

KAMAN CORP
Form 10-Q
May 01, 2008

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

FORM 10-Q

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

For the quarterly period ended March 28, 2008

Or

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

For the transition period from _____ to _____

Commission File Number: 0-1093

KAMAN CORPORATION

(Exact name of registrant as specified in its charter)

Connecticut

06-0613548

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

1332 Blue Hills Avenue
Bloomfield, Connecticut 06002

(Address of principal executive offices) (Zip Code)

(860) 243-7100

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

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

Large Accelerated Filer ☒ Accelerated Filer ☐ Non-Accelerated Filer ☐ Smaller Reporting Company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

At April 30, 2008, there were 25,348,785 shares of Common Stock outstanding

Part I – Financial Information
Item 1. Financial Statements:

Condensed Consolidated Balance Sheets
(In thousands) (unaudited)

	March 28, 2008	December 31, 2007
Assets:		
Current assets:		
Cash and cash equivalents	\$ 28,349	\$ 73,898
Accounts receivable, net	180,796	158,435
Inventories	227,437	210,341
Deferred income taxes	26,129	28,724
Other current assets	21,810	20,231
Total current assets	484,521	491,629
Property, plant & equipment, at cost	\$ 165,831	\$ 163,645
Less accumulated depreciation and amortization	112,246	110,000
Net property, plant & equipment	53,585	53,645
Goodwill & other intangible assets, net	46,458	46,188
Deferred income taxes	5,071	3,594
Overfunded pension	31,102	30,486
Other assets	9,243	9,321
Total assets	\$ 629,980	\$ 634,863
Liabilities and Shareholders' Equity:		
Current liabilities:		
Notes payable	\$ 2,377	\$ 1,680
Accounts payable - trade	79,258	74,236
Accrued salaries and wages	16,928	25,328
Accrued pension costs	9,935	14,202
Accrued contract losses	11,561	9,513
Advances on contracts	10,055	9,508
Other accruals and payables	34,875	36,162
Income taxes payable	2,384	12,002
Total current liabilities	167,373	182,631
Long-term debt, excluding current portion	12,011	11,194
Other long-term liabilities	46,730	46,512
Commitments and contingencies		
Shareholders' equity	403,866	394,526
Total liabilities and shareholders' equity	\$ 629,980	\$ 634,863

See accompanying notes to condensed consolidated financial statements.

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

	For the Three Months Ended	
	March 28, 2008	March 30, 2007
Net sales	\$ 285,781	\$ 266,530
Cost of sales	209,190	191,369
Selling, general and administrative expense	62,698	59,195
Net (gain)/loss on sale of assets	110	42
	271,998	250,606
Operating income from continuing operations	13,783	15,924
Interest expense (income), net	(1)	1,545
Other expense (income), net	141	(41)
Earnings from continuing operations before income taxes	13,643	14,420
Income tax expense	(4,775)	(5,347)
Net earnings from continuing operations	8,868	9,073
Earnings from discontinued operations before income taxes	-	1,624
Income tax expense	-	(622)
Net earnings from discontinued operations	-	1,002
Net earnings	\$ 8,868	\$ 10,075
Net earnings per share:		
Basic net earnings per share from continuing operations	0.35	0.37
Basic net earnings per share from discontinued operations	-	0.05
Basic net earnings per share	\$ 0.35	\$ 0.42
Diluted net earnings per share from continuing operations	0.35	0.37
Diluted net earnings per share from discontinued operations	-	0.04
Diluted net earnings per share	\$ 0.35	\$ 0.41
Average shares outstanding:		
Basic	25,099	24,140
Diluted	25,391	25,105

Dividends declared per share	\$	0.140	\$	0.125
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See accompanying notes to condensed consolidated financial statements.

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

	For the Three Months Ended March 28, 2008	March 30, 2007
Cash flows from operating activities:		
Net earnings from continuing operations	\$ 8,868	\$ 9,073
Adjustments to reconcile net earnings from continuing operations to net cash provided by (used in) operating activities of continuing operations:		
Depreciation and amortization	2,585	2,460
Change in allowance for doubtful accounts	(67)	(191)
Net (gain) loss on sale of assets	110	42
Stock compensation expense	332	539
Excess tax benefits from share-based compensation arrangements	(107)	(307)
Deferred income taxes	867	(4,418)
Changes in assets and liabilities, excluding effects of acquisition/divestitures:		
Accounts receivable	(22,151)	(14,539)
Inventories	(17,017)	(717)
Other current assets	(1,521)	259
Accounts payable	4,731	5,341
Accrued contract losses	2,047	(1,165)
Advances on contracts	547	(641)
Accrued expenses and payables	(9,243)	(10,329)
Income taxes payable	(9,820)	(1,063)
Pension liabilities	(3,117)	1,266
Other long-term liabilities	(384)	5,621
Net cash provided by (used in) operating activities of continuing operations	(43,340)	(8,769)
Net cash provided by (used in) operating activities of discontinued operations	-	1,146
Net cash provided by (used in) operating activities	(43,340)	(7,623)
Cash flows from investing activities:		
Proceeds from sale of assets	36	40
Expenditures for property, plant & equipment	(2,334)	(2,796)
Acquisition of businesses including earn out adjustment	(118)	(896)
Other, net	(804)	(596)
Cash provided by (used in) investing activities of continuing operations	(3,220)	(4,248)
Cash provided by (used in) investing activities of discontinued operations	-	(457)
Cash provided by (used in) investing activities	(3,220)	(4,705)
Cash flows from financing activities:		
	1,571	17,941

