWAP Trading Day in the Observation Period relating to such Conversion Date by delivering a number of shares of Common Stock determined in accordance with Section 12.03(a)(1).

(b) Notwithstanding the foregoing, the Company will not issue fractional shares of Common Stock as part of the Daily Share Amount. Instead, if the Daily Share Amount for any VWAP Trading Day includes a fraction of a share of the Common Stock, the Company will, in lieu of delivering such fraction of a share of Common Stock, pay an amount of cash equal to the product of (i) such fraction of a share and (ii) the Daily VWAP for such VWAP Trading Day of such Observation Period.

(c) If a Noteholder surrenders more than one Note for conversion on a single day, the number of shares of Common Stock, if any, that the Company will deliver, and the amount of cash that the Company will pay in lieu of fractional shares of Common Stock, if any, shall be determined based on the total principal amount of Notes surrendered by such Noteholder.

(d) If a Noteholder converts a Note, the Company will not adjust the Conversion Rate to account for any accrued and unpaid interest on the Note, and, except to the extent specified in the fourth sentence of Section 4.01(c) or in Section 4.01(d), the Company will not make any cash payment to such Noteholder for any accrued and unpaid interest on the Note. Furthermore, except to the extent specified in the fourth sentence of Section 4.01(c) or in Section 4.01(d), the Company's delivery to such Noteholder of the amount of cash and the number of shares of Common Stock, if any, into which such Noteholder's Note is convertible shall be deemed to satisfy and discharge in full the Company's obligation to pay to such Noteholder (i) the principal amount of such converted Note and (ii) any accrued and unpaid interest (including any Additional Interest, but not Defaulted Interest), on such converted Note. As a result, except to the extent specified in the fourth sentence of Section 4.01(c) or in Section 4.01(d), any accrued and unpaid interest with respect to a converted Note shall be deemed to be paid in full rather than cancelled, extinguished or forfeited.

(e) *Notices.*

(i) On the second Business Day immediately following the Conversion Date for any Notes, the Company shall deliver written notice to the Trustee stating (A) the aggregate principal amount of Notes converted on such Conversion Date, (B) whether the Company has made a Cash Election with respect to such Conversion Date, and (C) if the Company has made a Cash Election for such Conversion Date, the Cash Percentage for such Conversion Date.

(ii) On the first Business Day immediately following the last VWAP Trading Day of the Observation Period for each Conversion Date, the Company shall deliver written notice to the Trustee stating (A) the aggregate principal amount of Notes that were converted on such Conversion Date, (B) the aggregate amount of cash and the aggregate number of Shares that the Company is obligated to deliver to settle all of the Notes converted on such Conversion Date, and (C) the Daily Share Amounts and the Daily Settlement Amounts for each VWAP Trading Day of the Observation Period for such Conversion Date.

SECTION 12.04 Increased Conversion Rate Applicable to Certain Notes Surrendered in Connection with Make-Whole FundamentalChanges.

(a) Notwithstanding anything herein to the contrary, the Conversion Rate applicable to each Note that is surrendered for conversion, in accordance with this Article 12, from, and including, the effective date (the “**Effective Date**”) of a Make-Whole Fundamental Change until, and including, the close of business on the Business Day immediately preceding the related Fundamental Change Repurchase Date corresponding to such Make-Whole Fundamental Change, or the fortieth Trading Day immediately following the Effective Date of such Make-Whole Fundamental Change (in the case of a Make-Whole Fundamental Change that does not constitute a Fundamental Change by virtue of the parenthetical in the definition of Make-Whole Fundamental Change) (such period, the “**Make-Whole Fundamental Change Period**”), shall be increased to an amount equal to the Conversion Rate that would, but for this Section 12.04, otherwise apply to such Note pursuant to this Article 12, plus an amount equal to the Make-Whole Conversion Rate Adjustment.

As used herein, “**Make-Whole Conversion Rate Adjustment**” shall mean, with respect to a Make-Whole Fundamental Change, the amount set forth in the following table that corresponds to the Effective Date of such Make-Whole Fundamental Change and the Stock Price for such Make-Whole Fundamental Change, all as determined by the Company:

Make-Whole Conversion Rate Adjustment
(per \$1,000 principal amount of Notes)

Effective Date	Stock Price										
	\$ 26.12	\$ 30.00	\$ 35.00	\$ 40.00	\$ 45.00	\$ 50.00	\$ 60.00	\$ 70.00	\$ 80.00	\$ 90.00	\$ 100.00
11/19/2010	8.8349	6.3895	4.2649	3.0809	2.3455	1.8655	1.2944	0.9804	0.7847	0.6445	0.5373
11/15/2011	8.8349	6.3662	4.2029	2.9480	2.1879	1.7046	1.1559	0.8668	0.6923	0.5672	0.4726
11/15/2012	8.8349	6.3241	4.0684	2.7519	1.9795	1.5068	0.9949	0.7418	0.5905	0.4842	0.4038
11/15/2013	8.8349	6.2694	3.8441	2.4767	1.7099	1.2622	0.8063	0.6016	0.4790	0.3933	0.3281
11/15/2014	8.8349	6.0833	3.4617	2.0822	1.3559	0.9630	0.6023	0.4523	0.3629	0.2991	0.2498
11/15/2015	8.8349	5.6165	2.8697	1.5328	0.9085	0.6137	0.3857	0.2960	0.2394	0.1972	0.1640
11/15/2016	8.8349	4.7769	1.9173	0.7770	0.3911	0.2653	0.1900	0.1522	0.1246	0.1032	0.0861
11/15/2017	8.8349	3.8834	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000

provided, however, that:

(i) if the actual Stock Price of such Make-Whole Fundamental Change is between two Stock Prices listed in the table above under the row titled “Stock Price,” or if the actual Effective Date of such Make-Whole Fundamental Change is between two Effective Dates listed in the table above in the column immediately below the title “Effective Date,” then the Make-Whole Conversion Rate Adjustment for such Make-Whole Fundamental Change shall be determined by the Company by straight-line interpolation between the Make-Whole Conversion Rate Adjustment set forth for such higher and lower Stock Prices, or for such earlier and later Effective Dates based on a 365 day year, as applicable;

(ii) if the actual Stock Price of such Make-Whole Fundamental Change is greater than \$100.00 per share (subject to adjustment in the same manner as the Stock Price as provided in clause (iii) below), or if the actual Stock Price of such Make-Whole Fundamental Change is less than \$26.12 per share (subject to adjustment in the same manner as the Stock Price as provided in clause (iii) below), then the Make-Whole Conversion Rate Adjustment shall be equal to zero and this Section 12.04 shall not require the Company to increase the Conversion Rate with respect to such Make-Whole Fundamental Change;

(iii) if an event occurs that requires, pursuant to this Article 12 (other than solely pursuant to this Section 12.04), an adjustment to the Conversion Rate, then, on the date and at the time such adjustment is so required to be made, each price set forth in the table above under the row titled "Stock Price" shall be deemed to be adjusted so that such Stock Price, at and after such time, shall be equal to the product of (1) such Stock Price as in effect immediately before such adjustment to such Stock Price and (2) a fraction whose numerator is the Conversion Rate in effect immediately before such adjustment to the Conversion Rate and whose denominator is the Conversion Rate to be in effect, in accordance with this Article 12, immediately after such adjustment to the Conversion Rate;

(iv) each Make-Whole Conversion Rate Adjustment set forth in the table above shall be adjusted in the same manner in which, at the same time and for the same events for which, the Conversion Rate is to be adjusted pursuant to Section 12.05; and

(v) in no event will the total number of shares of Common Stock issuable upon conversion of the Notes exceed 38.2848 per \$1,000 principal amount of Notes, subject to adjustment in the same manner as the Conversion Rate pursuant to Section 12.05.

(b) As soon as practicable after the Company determines the anticipated Effective Date of any proposed Make-Whole Fundamental Change but in any event not later than five Business Days following the Effective Date, the Company shall provide the Trustee, the Noteholders and the Conversion Agent written notice of, and shall issue a press release indicating, the anticipated Effective Date of such proposed Make-Whole Fundamental Change. The Company shall use commercially reasonable efforts in time to give such notice no later than fifty Business Days in advance of such anticipated Effective Date. Each such press release notice, announcement and publication shall also state that in connection with such Make-Whole Fundamental Change, the Company shall increase, in accordance herewith, the Conversion Rate applicable to Notes entitled as provided herein to such increase (along with a description of how such increase shall be calculated and the time periods during which Notes must be surrendered in order to be entitled to such increase). No later than five Business Days after the actual Effective Date of each Make-Whole Fundamental Change, the Company shall provide the Trustee, the Noteholders and the Conversion Agent written notice of such Effective Date and the amount by which the Conversion Rate has been so increased.

Nothing in this Section 12.04 shall prevent an adjustment to the Conversion Rate pursuant to Section 12.05 in respect of a Make-Whole Fundamental Change.

SECTION 12.05 Adjustment of Conversion Rate. The Conversion Rate shall be adjusted from time to time by the Company as set forth below, except that the Company shall not make any adjustments to the Conversion Rate if Noteholders participate at the same time and upon the same terms as holders of the Common Stock and solely as a result of holding the Notes, in any of the transactions described below as if such Noteholders held a number of shares of Common Stock equal to the applicable conversion rate, multiplied by the principal amount (expressed in thousands) of Notes held by such holder, without having to convert its Notes:

(a) If the Company issues solely shares of Common Stock as a dividend or distribution on all or substantially all of the shares of Common Stock, or if the Company effects a share split or share combination of the Common Stock, the applicable Conversion Rate will be adjusted based on the following formula:

$$CR = CR_0 \times \frac{OS}{OS_0}$$

where

CR_0 = the Conversion Rate in effect immediately prior to the open of business on the Ex-Dividend Date for such dividend or distribution, or immediately prior to the open of business on the effective date of such share split or share combination, as the case may be;

CR = the Conversion Rate in effect immediately after the open of business on the Ex-Dividend Date for such dividend or distribution, or immediately after the open of business on the effective date of such share split or share combination, as the case may be;

OS_0 = the number of shares of Common Stock outstanding immediately prior to the open of business on the Ex-Dividend Date for such dividend or distribution, or immediately prior to the open of business on the effective date of such share split or share combination, as the case may be; and

OS = the number of shares of Common Stock outstanding immediately after such dividend or distribution, or immediately after the effective date of such share split or share combination, as the case may be.

Any adjustment made under this Section 12.05(a) shall become effective immediately after the open of business on the Ex-Dividend Date for such dividend or distribution, or immediately after the open of business on the effective date for such share split or share combination. If any dividend or distribution of the type described in this Section 12.05(a) is declared but not so paid or made, the Conversion Rate shall be immediately readjusted, effective as of the date the Board of Directors of the Company determines not to pay such dividend or distribution, to the Conversion Rate that would then be in effect if such dividend or distribution had not been declared.

