KAMAN Corp
Form 10-K
February 29, 2016
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, 2015

Commission File No. 001-35419

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)
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)	New York Stock Exchange LLC

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 x 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 x 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 o No x

The aggregate market value on July 3, 2015, (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 $1,119,363,347.

At January 29, 2016, there were 27,014,340 shares of Common Stock outstanding.
Documents Incorporated Herein By Reference
Portions of our definitive proxy statement for our 2016 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 distribution markets. We report information for ourselves and our subsidiaries (collectively, “we,” “us,” “our,” and “the Company”) in two business segments, Distribution and Aerospace. A discussion of 2015 developments is included in Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations, in this Form 10-K.

Distribution Segment

The Distribution segment brings our commitment to technological leadership and value-added services to the distribution business. The Distribution segment is a leading power transmission, motion control, electrical and automation, and fluid power industrial distributor with operations throughout the United States. We provide products, including bearings, mechanical and electrical power transmission, fluid power, motion control, automation, material handling components, electrical control and power distribution, and MRO supplies to a broad spectrum of industrial markets throughout the United States. Locations consist of approximately 240 branches, distribution centers and call centers across the United States (including Puerto Rico). We offer approximately four million items, as well as value-added services, to approximately 65,000 active customers representing a highly diversified cross section of industry.

Aerospace Segment

The Aerospace segment produces and markets proprietary aircraft bearings and components; super precision, miniature ball bearings; complex metallic and composite aerostructures for commercial, military and general aviation fixed and rotary wing aircraft; safe and arming solutions for missile and bomb systems for the U.S. and allied militaries; subcontract helicopter work; restoration, modification and support of our SH-2G Super Seasprite maritime helicopters; manufacture and support of our K-MAX® manned and unmanned 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, Airbus, Lockheed Martin, Raytheon and Bell Helicopter. The SH-2G aircraft is currently in service with the Egyptian Air Force and the New Zealand and Polish navies. Operations are conducted throughout the United States, as well as in facilities located in the United Kingdom, Germany, the Czech Republic and Mexico. Additionally, the Company maintains an investment in a joint venture in India.

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 19, 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 Distribution segment requires substantial working capital related to accounts receivable and inventories. Significant amounts of inventory are carried to meet our customers' 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 cycles of the programs for which work is performed. New programs may initially require higher working capital to complete nonrecurring start-up activities and fund the purchase of inventory and equipment necessary to perform the work. Nonrecurring start-up costs on large and complex programs often take longer to recover, negatively impacting working capital in the short-term and producing a corresponding benefit in future periods. As these programs mature and efficiencies are gained in the production process, working capital requirements generally decrease.

Our credit agreement includes a revolving credit facility which is available for additional working capital requirements and investment opportunities. See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Note 11, Debt, of the Notes to Consolidated Financial Statements, included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.

PRINCIPAL PRODUCTS AND SERVICES

The following table sets forth the percentage contribution of each business segment's products and services to consolidated net sales from continuing operations for each of the three most recently completed years:

	Years Ended December 31,					
	2015		2014		2013	
Distribution	66.3	%	64.7	%	62.9	%
Aerospace	33.7	%	35.3	%	37.1	%
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 activities, 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 price increases for 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 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 the Company include KAflex®, KAron®, and K-MAX®. In all, we maintain 34 U.S. and foreign trademarks.

BACKLOG

The majority of our backlog is attributable to the Aerospace segment. We anticipate that approximately 80.4% of our backlog at the end of 2015 will be performed in 2016. Approximately 56.1% of the Aerospace segment's backlog at

the end of 2015 is related to U.S. Government contracts or subcontracts.