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Net borrowings (repayments) under revolving credit agreements

Debt repayment	-	(1,543)
Net change in book overdraft	264	(3,585)
Proceeds from exercise of employee stock plans	2,191	1,758
Dividends paid	(3,520)	(3,018)
Debt issuance costs	-	(150)
Windfall tax benefit	107	307
Other	310	(2,315)
Cash provided by (used in) financing activities of continuing operations	923	9,395
Cash provided by (used in) financing activities of discontinued operations	-	121
Cash provided by (used in) financing activities	923	9,516
Net increase (decrease) in cash and cash equivalents	(45,637)	(2,812)
Effect of exchange rate changes on cash and cash equivalents	88	22
Cash and cash equivalents at beginning of period	73,898	12,720
Cash and cash equivalents at end of period	\$ 28,349	\$ 9,930

See accompanying notes to condensed consolidated financial statements.

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

1. Basis of Presentation

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

The company has a calendar year-end; however, its first three fiscal quarters follow a 13-week convention, with each quarter ending on a Friday. The first quarter for 2008 and 2007 ended on March 28, 2008 and March 30, 2007, respectively.

Recently Issued Accounting Pronouncements

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

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

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

position, results of operations or cash flows.

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Cash Flow Items

Cash payments for interest were \$338 and \$1,577 for the three months ended March 28, 2008 and March 30, 2007, respectively. Cash payments for income taxes, net of refunds, for the comparable periods were \$13,674 and \$6,262, respectively. Non-cash financing activity for the first three months 2007 includes the conversion of 16 debentures with a total value of \$16 into 684 shares of common stock. There were no such conversions during 2008 as they were fully redeemed in December 2007.

2. Accounts Receivable, net

Accounts receivable consist of the following:

	March 28, 2008	December 31, 2007
Trade receivables	\$ 86,082	\$ 74,057
U.S. Government contracts:		
Billed	22,045	20,852
Costs and accrued profit – not billed	8,524	6,190
Commercial and other government contracts:		
Billed	24,653	17,740
Costs and accrued profit – not billed	41,238	41,407
Less allowance for doubtful accounts	(1,746)	(1,811)
Total	\$ 180,796	\$ 158,435

On March 19, 2008, the company and the Commonwealth of Australia reached an agreement relative to the conclusion of the SH-2G(A) Super Seasprite Program. The unbilled receivables associated with the SH-2G(A) program were \$40,751 and \$40,789 as of March 28, 2008 and December 31, 2007, respectively, and the balance of amounts received as advances on this contract were \$7,863 and \$7,511 as of March 28, 2008, and December 31, 2007, respectively. These balances, totaling a net \$32,888 as of March 28, 2008, will be eliminated in connection with the transfer of the Australian program inventory to the company, which transfer is subject to approval by the U.S. Government. Additional detail relative to this agreement is provided in Note 12, Commitments and Contingencies.

3. Inventories

Inventories consist of the following:

	March 28, 2008	December 31, 2007
Merchandise for resale	\$ 94,787	\$ 93,949
Contracts and other work in process	114,368	103,004
Finished goods (including certain general stock materials)	18,282	13,388

Total	\$	227,437	\$ 210,341

4. Shareholders' Equity

Changes in shareholders' equity for the three months ended March 28, 2008 were as follows:

Balance, January 1, 2008	\$ 394,526
Net earnings	8,868
Change in pension & post-retirement benefit plans, net	727
Foreign currency translation adjustment	238
Comprehensive income	9,833
Dividends declared	(3,544)
Employee stock plans and related tax benefit	3,051
Balance, March 28, 2008	\$ 403,866

Comprehensive income was \$9,833 and \$10,767 for the three months ended March 28, 2008 and March 30, 2007, respectively. The changes to net earnings used to determine comprehensive income are comprised of foreign currency translation adjustments and net changes in pension & post-retirement benefit plans.

Shareholders' equity consists of the following:

	March 28, 2008	December 31, 2007
Common stock	\$ 25,363	\$ 25,182
Additional paid-in capital	81,653	78,783
Retained earnings	267,741	262,417
Treasury stock	(411)	(411)
Other shareholders' equity	29,520	28,555
Total	\$ 403,866	\$ 394,526

5. Earnings Per Share

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

(In thousands except per share amounts)	For the Three Months Ended	
	March 28, 2008	March 30, 2007
Basic:		
Net earnings from continuing operations	\$ 8,868	\$ 9,073
Net earnings from discontinued operations, net of tax	-	1,002
Net earnings	\$ 8,868	\$ 10,075
Weighted average number of		
shares outstanding	25,099	24,140
Net earnings per share from continuing operations	\$ 0.35	\$ 0.37
Net earnings per share from discontinued operations	-	0.05
Net earnings per share	\$ 0.35	\$ 0.42
Diluted:		
Net earnings from continuing operations	\$ 8,868	\$ 9,073
Elimination of interest expense on 6% subordinated convertible debentures (net after taxes)	-	152
Net earnings from continuing operations (as adjusted)	8,868	9,225
Net earnings from discontinued operations, net of tax	-	1,002
Net earnings (as adjusted)	\$ 8,868	