(b) If the Company issues to all or substantially all holders of its Common Stock any rights, options or warrants entitling them for a period of not more than sixty calendar days after the record date for such issuance to subscribe for or purchase shares of the Common Stock, at a price per share less than the average of the Last Reported Sale Prices of the Common Stock for the ten consecutive Trading Day period ending on, and including, the Trading Day immediately preceding the date of the first announcement of the terms of such issuance, the Conversion Rate shall be increased based on the following formula:

$$CR = CR_0 \times \frac{OS_0 + X}{OS_0 + Y}$$

where:

CR₀ = the Conversion Rate in effect immediately prior to the open of business on the Ex-Dividend Date for such distribution;

CR = the Conversion Rate in effect immediately after the open of business on the Ex-Dividend Date for such distribution;

OS₀ = the number of shares of the Common Stock that are outstanding immediately prior to the open of business on the Ex-Dividend Date for such distribution;

X = the total number of shares of the Common Stock issuable pursuant to such rights, options or warrants; and

Y = the number of shares of the Common Stock equal to the aggregate price payable to exercise such rights, options or warrants, divided by the average of the Last Reported Sale Prices of Common Stock over the ten consecutive Trading Day period ending on, and including, the Trading Day immediately preceding the date of the first public announcement of the terms of such issuance.

Such adjustment shall be successively made whenever any such rights, options or warrants are distributed and shall become effective immediately after the open of business on the Ex-Dividend Date for such distribution. To the extent that shares of the Common Stock are not delivered after the expiration of such rights, options or warrants, the Conversion Rate shall be readjusted to the Conversion Rate that would then be in effect had the increase with respect to the issuance of such rights, options or warrants been made on the basis of delivery of only the number of shares of Common Stock actually delivered. If such rights, options or warrants are not so issued, the Conversion Rate shall again be adjusted to be the Conversion Rate that would then be in effect if such Ex-Dividend Date for such distribution had not occurred.

For purposes of this Section 12.05(b), in determining whether any rights, options or warrants entitle the holders to subscribe for or purchase shares of the Common Stock at less than the average of the Last Reported Sale Prices of the Common Stock for each Trading Day in the applicable ten consecutive Trading Day period, there shall be taken into account any consideration received by the Company for such rights, options or warrants and any amount payable on exercise thereof, with the value of such consideration, if other than cash, to be determined by the Board of Directors. In no event shall the Conversion Rate be decreased pursuant to this Section 12.05(b) (other than upon a readjustment as set forth in the immediately preceding paragraph).

(c) If the Company shall distribute shares of its Capital Stock, evidences of its indebtedness or other of its assets or property or rights or warrants to acquire its Capital Stock or other securities to all or substantially all holders of the Common Stock, excluding (i) dividends, distributions (including share splits), rights, options or warrants as to which an adjustment was effected pursuant to Section 12.05(a) or Section 12.05(b), (ii) rights issued to all holders of Common Stock pursuant to a rights plan, where such rights are not presently exercisable, continue to trade with the Common Stock and Noteholders will receive such rights together with any Common Stock upon conversion, (iii) dividends or distributions paid exclusively in cash and covered by Section 12.05(d), and (iv) Spin-offs to which the provisions set forth below in this Section 12.05(c) shall apply (any of such shares of Capital Stock, indebtedness, or other assets or property hereinafter in this Section 12.05(c) called the “**Distributed Property**”), then, in each such case the Conversion Rate shall be increased based on the following formula:

$$CR = CR_0 \times \frac{SP_0}{SP_0 - FMV}$$

where:

CR₀ = the Conversion Rate in effect immediately prior to the open of business on the Ex-Dividend Date for such distribution;

CR = the Conversion Rate in effect immediately after the open of business on the Ex-Dividend Date for such distribution.

SP₀ = the average of the Last Reported Sale Prices of the Common Stock over the ten consecutive Trading Day period ending on, and including, the Trading Day immediately preceding the Ex-Dividend Date for such distribution; and

FMV = the fair market value (as determined by the Board of Directors) of the shares of Capital Stock, evidences of indebtedness, assets, property rights, options or warrants distributed with respect to each outstanding share of the Common Stock as of the open of business on the Ex-Dividend Date for such distribution.

Such adjustment shall become effective immediately after the open of business on the Ex-Dividend Date for such distribution; provided that if “FMV” as set forth above is equal to or greater than “SP₀” as set forth above, in lieu of the foregoing adjustment, each Noteholder shall have the right to receive, for each \$1,000 principal amount of the Notes held by such holder, at the same time and upon the same terms as holders of Common Stock, the amount and kind of Distributed Property such holder would have received had such holder already owned a number of shares of Common Stock equal to the Conversion Rate immediately prior to the Ex-Dividend Date for such distribution. If such distribution is not so paid or made, the Conversion Rate shall be decreased to be the Conversion Rate that would then be in effect if such distribution had not been declared. If the Board of Directors determines “FMV” for purposes of this Section 12.05(c) by reference to the actual or when-issued trading market for any securities, it shall in doing so consider the prices in such market over the same period used in computing the Last Reported Sale Prices of the Common Stock over the ten consecutive Trading Day period ending on, and including, the Trading Day immediately preceding the Ex-Dividend Date for such distribution.

With respect to an adjustment pursuant to this Section 12.05(c) where there has been a payment of a dividend or other distribution on the Common Stock of shares of Capital Stock of any class or series, or similar equity interest, of or relating to a Subsidiary or other business unit of the Company and such dividend or distribution is listed for trading or quoted (or will be so listed or quoted upon consummation of the Spin-off) on a United States national or regional securities exchange (a “**Spin-off**”), the Conversion Rate will be increased based on the following formula:

$$CR = CR_0 \times \frac{FMV + MP_0}{MP_0}$$

where

CR₀ = the Conversion Rate in effect immediately prior to the open of business on the Ex-Dividend Date for the Spin-off;

CR = the Conversion Rate in effect immediately after the open of business on the Ex-Dividend Date for the Spin-off;

FMV = the average of the Last Reported Sale Prices of the Capital Stock or similar equity interest distributed to holders of the Common Stock applicable to one share of the Common Stock (determined for purposes of the definition of Last Reported Sale Price as if such capital stock or similar equity interest were the Common Stock) over the first ten consecutive Trading Day period commencing on, and including, the Ex-Dividend Date for the Spin-off (the “**Valuation Period**”), and

MP₀ = the average of the Last Reported Sale Prices of the Common Stock over the Valuation Period.

Any adjustment to the applicable conversion rate under the preceding paragraph of this Section 12.05(c) will be determined on the last Trading Day of the Valuation Period but will be given effect immediately after the opening of business on the Ex-Dividend Date for the Spin-off. If such Spin-off is subsequently cancelled and does not become effective, the Conversion Rate shall be readjusted to be the Conversion Rate that would have been in effect if such Spin-off had not been declared.

Notwithstanding the foregoing, (i) if the last VWAP Trading Day of the Observation Period for any conversion occurs on or after the effective date for the Spin-off, but less than ten Trading Days immediately following, and including the Effective Date for the Spin-off, references to ten Trading Days in the portion of this Section 12.05(c) relating to Spin-offs shall be deemed replaced, for purposes of calculating the affected Daily Settlement Amounts in respect of that conversion, with such lesser number of Trading Days as have elapsed from, and including, the Effective Date for the Spin-off to, and including, the last VWAP Trading Day of such Observation Period, and (ii) for the purposes of determining the Conversion Rate applicable to any conversion for which the Conversion Date occurs during the ten Trading Days commencing on the Effective Date for any Spin-off, references to ten Trading Days in the portion of this Section 12.05(c) relating to Spin-offs shall be deemed replaced with such lesser number of Trading Days as have elapsed from, and including, the Effective Date for such Spin-off to, but excluding, the relevant Conversion Date.

In no event shall the Conversion Rate be decreased pursuant to this Section 12.05(c) (other than upon a readjustment if a distribution of Distributed Property is not made as set forth above in this Section 12.05(c)).

(d) If the Company pays any cash dividend or distribution to all or substantially all holders of the Common Stock other than a regular, quarterly cash dividend that does not exceed \$0.14 per share of the Common Stock (the “**Initial Dividend Threshold**”), the Conversion Rate will be adjusted based on the following formula:

$$CR = CR_0 \times \frac{SP_0 - T}{SP_0 - C}$$

where

CR_0 = the applicable Conversion Rate in effect immediately prior to the open of business on the Ex-Dividend Date for such dividend or distribution;

CR = the Conversion Rate in effect immediately after the open of business on the Ex-Dividend Date for such dividend or distribution;

SP_0 = the average of the Last Reported Sale Prices of the Common Stock over the ten consecutive Trading Day period ending on, and including, the Trading Day immediately preceding the Ex-Dividend Date for such dividend or distribution;

T = the Initial Dividend Threshold; *provided* that if the dividend or distribution in question is not a regular quarterly cash dividend, the Initial Distribution Threshold will be deemed to be zero; and

C = the amount in cash per share the Company distributes to holders of its Common Stock.

The Initial Dividend Threshold is subject to concurrent adjustment in a manner inversely proportional to adjustments to the Conversion Rate; *provided* that no adjustment will be made to the Initial Dividend Threshold for any adjustment to the Conversion Rate under this Section 12.05(d).

Such increase shall become effective immediately after the open of business on the Ex-Dividend Date for such dividend or distribution. If such dividend or distribution is not so paid, the Conversion Rate shall be decreased to the Conversion Rate that would then be in effect if such dividend or distribution had not been declared.

Notwithstanding the foregoing, if C (as defined above) is equal to or greater than SP_0 (as defined above), in lieu of the foregoing increase, each holder of a note shall receive, for each \$1,000 principal amount of the Notes, at the same time and upon the same terms as holders of shares of the Common Stock, the amount of cash that such holder would have received if such holder owned a number of shares of the Common Stock equal to the Conversion Rate on the Ex-Dividend Date for such cash dividend or distribution.

In no event shall the Conversion Rate be decreased pursuant to this Section 12.05(d) (other than upon a readjustment if a regular, quarterly cash dividend or distribution is not made as set forth above in this Section 12.05(d)).