Total backlog at December 31, 2015, 2014 and 2013, and the portion of the backlog we expect to complete in 2016, is as follows:

In thousands	Total Backlog at December 31, 2015	2015 Backlog to be completed in 2016	Total Backlog at December 31, 2014	Total Backlog at December 31, 2013
Aerospace	$659,350	$516,930	$518,025	$601,954
Distribution	65,963	65,963	70,154	50,667
Total	$725,313	$582,893	$588,179	$652,621

Backlog related to uncompleted contracts for which we have recorded a provision for estimated losses was $0.7 million as of December 31, 2015. Backlog related to firm but not yet funded orders was $2.4 million as of December 31, 2015. See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, for further discussion.

REGULATORY MATTERS

Government Contracts

The U.S. Government ("USG"), and other governments, may terminate any of our government contracts at their convenience or for default if we fail 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 USG 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 USG can also hold us liable for damages resulting from the default.

During 2015, approximately 98.7% of the work performed by the Company directly or indirectly for the USG 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 USG. 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 Environmental Matters in Item 3, Legal Proceedings, and Critical Accounting Estimates - Environmental Costs in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Note 16, Commitments and Contingencies, in the Notes to Consolidated Financial Statements, included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on 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, we do not believe that compliance with relevant environmental protection laws is 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.

Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 ("ITRA") added subsection (r) to section 13 of the Securities Exchange Act of 1934, as amended, (the "Exchange Act"), requiring a public reporting issuer to disclose in its annual or quarterly reports whether it or any of its affiliates have knowingly engaged in specified activities or transactions relating to Iran, including activities not prohibited by U.S. law and conducted outside the U.S. by non-U.S. affiliates in compliance with local law. Issuers must also file a notice with the U.S. Securities and Exchange Commission ("SEC") if any disclosable activities under ITRA have been included in the annual or quarterly report. We did not have any disclosable activities during the year ended December 31, 2015.

COMPETITION

The Distribution segment competes for business with several other national distributors of bearings, power transmission, electrical and fluid power products, two of which are substantially larger, and with many regional and local distributors and Original Equipment Manufacturers ("OEMs"). Competitive forces have intensified due to the increasing trend towards national contracts, customers' efforts to obtain material cost savings and the extension of supplier product authorizations within the distribution channel. We compete for business based upon the breadth and quality of products offered, product availability, delivery performance, and price, as well as on the basis of value-added services that we are able to provide.

The Aerospace segment operates in a highly competitive environment with many other organizations, some of which are substantially larger than us and have greater financial strength and more extensive resources. We compete for composite and metallic aerostructures subcontracts, and helicopter sales and 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 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 price. We compete for advanced technology fuzing business primarily on the basis of technical competence, product quality and 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

Customer funded research expenditures (which are included in cost of sales) were $0.4 million in 2015, $1.6 million in 2014, and $3.3 million in 2013. Independent research and development expenditures (which are included in selling, general and administrative expenses) were $6.7 million in 2015, $6.7 million in 2014, and $7.2 million in 2013.

EMPLOYEES

As of December 31, 2015, we employed 5,258 individuals.

FINANCIAL INFORMATION ABOUT GEOGRAPHIC AREAS

Financial information about geographic areas is included in Note 19, 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 Exchange Act and its rules and regulations. The Exchange Act requires us to file reports, proxy statements and other information with the 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 Exchange Act, 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" link, then the "Financial Information" link and then the "SEC Filings" link.

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

The information contained on our website is not intended to be, and shall not be deemed to be, incorporated into this Form 10-K or any other filing under the Exchange Act or the Securities Act of 1933, as amended.

EXECUTIVE OFFICERS OF THE REGISTRANT

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

Name	Age	Position	Prior Experience
Neal J. Keating	60	Chairman, President, Chief Executive Officer and Director	Mr. Keating was appointed President and Chief Operating Officer as well as elected a Director of the company effective September 17, 2007. Effective January 1, 2008, he was appointed 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, and served as a board member of GKN plc and Agusta-Westland.
Steven J. Smidler	57	President of Kaman Industrial Technologies and Executive Vice President of Kaman Corporation	Mr. Smidler 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. Effective February 20, 2012, he was appointed Executive Vice President of Kaman Corporation. 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 and Vice President, Marketing of the Global Manufacturing Group at Rockwell Automation, Inc.
Robert D. Starr	48	Executive Vice President and Chief Financial Officer	Mr. Starr was appointed Executive Vice President effective July 1, 2015, and has served as the Chief Financial Officer of the company since July 1, 2013. Mr. Starr joined the company in 2009 as Vice President - Treasurer. Prior to joining Kaman, Mr. Starr served as Assistant Treasurer at Crane Co. of Stamford, Connecticut, a $2.6 billion diversified manufacturer of highly engineered