(e) If the Company or any of its Subsidiaries makes a payment in respect of a tender offer or exchange offer for the Common Stock and if the cash and value of any other consideration included in the payment per share of the Common Stock exceeds the average of the Last Reported Sale Prices of the Common Stock over the ten consecutive Trading-Day period commencing on, and including, the Trading Day next succeeding the last date on which tenders or exchanges may be made pursuant to such tender or exchange offer (the “**Expiration Date**”), the Conversion Rate shall be increased based on the following formula:

$$CR = CR_0 \times \frac{AC + (SP \times OS)}{OS_0 \times SP}$$

where

CR_0 = the Conversion Rate in effect immediately prior to the open of business on the Trading Day next succeeding the Expiration Date;

CR = the Conversion Rate in effect immediately after the open of business on the Trading Day next succeeding the Expiration Date;

AC = the aggregate value of all cash and any other consideration (as determined by the Board of Directors) paid or payable for shares of Common Stock purchased in such tender or exchange offer;

OS_0 = the number of shares of Common Stock outstanding immediately prior to the time (the “**Expiration Time**”) such tender or exchange offer expires (prior to giving effect to such tender offer or exchange offer);

- OS = the number of shares of Common Stock outstanding immediately after the Expiration Time (after giving effect to the purchase of all shares accepted for purchase or exchange in such tender offer or exchange offer); and
- SP = the average of the Last Reported Sale Prices of Common Stock over the ten consecutive Trading Day period commencing on, and including, the Trading Day next succeeding the Expiration Date.

Such adjustment under this Section 12.05(e) shall be determined at the close of business on the last Trading Day of the ten consecutive Trading Day period commencing on, and including, the Expiration Date but will be given effect immediately after the open of business on the Trading Day next succeeding the Expiration Date. If the Trading Day next succeeding the Expiration Date is less than ten Trading Days prior to, and including, the last VWAP Trading Day of the Observation Period in respect of any conversion, references within this Section 12.05(e) to ten Trading Days shall be deemed replaced, for purposes of calculating the affected Daily Settlement Amounts in respect of that conversion, with such lesser number of Trading Days as have elapsed from, and including, the Trading Day next succeeding the Expiration Date to, and including, the last VWAP Trading Day of such Observation Period. If the Company is obligated to purchase shares pursuant to any such tender or exchange offer, but the Company is ultimately prevented by applicable law from effecting any or all or any portion of such purchases or all such purchases are rescinded, the Conversion Rate shall again be adjusted to be the Conversion Rate that would then be in effect if such tender or exchange offer had not been made or had been made only in respect of the purchases that had been effected. In no event shall the Conversion Rate be decreased pursuant to this Section 12.05(e) (other than upon a readjustment if a self-tender offer is not made as set forth above in this Section 12.05(e)).

(f) Adjustments Not Yet Effective.

If a Noteholder converts a Note and, on any VWAP Trading Day during the Observation Period corresponding to the Conversion Date for such Note:

- (A) shares of Common Stock are deliverable as part of the Daily Settlement Amount for such VWAP Trading Day;
- (B) any event that requires an adjustment to the Conversion Rate pursuant to Sections 12.05(a), (b), (c), (d), or (e) has occurred, but will not result in an adjustment to the Conversion Rate for such VWAP Trading Day for such Noteholder; and
- (C) the shares of Common Stock (or the cash value thereof) that the Noteholder shall receive as part of the Daily Settlement Amount for such VWAP Trading Day will not be entitled to participate in the distribution or transaction requiring the adjustment (because such shares were not held by such Noteholder on the record date corresponding to such distribution or transaction or otherwise),

then the Company shall adjust the number of shares of Common Stock (or the cash value thereof) deliverable to such Noteholder as part of the Daily Settlement Amount for such VWAP Trading Day in a manner that appropriately reflects the relevant distribution or transaction requiring adjustment.

(g) Noteholder Participation in Adjustment Events. Notwithstanding the foregoing, if pursuant to this Section 12.05, an adjustment to the Conversion Rate becomes effective on any Ex-Dividend Date or effective date and a Noteholder that has converted its Notes would (i) receive shares of Common Stock based on an adjusted Conversion Rate and (ii) be a record holder of the shares of Common Stock on the record date for the dividend, distribution or event giving rise to the adjustment pursuant to this Section 12.05, then, in lieu of receiving shares of Common Stock at such an adjusted Conversion Rate, such Noteholder will participate in the related dividend, distribution or other event giving rise to such adjustment and shall receive a number of shares of Common Stock, if any, upon conversion based on an unadjusted Conversion Rate.

(h) Other Adjustments. Whenever any provision of this Indenture requires the calculation of the Last Reported Sale Price, the Daily VWAP or any functions thereof over a span of multiple days, the Board of Directors will make appropriate adjustments to such prices, functions of such prices, the Conversion Rate, or the amount of cash and the number of shares of the Common Stock, if any (subject to the Company's right under Section 12.02 to pay cash in lieu of all or a portion of any shares of Common Stock deliverable as part of a Daily Settlement Amount), due upon conversion to account for any adjustment to the Conversion Rate that becomes effective, or any event requiring an adjustment to the Conversion Rate in which the Ex-Dividend Date of the event occurs, at any time prior to or during the period during which such calculation is to be made.

(i) In addition to those required by clauses (a), (b), (c), (d), (e) and (f) of this Section 12.05, and to the extent permitted by applicable law and subject to the applicable rules of the NASDAQ Global Select Market or such other principal exchange on which the Common Stock is then traded, the Company from time to time may increase the Conversion Rate by any amount for a period of at least twenty Business Days if the Board of Directors determines that such increase would be in the Company's best interest. In addition, the Company may also (but is not required to) increase the Conversion Rate to avoid or diminish any income tax to holders of Common Stock or rights to purchase shares of Common Stock in connection with any dividend or distribution of shares (or rights to acquire shares) or similar event. Whenever the Conversion Rate is increased pursuant to the preceding sentence, the Company shall provide notice to the Noteholders and the Trustee at least fifteen days prior to the date the increased Conversion Rate takes effect, and such notice shall state the increased Conversion Rate and the period during which it will be in effect.

(j) The Company shall not take any action that would result in adjustment of the Conversion Rate, pursuant to this Article 12, in such a manner as to result in the reduction of the Conversion Price to less than the par value per share of the Common Stock.

(k) Except as specifically described in this Section 12.05, the Conversion Rate will not be subject to adjustment as a result of any issuance of shares of Common Stock, securities convertible into or exchangeable for shares of Common Stock or rights, options or warrants to purchase shares of Common Stock or securities convertible into or exchangeable for shares of Common Stock. In addition, if the application of the formulas in Sections 12.05(a) through 12.05(e) would result in a decrease in the Conversion Rate, no adjustment to the Conversion Rate will be made (other than as a result of a reverse share split or share combination); *provided* that, for the avoidance of doubt, if the Company adjusts the Conversion Rate pursuant to Section 12.05(a), 12.05(b), 12.05(c), 12.05(d) or 12.05(e) and the event that gave rise to the adjustment is not paid or made, delivered or issued or fails to become effective, as applicable, the Company may readjust the Conversion Rate as expressly contemplated in the applicable section. Without limiting the foregoing, the Conversion Rate will not be adjusted upon the following events:

(i) the issuance of any shares of the Common Stock pursuant to any present or future plan providing for the reinvestment of dividends or interest payable on the Company's securities and the investment of additional optional amounts in shares of the Common Stock under any plan;

(ii) the issuance of any shares of the Common Stock or options or rights to purchase those shares pursuant to any present or future employee, director or consultant benefit plan or program of, or assumed by, the Company or any of the Company's Subsidiaries;

(iii) the issuance of any shares of the Common Stock pursuant to any option, warrant, right or exercisable, exchangeable or convertible security not described in clause (ii) of this subsection and outstanding as of the date the Notes were first issued including the hedge warrants issued in connection with the offering of the Notes;

(iv) the issuance of any shares of Common Stock or options or rights to purchase those shares pursuant to any plan of acquisition of the stock or assets of another entity, whether by asset purchase, stock purchase, merger or other combination (except as provided in Section 12.04);

(v) for a change in the par value of the Common Stock; or

(vi) for accrued and unpaid interest (including any Additional Interest).

(l) All calculations and other determinations under this Article 12 shall be made to the nearest one-ten thousandth (1/10,000) of a share.

(m) The Company shall not be required to make an adjustment in the Conversion Rate unless the adjustment would require a change of at least 1% in the Conversion Rate. However, the Company shall carry forward any adjustments that are less than 1% of the Conversion Rate and make such carried forward adjustments with respect to a Note, regardless of whether the aggregate adjustment is less than 1%, on the first VWAP Trading Day in the Observation Period for such Note and, on each subsequent VWAP Trading Day of such Observation Period for such Note, shall be required to make adjustments to the Conversion Rate regardless of whether such adjustments could otherwise be carried forward pursuant to the immediately preceding sentence.

(n) In the event of an increase in the Conversion Rate above that which would result in the Notes, in the aggregate, becoming potentially convertible into shares in excess of 19.9% of the shares outstanding at the time of the initial offering of the Notes, the Company shall, at its option, either obtain stockholder approval of such issuances or, in accordance with the terms of the Notes, deliver cash in lieu of any shares otherwise deliverable upon conversions in excess of such limitation.

(o) Whenever the Conversion Rate is adjusted as herein provided, the Company shall promptly file with the Trustee and any Conversion Agent other than the Trustee an Officers' Certificate setting forth the Conversion Rate after such adjustment and setting forth a brief statement of the facts requiring such adjustment. Unless and until a Responsible Officer of the Trustee shall have received such Officers' Certificate, the Trustee shall not be deemed to have knowledge of any adjustment of the Conversion Rate and may assume without inquiry that the last Conversion Rate of which it has knowledge is still in effect. Promptly after delivery of such certificate, the Company shall prepare a notice of such adjustment of the Conversion Rate setting forth the adjusted Conversion Rate and the date on which each adjustment becomes effective and shall mail such notice of such adjustment of the Conversion Rate to the holder of each Note at its registered address, within ten days of the effective date of such adjustment. Failure to deliver such notice shall not affect the legality or validity of any such adjustment.

(p) For purposes of this Section 12.05, the number of shares of Common Stock at any time outstanding shall not include shares held in the treasury of the Company but shall include shares issuable in respect of scrip certificates issued in lieu of fractions of shares of Common Stock. The Company will not pay any dividend or make any distribution on shares of Common Stock held in the treasury of the Company.

SECTION 12.06 Shares to Be Fully Paid. The Company shall provide, free from preemptive rights, out of its authorized but unissued shares or shares held in treasury, sufficient shares of Common Stock to provide for conversion of the Notes from time to time as such Notes are presented for conversion.

SECTION 12.07 Effect of Reclassification, Consolidation, Merger or Sale.

(a) Upon the occurrence of:

(i) any recapitalization, reclassification or change of the Common Stock (other than a change in par value, or from par value to no par value, or from no par value to par value, or as a result of a subdivision or combination for which an adjustment is provided pursuant to Section 12.05);

(ii) any sale or conveyance to another person of all or substantially all of the property and assets of the Company;

(iii) any sale, lease or other transfer to another Person of substantially all of the consolidated assets of the Company and its Subsidiaries;

(iv) a consolidation, merger, or combination involving the Company; or

(v) any statutory share exchange,

and, in each case, as a result of which the Common Stock will be converted into, or exchanged for, stock, other securities, other property or assets (including cash or any combination including cash) (any such event, a “**Merger Event**,” such stock, securities, other property or assets, “**Reference Property**,” and the kind and amount of such stock, securities, other property or assets that a holder of one share of the Common Stock immediately prior to the effective date of such Merger Event would have been entitled to receive upon the occurrence of such transaction, a “**Unit of Reference Property**,” *provided* that if a Merger Event causes the Common Stock to be converted into, or exchanged for, the right to receive more than a single type of consideration (determined based in part upon any form of election by holders of the Common Stock), then each Unit of Reference Property will be deemed to be the Weighted Average Consideration), then:

(A) on or prior to the effective date of such Merger Event, the Company or the successor or purchasing Person, as the case may be, shall execute with the Trustee a supplemental indenture (which shall comply with the TIA as in force at the date of execution of such supplemental indenture if such supplemental indenture is then required to so comply) providing for the conversion and settlement of the Notes as set forth in this Indenture and for adjustments to the Conversion Rate that shall be as nearly equivalent as may be practicable to the adjustments provided for in this Article 12. If, in the case of any Merger Event, the Reference Property includes shares of stock or other securities and assets of a corporation other than the successor or purchasing corporation, as the case may be, then such supplemental indenture shall also be executed by such other corporation and shall contain such additional provisions to protect the interests of the Noteholders as the Board of Directors shall reasonably consider necessary by reason of the foregoing, including to the extent required by the Board of Directors and practicable the provisions providing for the repurchase rights set forth in Article 13 herein;

(B) subject to the provisions of Sections 12.01 and 12.04, at and after the effective date of such Merger Event, the right of Noteholders to convert each \$1,000 principal amount of Notes into cash and shares of Common Stock, if any (subject to the Company’s right to pay cash in lieu of all or any portion of the shares of Common Stock), shall be changed into a right to convert each \$1,000 principal amount of Notes into cash and Units of Reference Property, if any (subject to the Company’s right to pay cash in lieu of all or any portion of the Units of Reference Property) so that on or after the effective date of such Merger Event,

(1) references in Section 12.01 to the Last Reported Sale Price of the Common Stock shall be deemed to be references to the Last Reported Sale Price of a Unit of Reference Property;

(2) the Daily VWAP for a VWAP Trading Day (and any functions thereof) will be calculated based on the value of a Unit of Reference Property on such VWAP Trading Day;

(3) instead of delivering shares of Common Stock to converting Noteholders as part of the Daily Share Amount for a VWAP Trading Day, the Company shall deliver a number of Units of Reference Property equal to such number of shares of Common Stock (subject to the Company's right to pay cash in lieu of all or a portion of the Daily Share Amount); and

(4) instead of delivering an amount of cash in lieu of fractional shares of Common Stock based on the Daily VWAP of the Common Stock, the Company will deliver an amount of cash in lieu of fractional Units of Reference Property, with the amount of cash calculated in accordance with Section 12.02 (except using the Daily VWAP computed in accordance with clause (2) above).

(C) For the purposes of this Section 12.07, if a Merger Event causes the Common Stock to be converted into, or exchanged for, the right to receive more than a single type of consideration (determined based in part upon any form of election by holders of the Common Stock), the "**Weighted Average Consideration**" for such Merger Event means the weighted average, per share of Common Stock, of the types and amounts of consideration received by the holders of the Common Stock that affirmatively make an election receive in such Merger Event.

(b) Notices.

(i) As soon as practicable after it determines the Weighted Average Consideration, the Company shall notify the Noteholders of the Weighted Average Consideration.

(ii) As soon as practicable upon learning the anticipated or actual effective date of a Merger Event, the Company shall deliver written notice to the Noteholders stating:

- (1) a brief description of such Merger Event;
- (2) the Conversion Rate in effect on the date the Company delivers such notice;
- (3) the anticipated effective date for the Merger Event;
- (4) that the Notes will be convertible into Reference Property in lieu of shares of Common Stock on and after the effective date for the Merger Event; and
- (5) the composition of a Unit of Reference Property for such Merger Event.

provided, however, that the Company will use commercially reasonable efforts to deliver such written notice at least 45 Scheduled Trading Days immediately prior to the effective date for such Merger Event.

(c) If the Company executes a supplemental indenture pursuant to this Section 12.07, as promptly as practicable, the Company shall file with the Trustee an Officers' Certificate briefly describing such Merger Event, the composition of a Unit of Reference Property for such Merger Event, any adjustment to be made with respect thereto and that all conditions precedent to such Merger Event under this Indenture have been complied with. Any failure to deliver such Officers' Certificate shall not affect the legality or validity of such supplemental indenture.

(d) The provisions of this Section 12.07 shall apply successively to successive Merger Events.

(e) The Company covenants that it will not become party to any transaction that would constitute a Merger Event unless the terms thereof are consistent with this Section 12.07.

SECTION 12.08 Certain Covenants.

(a) The Company covenants that all shares of Common Stock issued upon conversion of Notes will be fully paid and non-assessable by the Company and free from all taxes, liens and charges with respect to the issue thereof.

(b) The Company covenants that, if any shares of Common Stock to be provided for the purpose of conversion of Notes hereunder require registration with or approval of any governmental authority under any federal or state law before such shares may be validly issued upon conversion, the Company will, to the extent then permitted by the rules and interpretations of the Commission, secure such registration or approval, as the case may be.

(c) The Company further covenants that if at any time the Common Stock shall be listed on any national securities exchange or automated quotation system, the Company will list and keep listed, so long as the Common Stock shall be so listed on such exchange or automated quotation system, any Common Stock issuable upon conversion of the Notes.

SECTION 12.09 Responsibility of Trustee. The Trustee and any other Conversion Agent shall not at any time be under any duty or responsibility to any Noteholder to determine the Conversion Rate (or any adjustment thereto) or whether any facts exist that may require any adjustment (including any increase) of the Conversion Rate, or with respect to the nature or extent or calculation of any such adjustment when made, or with respect to the method employed, or herein or in any supplemental indenture provided to be employed, in making the same. The Trustee and any other Conversion Agent shall not be accountable with respect to the validity or value (or the kind or amount) of any shares of Common Stock, or of any securities, property or cash that may at any time be issued or delivered upon the conversion of any Note; and the Trustee and any other Conversion Agent make no representations with respect thereto. Neither the Trustee nor any Conversion Agent shall be responsible for any failure of the Company to issue, transfer or deliver any shares of Common Stock or stock certificates or other securities or property or cash upon the surrender of any Note for the purpose of conversion or to comply with any of the duties, responsibilities or covenants of the Company contained in this Article. Without limiting the generality of the foregoing, neither the Trustee nor any Conversion Agent shall be under any responsibility to determine the correctness of any provisions contained in any supplemental indenture entered into pursuant to Section 12.07 relating either to the kind or amount of shares of stock or securities or property (including cash) receivable by Noteholders upon the conversion of their Notes after any event referred to in such Section 12.07 or to any adjustment to be made with respect thereto, but, subject to the provisions of Section 6.01, may accept (without any independent investigation) as conclusive evidence of the correctness of any such provisions, and shall be protected in relying upon, the Officers' Certificate (which the Company shall be obligated to file with the Trustee prior to the execution of any such supplemental indenture) with respect thereto. Neither the Trustee nor any other Conversion Agent shall at any time be under any duty or responsibility to any Noteholder to determine whether any facts exist that may require Additional Interest to be paid by the Company, or the determination of the amount thereof, if any.

SECTION 12.10 Notice to Noteholders Prior to Certain Actions. In case:

- (a) the Company shall declare a dividend (or any other distribution) on its Common Stock that would require an adjustment in the Conversion Rate pursuant to Section 12.05; or
- (b) the Company shall authorize the granting to all of the holders of its Common Stock of rights, options or warrants to subscribe for or purchase any share of any class or any other rights, options or warrants; or
- (c) of any reclassification of the Common Stock of the Company (other than a subdivision or combination of its outstanding Common Stock, or a change in par value, or from par value to no par value, or from no par value to par value), or of any consolidation or merger to which the Company is a party and for which approval of any stockholders of the Company is required, or of the sale or transfer of all or substantially all of the assets of the Company; or
- (d) of the voluntary or involuntary dissolution, liquidation or winding-up of the Company;

the Company shall provide notice to the Trustee and the Noteholders as promptly as possible but in any event at least twenty days prior to the applicable date hereinafter specified, a notice stating (i) the date on which a record is to be taken for the purpose of such dividend, distribution or rights, options or warrants, or, if a record is not to be taken, the date as of which the holders of Common Stock of record to be entitled to such dividend, distribution or rights are to be determined, or (ii) the date on which such reclassification, consolidation, merger, sale, transfer, dissolution, liquidation or winding-up is expected to become effective or occur, and the date as of which it is expected that holders of Common Stock of record shall be entitled to exchange their Common Stock for securities or other property deliverable upon such reclassification, consolidation, merger, binding share exchange, sale, transfer, dissolution, liquidation or winding-up. Failure to give such notice, or any defect therein, shall not affect the legality or validity of such dividend, distribution, reclassification, consolidation, merger, sale, transfer, dissolution, liquidation or winding-up.

SECTION 12.11 **Stockholder Rights Plans.** To the extent that the Company has a stockholder rights plan or other “poison pill” in effect upon conversion of the Notes, each share of Common Stock, if any, issued upon such conversion shall be entitled to receive the appropriate number of rights, if any, and the certificates representing the Common Stock issued upon such conversion shall bear such legends, if any, in each case as may be provided by the terms of any such stockholder rights plan or poison pill, as the same may be amended from time to time. If prior to the time of conversion, however, the rights have separated from the shares of Common Stock in accordance with the provisions of the applicable stockholder rights agreement so that the holders of the Notes would not be entitled to receive any rights in respect of Common Stock, if any, issuable upon conversion of the Notes, the Conversion Rate will be adjusted at the time of separation as if the Company had distributed to all holders of Common Stock, shares of Capital Stock of the Company, evidence of indebtedness or assets as provided in Section 12.05(c), subject to readjustment in the event of the expiration, termination or redemption of such rights.