industrial products. He also previously served as Managing Director, Corporate Finance at Aetna, Inc. of Hartford, Connecticut and as Director, Capital Markets and Risk Management at Fisher Scientific International, Inc. of Hampton, New Hampshire. Mr. Starr was also an associate at both Salomon Smith Barney in New York and Chase Securities, Inc. in New York and Singapore.

Name	Age	Position	Prior Experience
Gregory L. Steiner	58	President of Kaman Aerospace Group, Inc. and Executive Vice President of Kaman Corporation	Mr. Steiner joined the company as President of Kaman Aerospace Group, Inc., with overall responsibility for the company's Aerospace segment, effective July 7, 2008. Effective February 20, 2012, he was appointed Executive Vice President of Kaman Corporation. From 2005 to 2007, 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. 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 U.K. Before Curtiss Wright, he had an 18 year career with Rockwell Collins, Inc., serving in a number of progressively responsible positions, departing as Vice President and General Manager of Passenger Systems.
Ronald M. Galla	64	Senior Vice President and Chief Information Officer	Mr. Galla has been Senior Vice President and Chief Information Officer since 1995. Mr. Galla has been responsible for the company's management information systems since 1984.
Phillip A. Goodrich	59	Senior Vice President - Corporate Development	Mr. Goodrich joined the company in 2009 as Vice President - Corporate Development and was named Senior Vice President - Corporate Development in February 2012. He was previously Senior Vice President, Corporate Development with Barnes Group, Inc., Bristol, Connecticut. Mr. Goodrich held similar positions with Ametek, Inc., Paoli, Pennsylvania; and General Signal Corporation, Stamford, Connecticut.
Shawn G. Lisle	49	Senior Vice President and General Counsel	Mr. Lisle joined the company in 2011 and was appointed Senior Vice President and General Counsel effective December 1, 2012. Prior to joining the company, Mr. Lisle served as Senior Counsel for International Paper Company in Memphis, Tennessee. Prior to that, he served as legal counsel for Dana Corporation in Toledo, Ohio, and as an attorney at Porter Wright Morris & Arthur LLP in Columbus, Ohio. He also previously worked as a trial attorney at the U.S. Department of Justice, Tax Division in Washington, D.C. and was a Judge Advocate in the U.S. Navy.
Gregory T. Troy	60	Senior Vice President – Human Resources and Chief Human Resources Officer	Mr. Troy joined the company as Senior Vice President – Human Resources in March 2012. On February 19, 2013, he was appointed to the

			position of Chief Human Resources Officer. Prior to joining the company, Mr. Troy served as Chief Human Resources Officer of Force Protection, Inc. from April 2011 to March 2012, where he was a member of the Executive Committee. Prior to joining Force Protection, Mr. Troy served as Vice President and Chief Human Resources Officer at Modine Manufacturing Company from February 2006 to April 2011, providing global human resources leadership in the Americas, Europe and Asia. Mr. Troy also previously worked at OMNOVA Solutions Inc., Bosch Corporation, and Mobil Corporation, after serving as a Transportation Officer in the United States Army.
John J. Tedone	51	Vice President, Finance and Chief Accounting Officer	Mr. Tedone has served as Vice President, Finance and the company's Chief Accounting Officer since May 2007. From April 2006 to April 2007, Mr. Tedone served as the company's 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 the factors 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 global economic and political conditions.