ARTICLE XIII REPURCHASE OF NOTES AT OPTION OF HOLDERS

SECTION 13.01 **Repurchase at Option of Noteholders upon a Fundamental Change.** (a) If there shall occur a Fundamental Change at any time prior to the Maturity Date, then each Noteholder shall have the right, at such holder’s option, to require the Company to repurchase for cash all of such holder’s Notes, or any portion thereof that is an integral multiple of \$1,000 principal amount, on the date (the “**Fundamental Change Purchase Date**”) specified by the Company that is not less than twenty Business Days and not more than thirty-five Business Days after the date of the Fundamental Change Company Notice (as defined below) at a repurchase price equal to 100% of the principal amount thereof, together with accrued and unpaid interest (including any Additional Interest), thereon to, but excluding, the Fundamental Change Purchase Date (the “**Fundamental Change Purchase Price**”), unless the Fundamental Change Purchase Date is after an Interest Record Date and on or prior to the related Interest Payment Date, in which case interest accrued to the Interest Payment Date will be paid to holders of the Notes as of the preceding Interest Record Date and the Fundamental Change Purchase Price payable to the holder surrendering the Note for repurchase pursuant to this Section 13.01 shall be equal to 100% of the principal amount of the Notes subject to repurchase and will not include any accrued and unpaid interest (including any Additional Interest). Repurchases of Notes under this Section 13.01 shall be made, at the option of the holder thereof, upon:

- (i) delivery to the Paying Agent by a holder of a duly completed notice (the “**Fundamental Change Purchase Notice**”) in the form of Exhibit C hereto on or prior to the Business Day immediately preceding the Fundamental Change Purchase Date; and
- (ii) delivery or book-entry transfer of the Notes to the Paying Agent at any time after delivery of the Fundamental Change Purchase Notice (together with all necessary endorsements) at the office of the Paying Agent, such delivery being a condition to receipt by the holder of the Fundamental Change Purchase Price therefor; *provided* that such Fundamental Change Purchase Price shall be so paid pursuant to this Section 13.01 only if the Note so delivered to the Paying Agent shall conform in all respects to the description thereof in the related Fundamental Change Purchase Notice.

The Fundamental Change Purchase Notice shall state:

- (A) if certificated, the certificate numbers of Notes to be delivered for repurchase;
- (B) the portion of the principal amount of Notes to be repurchased, which must be \$1,000 or an integral multiple thereof; and
- (C) that the Notes are to be repurchased by the Company pursuant to the applicable provisions of the Notes and this Indenture;

provided, however, that if the Notes are not in certificated form, the Fundamental Change Purchase Notice must comply with appropriate Depositary procedures.

Any repurchase by the Company contemplated pursuant to the provisions of this Section 13.01 shall be consummated by the payment of the Fundamental Change Purchase Price pursuant to Section 13.03(a).

Notwithstanding anything herein to the contrary, any holder delivering to the Paying Agent the Fundamental Change Purchase Notice contemplated by this Section 13.01 shall have the right to withdraw, in whole or in part, such Fundamental Change Purchase Notice at any time prior to the close of business on the Business Day immediately preceding the Fundamental Change Purchase Date in accordance with Section 13.02 below.

The Paying Agent shall promptly notify the Company of the receipt by it of any Fundamental Change Purchase Notice or written notice of withdrawal thereof.

(b) On or before the twentieth calendar day after the occurrence of a Fundamental Change, the Company shall provide notice to holders of record of the Notes (and to beneficial owners if required by applicable law) (the “**Fundamental Change Company Notice**”) of the occurrence of the Fundamental Change and of the repurchase right at the option of the holders arising as a result thereof. The Company shall also deliver a copy of the Fundamental Change Company Notice to the Trustee, the Paying Agent and the Conversion Agent within five Business Days after the effective date of the Fundamental Change. Each Fundamental Change Company Notice shall specify:

- (i) the events causing the Fundamental Change;
- (ii) the effective date of the Fundamental Change, and, whether the Fundamental Change is a Make-Whole Fundamental Change, in which case the effective date of the Make-Whole Fundamental Change;
- (iii) the last date on which a holder may exercise the repurchase right pursuant to this Section 13.01;

- (iv) the Fundamental Change Purchase Price;
- (v) the Fundamental Change Purchase Date;
- (vi) if applicable, the name and address of the Paying Agent and the Conversion Agent;
- (vii) if applicable, the applicable Conversion Rate, and any adjustments to the applicable Conversion Rate;

(viii) if applicable, that the Notes with respect to which a Fundamental Change Purchase Notice has been delivered by a holder may be converted only if the holder withdraws the Fundamental Change Purchase Notice in accordance with the terms of this Indenture;

(ix) that the holder must exercise the repurchase right on or prior to the close of business on the Business Day immediately preceding the Fundamental Change Purchase Date (the “**Fundamental Change Expiration Time**”);

(x) that the holder shall have the right to withdraw any Notes surrendered prior to the Fundamental Change Expiration Time; and

(xi) the procedures that holders must follow to require the Company to repurchase their Notes.

No failure of the Company to give a Fundamental Change Company Notice and no defect therein shall limit the Noteholders’ repurchase rights or affect the validity of the proceedings for the repurchase of the Notes pursuant to this Section 13.01.

(c) Notwithstanding the foregoing, no Notes may be repurchased by the Company at the option of the holders upon a Fundamental Change if the principal amount of the Notes has been accelerated, and such acceleration has not been rescinded, on or prior to the Fundamental Change Purchase Date (except in the case of an acceleration resulting from a default by the Company in the payment of the Fundamental Change Purchase Price with respect to such Notes).

(d) In connection with any purchase offer, the Company will:

(i) comply with the provisions of Rule 13e-4, Rule 14e-1 and any other tender offer rules under the Exchange Act, if required under the Exchange Act,

(ii) file a Schedule TO or any successor or similar schedule, if required under the Exchange Act, and

(iii) otherwise comply with all federal and state securities laws in connection with any offer by the Company to purchase the Notes.

Notwithstanding anything to the contrary provided in this Indenture, compliance by the Company with Rule 13e-4, Rule 14e-1 and any other tender offer rule under the Exchange Act in accordance with clause (i) above, to the extent inconsistent with any other provision of this Indenture, will not, standing alone, constitute an Event of Default solely as a result of compliance by the Company with such rules.

Notwithstanding the foregoing the Company shall not be required to repurchase the Notes in accordance with this Section 13.01 if a third party makes an offer in the manner, at the times and otherwise in compliance with the requirements set forth in this Section 13.01 and purchases all Notes validly tendered and not withdrawn under such purchase offer.

SECTION 13.02 Withdrawal of Fundamental Change Purchase Notice.

(a) A Fundamental Change Purchase Notice may be withdrawn by means of a written notice of withdrawal delivered to the Corporate Trust Office of the Paying Agent in accordance with this Section 13.02 at any time prior to the close of business on the Business Day immediately preceding the Fundamental Change Purchase Date specifying:

- (i) the certificate number, if any, of the Note in respect of which such notice of withdrawal is being submitted,
- (ii) the principal amount of the Note with respect to which such notice of withdrawal is being submitted, and

(iii) the principal amount, if any, of such Note that remains subject to the original Fundamental Change Purchase Notice, which portion must be in principal amounts of \$1,000 or an integral multiple of \$1,000;

provided, however, that if the Notes are not in certificated form, the withdrawal notice must comply with appropriate procedures of the Depository.

SECTION 13.03 Deposit of Fundamental Change Purchase Price.

(a) The Company will deposit with the Trustee (or other Paying Agent appointed by the Company, or if the Company is acting as its own Paying Agent, set aside, segregate and hold in trust as provided in Section 4.04) on or prior to 11:00 a.m., New York City time, on the Business Day prior to the Fundamental Change Purchase Date, as applicable, an amount of money sufficient to repurchase all of the Notes to be repurchased at the appropriate Fundamental Change Purchase Price, as the case may be. Subject to receipt of funds and/or Notes by the Trustee (or other Paying Agent appointed by the Company), payment for Notes surrendered for repurchase (and not withdrawn prior to the Fundamental Change Expiration Time, if applicable) will be made on the later of (i) the Fundamental Change Purchase Date with respect to such Note (provided the holder has satisfied the conditions in Section 13.01) and (ii) the time of book-entry transfer or the delivery of such Note to the Trustee (or other Paying Agent appointed by the Company) by the holder thereof in the manner required by Section 13.01 by mailing checks for the amount payable to the holders of such Notes entitled thereto as they shall appear in the Note Register, *provided, however*, that payments to the Depository shall be made by wire transfer of immediately available funds to the account of the Depository or its nominee. The Trustee shall, promptly after such payment and upon written demand by the Company, return to the Company any funds in excess of the Fundamental Change Purchase Price, as applicable.

(b) If by 11:00 a.m., New York City time, on the Fundamental Change Purchase Date the Trustee (or other Paying Agent appointed by the Company) holds money sufficient to make payment on all the Notes or portions thereof that are to be repurchased as a result of the corresponding Fundamental Change, then (i) such Notes will cease to be outstanding, (ii) interest, including Additional Interest, if any, will cease to accrue on such Notes, and (iii) all other rights of the holders of such Notes will terminate (other than the right to receive the Fundamental Change Purchase Price, as applicable, and previously accrued but unpaid interest, including Additional Interest, if any, upon book-entry transfer or delivery of the Notes), in each case, whether or not book-entry transfer of the Notes has been made or the Notes have been delivered to the Trustee or Paying Agent.

(c) The Registrar need not transfer or exchange any Notes in respect of which a Fundamental Change Purchase Notice has been given and not withdrawn (except, in the case of a Note to be purchased in part, the portion of the Note not to be repurchased). Upon surrender of a Note that is to be repurchased in part pursuant to Section 13.01, the Company shall execute and the Trustee shall authenticate and deliver to the holder a new Note in an authorized denomination equal in principal amount to the unreurchased portion of the Note surrendered.

ARTICLE XIV MISCELLANEOUS PROVISIONS

SECTION 14.01 Provisions Binding on Company's Successors. All the covenants, stipulations, promises and agreements of the Company contained in this Indenture shall bind its successors and assigns whether so expressed or not.

SECTION 14.02 Official Acts by Successor Corporation. Any act or proceeding by any provision of this Indenture authorized or required to be done or performed by any board, committee or officer of the Company shall and may be done and performed with like force and effect by the like board, committee or officer of any corporation or other entity that shall at the time be the lawful successor of the Company.

SECTION 14.03 Addresses for Notices, Etc. Any notice or demand that by any provision of this Indenture is required or permitted to be given or served by the Trustee or by the Noteholders on the Company shall be deemed to have been sufficiently given or made, for all purposes if given or served by being deposited postage prepaid by registered or certified mail in a post office letter box addressed (until another address is filed by the Company with the Trustee) to Kaman Corporation, 1332 Blue Hills Avenue, Bloomfield, Connecticut 06002, Attention: Robert Starr, Vice President and Treasurer, with a copy to Candace Clark, Senior Vice President & Chief Legal Counsel, and to Crowell & Moring LLP, 1001 Pennsylvania Avenue, NW, Washington, D.C. 20004, Attention: Morris DeFeo. Any notice, direction, request or demand hereunder to or upon the Trustee shall be deemed to have been sufficiently given or made, for all purposes, if given or served by being deposited postage prepaid by registered or certified mail in a post office letter box addressed to the Corporate Trust Office.

The Trustee, by notice to the Company, may designate additional or different addresses for subsequent notices or communications.

Any notice or communication mailed to a Noteholder shall be mailed to it by first class mail, postage prepaid, at its address as it appears on the Note Register and shall be deemed to have been sufficiently given to it if so mailed within the time prescribed.

Failure to mail a notice or communication to a Noteholder or any defect in it shall not affect its sufficiency with respect to other Noteholders. Except as otherwise provided herein, if a notice or communication is mailed in the manner provided above, it is duly given, whether or not the addressee receives it.

In case by reason of the suspension of regular mail service or by reason of any other cause it shall be impracticable to give such notice to holders by mail, then such notification as shall be made with the approval of the Trustee shall constitute a sufficient notification for every purpose hereunder.

Except as otherwise provided in this Indenture or any Note, where this Indenture or any Note provides for notice of any event to a holder of a Global Note (whether by mail or otherwise), such notice shall be sufficiently given if given to the Depositary for such Note (or its designee), pursuant to customary procedures of such Depositary.

The Trustee may rely upon and comply with instructions or directions sent via unsecured facsimile or email transmission provided they are via a Company Order and the Trustee shall not be liable for any loss, liability or expense of any kind incurred by the Company or the holders due to the Trustee's reliance upon and compliance with instructions or directions given by unsecured facsimile or email transmission, provided, however, that such losses have not arisen from the negligence or willful misconduct of the Trustee, it being understood that the failure of the Trustee to verify or confirm that the person providing the instructions or directions, is, in fact, an authorized person does not constitute negligence or willful misconduct.

SECTION 14.04 Governing Law. THIS INDENTURE AND EACH NOTE SHALL BE DEEMED TO BE A CONTRACT MADE UNDER THE LAWS OF NEW YORK, AND FOR ALL PURPOSES SHALL BE CONSTRUED IN ACCORDANCE WITH THE LAWS OF NEW YORK.

SECTION 14.05 Evidence of Compliance with Conditions Precedent; Certificates and Opinions of Counsel to Trustee.

(a) Upon any request or application by the Company to the Trustee to take any action under this Indenture, the Company shall furnish to the Trustee:

(i) an Officers' Certificate stating that, in the opinion of the signers, all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been complied with; and

(ii) an Opinion of Counsel stating that, in the opinion of such counsel, all such conditions precedent have been complied with.

(b) Each certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture shall include:

(i) a statement that each person signing such certificate or opinion has read such covenant or condition and the definitions herein relating thereto;

(ii) a brief statement as to the nature and scope of the examination or investigation upon which the statement or opinion contained in such certificate or opinion is based;

(iii) a statement that, in the opinion of each such person, the person has made such examination or investigation as is necessary to enable the person to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(iv) a statement as to whether or not, in the opinion of each such person, such condition or covenant has been complied with; provided, however, that, with respect to matters of fact, an Opinion of Counsel may rely on an Officers' Certificate or certificates of public officials.

SECTION 14.06 Legal Holidays. In any case where any Interest Payment Date, Fundamental Change Purchase Date, Conversion Date or Maturity Date is not a Business Day, then any action to be taken on such date need not be taken on such date, but may be taken on the next succeeding Business Day with the same force and effect as if taken on such date, and no interest shall accrue for the period from and after such date.

SECTION 14.07 No Security Interest Created. Nothing in this Indenture or in the Notes, expressed or implied, shall be construed to constitute a security interest under the Uniform Commercial Code or similar legislation, as now or hereafter enacted and in effect, in any jurisdiction.

SECTION 14.08 Trust Indenture Act. This Indenture is hereby made subject to, and shall be governed by, the provisions of the Trust Indenture Act required to be part of and to govern indentures qualified under the Trust Indenture Act upon such qualification; provided that this Section 14.08 shall not require that this Indenture or the Trustee be qualified under the Trust Indenture Act prior to the time such qualification is in fact required under the terms of the Trust Indenture Act, nor shall it constitute any admission or acknowledgment by any party hereto that any such qualification is required prior to the time such qualification is in fact required under the terms of the Trust Indenture Act. If any provision hereof limits, qualifies or conflicts with another provision hereof that is required to be included in an indenture qualified under the Trust Indenture Act, such required provision shall control.

SECTION 14.09 Benefits of Indenture. Nothing in this Indenture or in the Notes, expressed or implied, shall give to any Person, other than the parties hereto, any Paying Agent, any Conversion Agent, any authenticating agent, any Note Registrar and their successors hereunder or the Noteholders, any benefit or any legal or equitable right, remedy or claim under this Indenture.

SECTION 14.10 Table of Contents, Headings, Etc. The table of contents and the titles and headings of the articles and sections of this Indenture have been inserted for convenience of reference only, are not to be considered a part hereof, and shall in no way modify or restrict any of the terms or provisions hereof.

SECTION 14.11 Authenticating Agent. The Trustee may appoint an authenticating agent that shall be authorized to act on its behalf and subject to its direction in the authentication and delivery of Notes in connection with the original issuance thereof and transfers and exchanges of Notes hereunder, including under Section 2.02, Section 2.05, Section 2.06, Section 2.07, Section 2.09, Section 9.04, Section 12.02 and Section 13.04 as fully to all intents and purposes as though the authenticating agent had been expressly authorized by this Indenture and those Sections to authenticate and deliver Notes. For all purposes of this Indenture, the authentication and delivery of Notes by the authenticating agent shall be deemed to be authentication and delivery of such Notes “by the Trustee” and a certificate of authentication executed on behalf of the Trustee by an authenticating agent shall be deemed to satisfy any requirement hereunder or in the Notes for the Trustee’s certificate of authentication. Such authenticating agent shall at all times be a Person eligible to serve as trustee hereunder pursuant to Section 6.09.

Any corporation or other entity into which any authenticating agent may be merged or converted or with which it may be consolidated, or any corporation or other entity resulting from any merger, consolidation or conversion to which any authenticating agent shall be a party, or any corporation or other entity succeeding to the corporate trust business of any authenticating agent, shall be the successor of the authenticating agent hereunder, if such successor corporation or other entity is otherwise eligible under this section, without the execution or filing of any paper or any further act on the part of the parties hereto or the authenticating agent or such successor corporation or other entity.

Any authenticating agent may at any time resign by giving written notice of resignation to the Trustee and to the Company. The Trustee may at any time terminate the agency of any authenticating agent by giving written notice of termination to such authenticating agent and to the Company. Upon receiving such a notice of resignation or upon such a termination, or in case at any time any authenticating agent shall cease to be eligible under this Section, the Trustee may appoint a successor authenticating agent (which may be the Trustee), shall give written notice of such appointment to the Company and shall mail notice of such appointment to all Noteholders as the names and addresses of such holders appear on the Note Register.

The Company agrees to pay to the authenticating agent from time to time reasonable compensation for its services although the Company may terminate the authenticating agent, if it determines such agent’s fees to be unreasonable.

The provisions of Section 6.02, Section 6.03, Section 6.04, Section 7.03 and this Section 14.11 shall be applicable to any authenticating agent.

If an authenticating agent is appointed pursuant to this Section 14.11, the Notes may have endorsed thereon, in addition to the Trustee's certificate of authentication, an alternative certificate of authentication in the following form:

_____ as Authenticating Agent, certifies that this is one of the Notes described in the within-named Indenture.

By: _____
Authorized Officer

SECTION 14.12 Execution in Counterparts. This Indenture may be executed in any number of counterparts, each of which shall be an original, but such counterparts shall together constitute but one and the same instrument.

SECTION 14.13 Severability. In the event any provision of this Indenture or in the Notes shall be invalid, illegal or unenforceable, then (to the extent permitted by law) the validity, legality or enforceability of the remaining provisions shall not in any way be affected or impaired.

SECTION 14.14 Waiver of Jury Trial. EACH OF THE COMPANY AND THE TRUSTEE HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS INDENTURE, THE NOTES OR THE TRANSACTION CONTEMPLATED HEREBY.

SECTION 14.15 Force Majeure. In no event shall the Trustee be responsible or liable for any failure or delay in the performance of its obligations hereunder arising out of or caused by, directly or indirectly, forces beyond its control, including, without limitation, strikes, work stoppages, accidents, acts of war or terrorism, civil or military disturbances, nuclear or natural catastrophes or acts of God, and interruptions, loss or malfunctions of utilities, communications or computer (software and hardware) services; it being understood that the Trustee shall use reasonable efforts that are consistent with accepted practices in the banking industry to resume performance as soon as practicable under the circumstances.

SECTION 14.16 Calculations in Respect of the Notes. Except as otherwise provided herein, the Company shall make all calculations and determinations under this Indenture and the Notes (including, without limitation, the Last Reported Sale Price, Daily VWAPs, accrued interest payable and the Conversion Rate). All calculations under this Indenture and the Notes shall be made in good faith. In the absence of manifest error, such calculations shall be final and binding on all holders. The Company shall provide a copy of any such calculation it has made to the Trustee and the Conversion Agent as required hereunder, and both of the Trustee and Conversion Agent shall be entitled to rely conclusively on the accuracy of any such calculation without independent verification. The Trustee and any other Conversion Agent shall forward the Company's calculations or any calculations by the Trustee or such other Conversion Agent, as applicable, to any Noteholder upon the written request of that Noteholder.

IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed as of the date first written above.

KAMAN CORPORATION

By: /s/ William C. Denninger

Name: William C. Denninger

Title: Sr. Vice President &
Chief Financial Officer

**THE BANK OF NEW YORK MELLON
TRUST COMPANY, N.A., as**

Trustee

By: /s/ Beth Mellinger

Name: Beth Mellinger

Title: Agent

[FORM OF FACE OF NOTE]

[Include the following legend for Global Notes only (the “**Global Securities Legend**”):]

THIS IS A GLOBAL NOTE WITHIN THE MEANING OF THE INDENTURE HEREINAFTER REFERRED TO AND IS REGISTERED IN THE NAME OF THE DEPOSITARY OR A NOMINEE OF THE DEPOSITARY, WHICH MAY BE TREATED BY THE COMPANY, THE TRUSTEE AND ANY AGENT THEREOF AS OWNER AND HOLDER OF THIS CONVERTIBLE NOTE FOR ALL PURPOSES.