Our future operating results and liquidity may be impacted by changes in general economic and political conditions which may affect, among other things, the following:

- The availability of credit and our ability to obtain additional or renewed bank financing, the lack of which may limit our ability to invest in capital projects and planned expansions or to fully execute our business strategy;
- Market rates of interest, any increase in which would increase the interest payable on some of our borrowings and adversely impact our cash flow;
- The investment performance of our pension plan, as well as the associated discount rate, any adverse changes in which may result in a deterioration in the funded status of the plan and an increase in required contributions and plan expense;
- The relationship between the U.S. Dollar and other currencies, any adverse changes in which could negatively impact our financial results;
- The ability of our customers to pay for products and services on a timely basis, any adverse change in which could negatively impact sales and require us to increase our bad debt reserves;
- The volume of orders we receive from our customers, any adverse change in 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, any of which may require us to find and qualify new suppliers.

While general economic and political conditions have not impaired our ability to access credit markets and finance our operations to date, there can be no assurance that we will not experience future adverse effects that may be material to our cash flows, competitive position, financial condition, results of operations, or our ability to access capital.

Our financial performance is significantly influenced by customer demand for the products we distribute.

The financial performance of our Distribution segment, which generated approximately 66.3% of our 2015 consolidated net sales and approximately 30.9% of our 2015 operating income from continuing operations before corporate expenses and net gain on sale of assets, is significantly influenced by customer demand for the products that we distribute and the services that we provide. Consequently, demand for our products and services has been and will continue to be significantly influenced by the same factors that affect demand for and production of our customers' goods and services, including the following:

- the level of industrial production and manufacturing capacity utilization in the markets that we serve;
- the economic health of the manufacturing sector of the U.S. economy, as reflected by the Purchasing Managers Index® reported by the Institute for Supply Management, as an index reading of 50 or more implies an expanding manufacturing economy, while a reading below 50 implies a contracting manufacturing economy;
- the consolidation of certain of our manufacturing customers and the trend of manufacturing operations being moved overseas, which subsequently reduces demand for the products we distribute and the services we provide; and
- the general industrial economy, which in declining conditions may cause reduced demand for industrial output.

Any adverse changes in these and other factors affecting the demand for and production of our customers' goods and materials could have a material adverse effect on our business, financial condition, results of operations and cash

flows.

Our financial performance also is significantly influenced by conditions within the aerospace and defense industries.

The financial performance of our Aerospace segment, which generated approximately 33.7% of our 2015 consolidated net sales, and approximately 69.1% of our 2015 operating income from continuing operations before corporate expenses and net gain on sale of assets, is directly tied to economic conditions in the commercial aviation and defense industries.

The commercial aviation industry tends to be cyclical, and capital spending by airlines and aircraft manufacturers may be influenced by a variety of global 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 may be influenced by a changing global political environment, continued pressure on U.S. and global defense spending, U.S. foreign policy and the activity level of military flight operations.

Changes to the aerospace and defense industries and continued pressure to reduce U.S. defense spending could have a material impact on our current and proposed aerospace programs, which could adversely affect our operating results and future prospects. In addition, 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.

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 USG programs are subject to unique risks.

We have several significant long-term contracts either directly with the USG or where the USG is the ultimate customer, including the Sikorsky BLACK HAWK cockpit program, the Joint Programmable Fuze ("JPF") program, the Bell Helicopter AH-1Z program, and the A-10 program. These contracts are subject to unique risks, some of which are beyond our control. Examples of such risks include:

- The USG 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, financial condition, results of operations and cash flows.
- Our USG business is subject to specific procurement regulations and other requirements. These requirements, although customary in USG 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 designed to assure compliance with these regulations and requirements, failure to do so under certain circumstances could lead to suspension or debarment, for cause, from USG contracting or subcontracting for a period of time and could have a material adverse effect on our business, financial condition, results of operations and cash flows and could adversely impact our reputation and our ability to receive other USG contract awards in the future.
- The costs we incur on our USG contracts, including allocated indirect costs, may be audited by USG 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, which could have a material adverse effect on our business, financial condition, results of operations and cash flows. Moreover, if any audit were to reveal 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 USG.
- We are from time to time subject to governmental inquiries and investigations of our business practices due to our participation in domestic and foreign government contracts and programs and our transaction of business domestically and internationally. Adverse findings associated with any such inquiry or investigation could also result in 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 domestic and foreign governments.

Our business may be adversely affected by changes in budgetary priorities of the USG.

Because a significant percentage of our revenue is derived either directly or indirectly from contracts with the USG, changes in federal government budgetary priorities could directly affect our financial performance. A significant decline in government expenditures, a shift of expenditures away from programs that we support or a change in federal government contracting policies could cause federal government agencies to reduce their purchases under

contracts, to exercise their right to terminate contracts at any time without penalty or not to exercise options to renew contracts.

During 2011, the federal government was unable to reach agreement on budget reduction measures required by the Budget Control Act of 2011 (the “Budget Act”) passed by Congress. Because Congress and the Administration could not reach agreement, the Budget Act triggered automatic reductions in both defense and discretionary spending in a process known as sequestration. The future impact of sequestration is uncertain, but there can be no assurance that automatic across-the-board budget cuts will not adversely affect our business and profitability. One or more of our programs could be reduced, extended, or terminated, which could result in facility closures and personnel reductions that could significantly impact our operations.

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

The time required and costs incurred to ramp up a new program can be significant and include 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 a greater volume of scrap, higher costs due to inefficiencies, delays in production and learning curves that are often more extended than anticipated, all of which could have a material effect on our business, financial condition, results of operations and cash flows.

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 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 objectives. 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 requires 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 may attempt to use their position to negotiate price or other concessions for a particular product or service without regard to the terms of an existing contract or the underlying cost of production.

We believe our strategies for our Aerospace segment will allow us to continue to effectively compete for key contracts and customers, but there can be no assurance that we will be able to compete successfully in this market or against such competitors.

We could be negatively impacted by the loss of key suppliers, the lack of product availability, or changes in supplier programs.

Our business depends on maintaining a sufficient supply of various products to meet our customers' demands. We have long-standing relationships with key suppliers but these relationships generally are non-exclusive and could be terminated by either party. If we were to lose 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 our Aerospace segment or sell within our 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 the 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.

Our failure to comply with the covenants contained in our senior credit facility could trigger an event of default, which could materially and adversely affect our operating results and our financial condition.

Our senior credit facility requires us to maintain certain financial ratios and comply with various operational and other covenants. If we were unable to maintain these ratios and comply with such covenants, we would need to seek relief from our lenders in order to avoid, cure or have waived an event of default under the facility. There can be no assurance that we would be able to obtain such relief on commercially reasonable terms or otherwise. If an event of default is not cured or waived, our lenders could, among other things, cause all outstanding indebtedness under the credit facility to be due and payable immediately. There can be no assurance that our assets or cash flows would be sufficient to enable us to fully repay those amounts or that we would be able to refinance or restructure the indebtedness. If, as or when required, we are unable to repay, refinance or restructure the indebtedness outstanding under our senior credit facility, or amend the financial ratios and covenants contained therein, the lenders under our senior credit facility could elect to terminate their commitments thereunder,

cease making further loans and institute foreclosure proceedings against our assets. This, in turn, could result in an event of default under one or more of our other financing agreements, including our convertible notes.

The value of our deferred tax assets could become impaired, which could materially and adversely affect our operating results.

As of December 31, 2015, we had approximately $51.6 million in net deferred tax assets after valuation allowance. These deferred tax assets can be used to offset taxable income in future periods and reduce income taxes payable in those future periods. Each quarter, we determine the probability of the realization of deferred tax assets, using significant judgments and estimates with respect to, among other things, historical operating results, expectations of future earnings and tax planning strategies. In the event that there is insufficient positive evidence to support the valuation of these assets, we may be required to further adjust the valuation allowance to reduce our deferred tax assets. Such a reduction could result in a material non-cash charge in the period in which the valuation allowance is adjusted and could have a material adverse effect on our results of operations.