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITARY TRUST COMPANY TO THE ISSUER OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITARY TRUST COMPANY (AND ANY PAYMENT HEREON IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITARY TRUST COMPANY), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL SINCE THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

TRANSFERS OF THIS GLOBAL NOTE SHALL BE LIMITED TO TRANSFERS TO NOMINEES OF THE DEPOSITARY TRUST COMPANY, OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR’S NOMINEE AND TRANSFERS OF PORTIONS OF THIS GLOBAL NOTE SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN ARTICLE TWO OF THE INDENTURE REFERRED TO ON THE REVERSE HEREOF.

[Include the following legend on all Notes that are Restricted Notes (the “**Restricted Securities Legend**”):]

THE SALE OF THIS NOTE HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY STATE SECURITIES LAWS AND, ACCORDINGLY, PRIOR TO THE RESALE RESTRICTION TERMINATION DATE (AS DEFINED BELOW), THIS NOTE AND ANY COMMON STOCK ISSUABLE UPON CONVERSION OF THIS NOTE (AND ANY BENEFICIAL INTEREST HEREIN OR THEREIN) MAY NOT BE OFFERED, RESOLD OR OTHERWISE TRANSFERRED, EXCEPT:

(A) TO THE COMPANY OR ANY SUBSIDIARY THEREOF;

(B) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BECOME EFFECTIVE UNDER THE SECURITIES ACT;

(C) TO A PERSON THAT YOU REASONABLY BELIEVE TO BE A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT; OR

(D) UNDER ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT (INCLUDING, IF AVAILABLE, THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT).

THE “RESALE RESTRICTION TERMINATION DATE” MEANS THE DATE: (A) THAT IS AT LEAST ONE YEAR AFTER THE LAST DATE OF ORIGINAL ISSUANCE OF THE NOTES; AND (B) ON WHICH THE COMPANY HAS INSTRUCTED THE TRUSTEE THAT THIS LEGEND WILL NO LONGER APPLY IN ACCORDANCE WITH THE PROCEDURES DESCRIBED IN THE INDENTURE.

PRIOR TO ANY TRANSFER PURSUANT TO THE FOREGOING CLAUSE (D), THE COMPANY AND THE TRUSTEE RESERVE THE RIGHT TO REQUIRE THE DELIVERY OF SUCH CERTIFICATIONS, LEGAL OPINIONS OR OTHER INFORMATION AS THEY MAY REASONABLY REQUIRE AND MAY RELY UPON TO CONFIRM THAT SUCH TRANSFER IS BEING MADE PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

NO AFFILIATE OF THE COMPANY MAY PURCHASE OR OTHERWISE ACQUIRE NOTES.

KAMAN CORPORATION

3.25% Convertible Senior Note due 2017

No. []

\$[]

CUSIP No. []

Kaman Corporation, a corporation duly organized and validly existing under the laws of the State of Connecticut (herein called the “**Company**,” which term includes any successor corporation or other entity under the Indenture referred to on the reverse hereof), for value received hereby promises to pay to [CEDE & CO., or its registered assigns,¹ the principal sum of [] million Dollars, [as revised by the Schedule of Increases and Decreases in Global Note attached hereto,² on November 15, 2017, interest thereon as set forth below and Additional Interest in the manner, at the rates and to the Persons set forth in Sections 4.06 and 5.03, as applicable, of the Indenture.

The Company promises to pay interest on the principal amount of this Note at the rate of 3.25% per annum (subject to increase pursuant to Sections 4.06 and 5.03, as applicable, of the Indenture) from November 19, 2010 semiannually in arrears on May 15 and November 15 of each year, commencing on May 15, 2011, to holders of record at the close of business on the preceding November 1 and May 1 (whether or not such day is a Business Day), respectively, until the maturity or earlier conversion or repurchase. Interest on the Note will accrue from the most recent date to which interest has been paid, or, if no interest has been paid on the Note, from November 19, 2010.

Payment of the principal of and accrued and unpaid interest (including any accrued and unpaid Additional Interest) on this Note shall be made at the office or agency of the Company maintained for that purpose in the Borough of Manhattan, The City of New York, in such lawful money of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts; *provided, however*, that any payment to the Depository or its nominee shall be paid by wire transfer in immediately available funds in accordance with the wire transfer instruction supplied by the Depository or its nominee from time to time to the Trustee and Paying Agent (if different from Trustee).

Reference is made to the further provisions of this Note set forth on the reverse hereof, including, without limitation, provisions giving the holder of this Note the right to convert this Note into cash or a combination of cash and shares of Common Stock of the Company, as applicable, on the terms and subject to the limitations set forth in the Indenture. Such further provisions shall for all purposes have the same effect as though fully set forth at this place.

¹ Use bracketed language for a Global Note.

² Use bracketed language for a Global Note.

This Note shall be deemed to be a contract made under the laws of the State of New York, and for all purposes shall be construed in accordance with and governed by the laws of said State.

This Note shall not be valid or become obligatory for any purpose until the certificate of authentication hereon shall have been manually signed by the Trustee or a duly authorized authenticating agent under the Indenture.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the Company has caused this Note to be duly executed.

KAMAN CORPORATION

By: _____

Name:

Title:

Dated:

TRUSTEE'S CERTIFICATE OF AUTHENTICATION
THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.,
as Trustee, certifies that this is one of the Notes described
in the within-named Indenture.

By: _____

Authorized Officer

[FORM OF REVERSE OF NOTE]

KAMAN CORPORATION
3.25% Convertible Senior Note due 2017

This Note is one of a duly authorized issue of Notes of the Company, designated as its 3.25% Convertible Senior Notes due 2017 (the “Notes”), limited to the aggregate principal amount of \$115,000,000 all issued or to be issued under and pursuant to an Indenture dated as of November 19, 2010 (as such may be amended from time to time, the “Indenture”), between the Company and The Bank of New York Mellon Trust Company, N.A. (the “Trustee”), to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the rights, limitations of rights, obligations, duties and immunities thereunder of the Trustee, the Company and the holders of the Notes. Additional Notes may be issued in an unlimited aggregate principal amount, subject to certain conditions specified in the Indenture.

In case an Event of Default, as defined in the Indenture, shall have occurred and be continuing, the principal of and interest, including Additional Interest, if any, on all Notes may be declared, by either the Trustee or the holders of not less than 25% in aggregate principal amount of Notes then outstanding, and upon said declaration shall become, due and payable, in the manner, with the effect and subject to the conditions and certain exceptions set forth in the Indenture.

Subject to the terms and conditions of the Indenture, the Company will make all payments and deliveries in respect of the principal amount on the Maturity Date to the holder who surrenders a Note to a Paying Agent to collect such payments in respect of the Note. The Company will pay cash amounts in money of the United States that at the time of payment is legal tender for payment of public and private debts.

The Indenture contains provisions permitting the Company and the Trustee in certain circumstances, without the consent of the holders of the Notes, and in other circumstances, with the consent of the holders of not less than a majority in aggregate principal amount of the Notes at the time outstanding, evidenced as in the Indenture provided, to execute supplemental indentures modifying the terms of the Indenture and the Notes as described therein. It is also provided in the Indenture that, subject to certain exceptions, the holders of a majority in aggregate principal amount of the Notes at the time outstanding may on behalf of the holders of all of the Notes waive any past Default or Event of Default under the Indenture and its consequences.

No reference herein to the Indenture and no provision of this Note or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and accrued and unpaid interest (including any Additional Interest) on this Note at the place, at the respective times, at the rate and in the lawful money herein prescribed.

The Notes are issuable in registered form without coupons in denominations of \$1,000 principal amount and integral multiples thereof. At the office or agency of the Company referred to on the face hereof, and in the manner and subject to the limitations provided in the Indenture, Notes may be exchanged for a like aggregate principal amount of Notes of other authorized denominations, without payment of any service charge but, if required by the Company or Trustee, with payment of a sum sufficient to cover any tax, assessments or other governmental charges that may be imposed in connection therewith as a result of the name of the holder of the new Notes issued upon such exchange of Notes being different from the name of the holder of the old Notes surrendered for such exchange.

Subject to the provisions of the Indenture, upon the occurrence of a Fundamental Change, the holder has the right, at such holder's option, to require the Company to repurchase for cash all of such holder's Notes or any portion thereof (in principal amounts of \$1,000 or integral multiples thereof) on the Fundamental Change Purchase Date at a price equal to the Fundamental Change Purchase Price.

Subject to the provisions of the Indenture, the holder hereof has the right, at its option, during certain periods and upon the occurrence of certain conditions specified in the Indenture, prior to the close of business on the second Scheduled Trading Day immediately preceding the Maturity Date, to convert any Notes into cash or a combination of cash and shares of Common Stock, as applicable, at a Conversion Rate specified in the Indenture, as adjusted from time to time as provided in the Indenture.

Terms used in this Note and defined in the Indenture are used herein as therein defined.

ABBREVIATIONS

The following abbreviations, when used in the inscription of the face of this Note, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM -as tenants in common

UNIF GIFT MIN ACT

Custodian

(Cust)

TEN ENT as tenants by the entireties

(Minor)

JT TEN -as joint tenants with right of survivorship and not as tenants in common

Uniform Gifts to Minors Act

(State)

Additional abbreviations may also be used
though not in the above list.

[FORM OF NOTICE OF CONVERSION]

To: KAMAN CORPORATION

The undersigned registered owner of this Note hereby exercises the option to convert this Note, or the portion hereof (that is \$1,000 principal amount or an integral multiple thereof) below designated, into cash or a combination of cash and shares of Common Stock, as applicable, in accordance with the terms of the Indenture referred to in this Note, and directs that an amount of a cash, together with a number of shares of Common Stock issuable and deliverable upon such conversion, if any, payable upon conversion, be issued and delivered to the registered holder hereof unless a different name has been indicated below. If any shares of Common Stock or any portion of this Note not converted are to be issued in the name of a Person other than the undersigned, the undersigned will pay all transfer taxes payable with respect thereto. Any amount required to be paid to the undersigned on account of interest accompanies this Note.

Dated: _____

Signature(s)

Signature Guarantee

Signature(s) must be guaranteed by an eligible Guarantor Institution (banks, stock brokers, savings and loan associations and credit unions) with membership in an approved signature guarantee medallion program pursuant to Securities and Exchange Commission Rule 17Ad-15 if shares of Common Stock are to be issued, or Notes to be delivered, other than to and in the name of the registered holder.