The freezing of our defined benefit pension plan could trigger a material curtailment adjustment in favor of the USG.

Our defined benefit pension plan was frozen with respect to future benefit accruals effective December 31, 2015. U.S. Government Cost Accounting Standard 413 ("CAS 413") requires the Company to determine the USG’s share of any resulting pension curtailment adjustment attributable to pension expense charged to Company contracts with the USG, which could result in an amount due to the USG if the plan is determined to be in a surplus position or an amount due to the Company if the plan is determined to be in a deficit position. The Company is working to quantify the impact of the pension curtailment, and there can be no assurance that it will not have a material adverse effect on our business, our financial condition, results of operations and cash flows.

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

We generally recognize sales and gross margin on long-term contracts based on the percentage-of-completion method of accounting. This method allows for revenue recognition as our work progresses on a contract and requires that we estimate future revenues and costs over the life of a contract. Revenues are estimated based upon the negotiated 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 our ability to accurately estimate future contract costs. Additional factors that could affect recognition of revenue under the percentage-of-completion method include:

- Accounting for initial program costs;
- The effect of nonrecurring work;
- Delayed contract start-up or changes to production schedules;
- Transition of work to or 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;
- Accrual of contract losses; and
- Changes in our overhead rates.

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 current and future financial performance. While we perform quarterly reviews of our long-term contracts to address and lessen the effects of these risks, there can be no assurance that we will not make material adjustments to underlying assumptions or estimates relating to one or more long-term contracts that may have a material adverse effect on our business, financial condition, results of operations and cash flows.

We may lose money or generate lower than expected profits on our fixed-price contracts.

Our customers set demanding specifications for product performance, reliability and cost. Most of our government contracts and subcontracts provide for a predetermined, fixed price for the products we make regardless of the costs we incur. Therefore, we must absorb cost overruns, notwithstanding the difficulty of estimating all of the costs we will incur in performing these contracts and in projecting the ultimate level of sales that we may achieve. Our failure to anticipate technical problems, estimate costs accurately, integrate technical processes effectively or control costs during performance of a fixed-price contract may reduce the profitability of a fixed-price contract or cause a loss. While we believe that we have recorded adequate provisions in our financial statements for losses on our fixed-price contracts as required under generally accepted accounting principles ("GAAP"), there can be no assurance that our contract loss provisions will be adequate to cover all actual future losses.

The U.S. Navy contract award for the FMU-139D/B bomb fuze could jeopardize the continued viability and profitability of the Company's bomb fuze program with the U.S. Air Force.

The Company currently provides the FMU-152A/B bomb fuze to the U.S. Air Force ("USAF") and twenty-six other nations, but the U.S. Navy currently utilizes a different fuze - the FMU-139. During 2015, the U.S. Naval Air Systems Command (“NAVAIR”) solicited proposals for a firm-fixed price production contract to implement improvements to the performance characteristics of the FMU-139 (such improved fuze having been designated the FMU-139D/B). The USAF has stated that, if and when a contract is awarded and production begins, the funds associated with the FMU-152A/B will be redirected to the FMU-139D/B. During the third quarter of 2015, the U.S. Navy awarded the FMU-139 D/B contract to a competitor. In the event that the FMU-139 D/B program proceeds as planned and the USAF redirects the funds associated with the FMU-152 A/B to the FMU-139 D/B, our business, financial condition, results of operations and cash flows may be materially adversely impacted.

The start-up of the K-MAX® production line could adversely affect our operating results and cash flow generation.