Fill in for registration of shares if to be issued, and Notes if to be delivered, other than to and in the name of the registered holder:

(Name)

(Street Address)

(City, State and Zip Code)

Please print name and address

Principal amount to be converted (if less than all): \$__000

NOTICE: The above signature(s) of the holder(s) hereof must correspond with the name as written upon the face of the Note in every particular without alteration or enlargement or any change whatever.

Social Security or Other Taxpayer Identification Number

[FORM OF FUNDAMENTAL CHANGE PURCHASE NOTICE]

To: KAMAN CORPORATION

The undersigned registered owner of this Note hereby acknowledges receipt of a notice from Kaman Corporation (the "**Company**") as to the occurrence of a Fundamental Change with respect to the Company and specifying the Fundamental Change Purchase Date and requests and instructs the Company to repay to the registered holder hereof in accordance with the applicable provisions of the Indenture referred to in this Note (1) the entire principal amount of this Note, or the portion thereof (that is \$1,000 principal amount or an integral multiple thereof) below designated, and (2) if such Fundamental Change Purchase Date does not fall during the period after an Interest Record Date and on or prior to the corresponding Interest Payment Date, accrued and unpaid interest (including any Additional Interest) thereon to, but excluding, such Fundamental Change Purchase Date.

In the case of Certificated Notes, the certificate numbers of the Notes to be repurchased are as set forth below:

Dated: _____

Signature(s)

Social Security or Other Taxpayer Identification Number

Principal amount to be repaid (if less than all): \$ __,000

NOTICE: The above signature(s) of the holder(s) hereof must correspond with the name as written upon the face of the Note in every particular without alteration or enlargement or any change whatever.

[FORM OF ASSIGNMENT AND TRANSFER]

For value received _____ hereby sell(s), assign(s) and transfer(s) unto _____ (Please insert social security or Taxpayer Identification Number of assignee) the within Note, and hereby irrevocably constitutes and appoints _____ attorney to transfer the said Note on the books of the Company, with full power of substitution in the premises.

In connection with any transfer of the within Note occurring prior to the Resale Restriction Termination Date, as defined in the Indenture governing such Note, the undersigned confirms that such Note is being transferred:

To Kaman Corporation or a subsidiary thereof; or

For so long as the Notes are eligible for resale pursuant to Rule 144A under the Securities Act of 1933, as amended, to a person it reasonably believes is a qualified institutional buyer (as defined in Rule 144A) that purchases for its own account or for the account of a qualified institutional buyer to which notice is given that the transfer is being made in reliance on Rule 144A; or

Pursuant to a registration statement that has become or been declared effective under the Securities Act of 1933, as amended; or

Pursuant to any other available exemption from the registration requirements of the Securities Act of 1933, as amended, if available.

Dated: _____

Signature(s) _____

Signature Guarantee _____

Signature(s) must be guaranteed by an eligible Guarantor Institution (banks, stock brokers, savings and loan associations and credit unions) with membership in an approved signature guarantee medallion program pursuant to Securities and Exchange Commission Rule 17Ad-15. Notes are to be delivered, other than to and in the name of the registered holder.

NOTICE: The signature on the assignment must correspond with the name as written upon the face of the Note in every particular without alteration or enlargement or any change whatever.

RESTRICTED STOCK LEGEND

THE SALE OF THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS AND, ACCORDINGLY, PRIOR TO THE RESALE RESTRICTION TERMINATION DATE (AS DEFINED BELOW), THIS SECURITY (AND ANY BENEFICIAL INTEREST HEREIN OR THEREIN) MAY NOT BE OFFERED, RESOLD OR OTHERWISE TRANSFERRED, EXCEPT:

(A) TO THE COMPANY OR ANY SUBSIDIARY THEREOF;

(B) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BECOME EFFECTIVE UNDER THE SECURITIES ACT; OR

(C) UNDER ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT (INCLUDING, IF AVAILABLE, THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT).

THE "RESALE RESTRICTION TERMINATION DATE" MEANS THE DATE: (A) THAT IS AT LEAST ONE YEAR AFTER THE LAST DATE OF ORIGINAL ISSUANCE OF THE COMPANY'S 3.25% CONVERTIBLE SENIOR NOTES DUE 2017; AND (B) ON WHICH THE COMPANY HAS INSTRUCTED THE TRANSFER AGENT THAT THIS LEGEND WILL NO LONGER APPLY, IN ACCORDANCE WITH THE PROCEDURES DESCRIBED IN THE INDENTURE FOR THE NOTES.

PRIOR TO ANY TRANSFER PURSUANT TO THE FOREGOING CLAUSE (C), THE COMPANY AND THE COMPANY'S TRANSFER AGENT RESERVE THE RIGHT TO REQUIRE THE DELIVERY OF SUCH CERTIFICATIONS, LEGAL OPINIONS OR OTHER INFORMATION AS THEY MAY REASONABLY REQUIRE AND MAY RELY UPON TO CONFIRM THAT SUCH TRANSFER IS BEING MADE PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

AMENDMENT NO. 1
TO
KAMAN CORPORATION
CASH BONUS PLAN

(As Amended and Restated as of January 1, 2008)

WHEREAS, Kaman Corporation (the "Company") has previously adopted a Cash Bonus Plan (Amended and Restated as of January 1, 2008 (the "Plan")); and

WHEREAS, the Company's Board of Directors desires to correct a mistake in the terms of Section 6 of the Plan which fails to properly describe one of the performance metrics that has been applicable to Corporate participants in the Plan consistently since the 2004 Award Year;

NOW THEREFORE, the Plan is amended as follows:

1. Performance Objectives for Corporate Participants

a. All references to "pre-tax profits" or "consolidated pre-tax profits" in Section 6 of the Plan are hereby deleted and replaced with the words "fully diluted earnings per share".

2. Effective Date. This Amendment shall take effect beginning with the 2011 Award Year.

3. Capitalized Terms. Capitalized terms not defined herein shall have the meaning ascribed to them in the Plan.

4. Full Force and Effect. Except as modified and amended by this document, the Plan remains in full force and effect.

IN WITNESS WHEREOF, Kaman Corporation has caused this Amendment No. 1 to be executed as of February 22, 2011.

ATTEST:

KAMAN CORPORATION

/s/ Candace A. Clark

Candace A. Clark

Its: Secretary

By: /s/ William C. Denninger

William C. Denninger

Its: Senior Vice President and
Chief Financial Officer

KAMAN CORPORATION

SUBSIDIARIES

Following is a list of the Corporation's subsidiaries, each of which, unless otherwise indicated, is wholly owned by the Corporation either directly or through another subsidiary. Second-tier subsidiaries are listed under the name of the parent subsidiary.

Name	State of Incorporation
Registrant: KAMAN CORPORATION	Connecticut
Subsidiaries:	
Kaman Aerospace Group, Inc.	Connecticut
Kaman Aerospace Corporation	Delaware
K-MAX Corporation	Connecticut
Kaman X Corporation	Connecticut
Kamatics Corporation	Connecticut
Kaman Composites – Wichita, Inc. (formerly Aerostructures Group - Wichita, Inc. and Kaman PlasticFab Group, Inc.)	Delaware
Kaman Precision Products, Inc.	Florida
RWG Frankenjura-Industrie Flugwerklager GmbH	Germany
Kaman UK Holdings Limited	UK
Kaman Composites – UK Limited (formerly Brookhouse Holdings Limited)	UK
Brookhouse Group Holdings Limited	UK
Brookhouse 2004 Limited	UK
Kaman Tooling Limited (formerly Brookhouse Tooling Limited)	UK
Kaman Composites – UK Limited (formerly Brookhouse Composites Limited)	UK
Kaman Fabricated Products Limited (formerly Brookhouse Aerospace Limited)	UK
Brookhouse (SPD) Tool Company Limited	UK
Brookhouse Automotive Limited	UK
Brookhouse IM Limited	UK
Global Aerosystems LLC	Washington
Kaman Industrial Technologies Corporation	Connecticut
Kaman Industrial Technologies, Ltd.	Canada
Delamac de Mexico, S.A. de C.V.	Mexico
Industrial Rubber & Mechanics, Inc.	Puerto Rico
Minarik Corporation	California

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Kaman Corporation:

We consent to the incorporation by reference in the Registration Statements (Nos. 333-116371 and 333-66183) on Form S-8, (No. 333-127649) on Form S-4 and (No. 333-160244) on Form S-3 of Kaman Corporation of our reports dated February 28, 2011, with respect to the consolidated balance sheets of Kaman Corporation and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2010, the effectiveness of internal control over financial reporting as of December 31, 2010, and the related financial statement schedule, which reports appear in the December 31, 2010 Annual Report on Form 10-K of Kaman Corporation.

/s/ KPMG LLP

Hartford, Connecticut
February 28, 2011

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each of the undersigned does hereby appoint and constitute Neal J. Keating and William C. Denninger and each of them as his or her agent and attorney-in-fact to execute in his or her name, place and stead (whether on behalf of the undersigned individually or as an officer or director of Kaman Corporation or otherwise) the Annual Report on Form 10-K of Kaman Corporation respecting its fiscal year ended December 31, 2010 and any and all amendments thereto and to file such Form 10-K and any such amendment thereto with the Securities and Exchange Commission. Each of the said attorneys shall have the power to act hereunder with or without the other.

IN WITNESS WHEREOF, the undersigned have executed this instrument this 22nd day of February, 2011.

Brian E. Barents
E. Reeves Callaway III
Karen M. Garrison
A. William Higgins
Edwin A. Huston

Neal J. Keating
Eileen S. Kraus
George E. Minnich
Thomas W. Rabaut
Richard J. Swift

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

I, Neal J. Keating, certify that:

1. I have reviewed this annual report on Form 10-K 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
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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: February 28, 2011

By: /s/ Neal J Keating

Neal J. Keating
Chairman, President and
Chief Executive Officer

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

I, William C. Denninger, certify that:

1. I have reviewed this annual report on Form 10-K 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: February 28, 2011

By: /s/ William C. Denninger

William C. Denninger
Senior Vice President and
Chief Financial Officer

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 Annual Report of Kaman Corporation (the "Corporation") on Form 10-K for the year ended December 31, 2010, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Neal J. Keating, Chairman, President and Chief Executive 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/ Neal J. Keating

Neal J. Keating
Chairman, President and
Chief Executive Officer
February 28, 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 Annual Report of Kaman Corporation (the "Corporation") on Form 10-K for the year ended December 31, 2010, 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
February 28, 2011