Because the K-MAX® aircraft has not been manufactured in over a decade, restarting the production line could require significant investments of cash to fund costs associated with development and engineering work, the acquisition of new tooling, first article testing, and production inefficiencies. The Company currently has $14.9 million of K-MAX® inventory, a portion of which we expect to use in connection with a start-up of the production line. If this inventory is determined to be unusable, then the Company could incur additional costs to replace such inventory, including potentially having to requalify suppliers for the manufacture of new components. The anticipated positive cash flows resulting from the sale of the aircraft may also be adversely impacted by production delays. Further, if we are unable to sustain interest in this program, we may incur additional costs associated with a shut-down of the production line.

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

Companies continue to consolidate their purchases of industrial products through a small number of major distributors or integrated suppliers, rather than a large number of vendors. Our Distribution segment has developed a strategy to compete effectively for national accounts, but we face intensifying competition from our competitors, several of which are larger and have a more extensive geographic footprint.

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 may require an increased level of customer service, such as investments in the form of opening 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 ultimately may not be able to

generate a return on these investments.

The loss of the Distribution segment's key suppliers with whom we have national reseller agreements and/or national distributor agreements could adversely affect our operating results and profits.

An element of our Distribution segment's strategy is to establish alignment with a single vendor in certain portions of its business. As a result, we currently have distribution rights for certain product lines and depend on these distribution rights as a source of business. Many of these distribution rights are ours pursuant to contracts that are subject to cancellation upon little or no prior notice. Although we believe we could obtain alternate distribution rights in the event of such a cancellation, the termination or limitation by any key supplier of its relationship with the Company could result in a temporary disruption of our business and, in turn, could adversely affect our results of operations and financial condition.

A decline in sales at our Distribution segment could adversely impact the vendor incentives and rebates we earn from suppliers.
Some of our suppliers offer vendor incentives and rebates that are tied to the amount of product that we purchase. These incentives and rebates can be market or customer-account specific or relate to a specified program period. A decline in sales could adversely impact the vendor incentives and rebates we earn from suppliers.
Our information technology systems, processes, and sites may suffer interruptions or failures which may affect our ability to conduct our business.

Our 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 our business. Our computer systems face the threat of unauthorized access, computer hackers, computer viruses, malicious code, organized cyber-attacks and other security problems and system disruptions.

Cyber-attacks are evolving and include, but are not limited to, malicious software, destructive malware, attempts to gain unauthorized access to data, disruption or denial of service attacks and other electronic security breaches that could lead to disruptions in critical systems, unauthorized release of confidential, personal or otherwise protected information and corruption of data, networks or systems. We provide products and services to customers who also face cyber threats. Our products and services may be subject to cyber threats and we may not be able to detect or deter such threats, which could result in losses that could adversely affect our customers and our company. Additionally, we could be impacted by cyber threats in products that we use in our partners' and customers' systems that are used in connection with our business. These events, if not prevented or mitigated, could damage our reputation, require remedial action, lead to loss of business, regulatory actions, potential liability and other financial losses.

We have put in place business continuity plans and security precautions for our critical systems, including a back-up data center. However, if our information technology systems are damaged, or cease to function properly due to any number of causes, such as catastrophic events, power outages, security breaches resulting in unauthorized access or cyber-attacks, and our business continuity plans and security precautions do not effectively compensate on a timely basis, we may suffer interruptions in our operations or the misappropriation of proprietary information, which may adversely impact our business, financial condition, results of operations and cash flows.

Our implementation of enterprise resource planning (“ERP”) systems may adversely affect our business and results of operations or the effectiveness of internal controls over financial reporting.

We are currently implementing new ERP systems within our Aerospace and Distribution segments. ERP implementations are complex and time-consuming projects that involve substantial expenditures on system software and implementation activities that take several years. If we do not effectively implement the ERP systems or if the systems do not operate as intended, it could adversely affect our financial reporting systems and our ability to produce financial reports, the effectiveness of internal controls over financial reporting, and our business, financial condition, results of operations and cash flows.

A failure to maintain effective internal controls could adversely affect our ability to accurately report our financial results or prevent fraud.
Our ability to provide assurance with respect to our financial reports and to effectively prevent fraud depends on effective internal control. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements; therefore, even effective controls can only provide reasonable assurance with respect to the preparation and fair presentation of financial statements. If we are unable to provide reasonable assurance, our financial statements could become materially misleading, which could adversely affect the trading price of our common stock. Any material weakness could adversely impact investor confidence in the accuracy of our financial

statements, affecting our ability to obtain additional financing. As a result, this would affect our business, financial condition and the market value of our stock. Additionally, we would incur costs to improve our internal control systems.

Although management has assessed our internal control over financial reporting as effective based on criteria set forth by the COSO - Integrated Framework, we can give no assurance that material weaknesses will not occur in the future. Those controls may not be adequate to prevent or identify irregularities or ensure fair presentation of our financial statements.

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;
- We may not be able to achieve the synergies or cost savings we anticipated;
- We may not realize the assigned value of the acquired assets;
- We may experience quality control failures or encounter other customer issues; and
- We may become subject to preexisting liabilities and obligations of the acquired businesses.

These factors could have a material adverse effect on our business, financial condition, results of operations and cash flows. In addition, the 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.

Certain of our operations are conducted through joint ventures, which entail special risks.

The Company has a 26% equity interest in Kineco-Kaman Composites - India Private Limited, a composites manufacturing joint venture located in Goa, India. The Company relies significantly on the services and skills of its joint venture partner to manage and conduct the local business operations of the joint venture and ensure compliance with all applicable laws and regulations. If our joint venture partner fails to perform these functions adequately, it may adversely affect our business, financial condition, results of operations and cash flows. Moreover, if our joint venture partner fails to honor its financial obligations to commit capital, equity or credit support to the joint venture as a result of financial or other difficulties or for any other reason, the joint venture may be unable to perform contracted services or deliver contracted products unless we provide the necessary capital, equity or credit support.

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 identifiable intangible assets of the business we acquire. Goodwill and other intangible assets that have indefinite useful lives must be evaluated 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 evaluations 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 and a corresponding reduction in our net asset value in the period such impairment is identified.

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 distribution industries. We try to ensure that we offer competitive compensation and benefits as well as opportunities for continued development, and we continually strive to recruit and train qualified personnel and retain key employees. There can be no assurance, however, 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 are subject to litigation, tax, environmental and other legal compliance risks that could adversely affect our operating results.

We are subject to a variety of litigation, tax and legal compliance risks. These risks include, among other things, possible liability relating to contract-related claims, government contracts, product liability matters, personal injuries, intellectual property rights, taxes, environmental matters and compliance with U.S. and foreign export laws, competition laws and laws governing improper business practices. In the event that we or one of our business units engage in wrongdoing in connection with any of these kinds of matters, we could be subject to significant fines, penalties, repayments, other damages (in certain cases, treble damages), or suspension or debarment from government contracts. Moreover, our failure to comply with applicable export and trade practice laws could result in civil or criminal penalties and suspension or termination of export privileges.

As a global business, we are subject to complex laws and regulations in the U.S. and other countries in which we operate. Those laws and regulations may be interpreted in different ways. They may also change from time to time, as may related interpretations and other guidance. Changes in laws or regulations could result in higher expenses and payments, and uncertainty relating to laws or regulations may also affect how we conduct our operations and structure our investments and could limit our ability to enforce our rights. Changes in environmental and climate change laws or regulations, including laws relating to greenhouse gas emissions, could lead to new or additional investment in product designs and could increase environmental compliance expenditures. Changes in climate change concerns, or in the regulation of such concerns, including greenhouse gas emissions, could subject us to additional costs and restrictions, including increased energy and raw material costs.

Our financial results may be adversely affected by the outcome of pending legal proceedings and other contingencies that cannot be predicted. In accordance with GAAP, 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 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.

For a discussion of these matters, please refer to Note 16, Commitments and Contingencies, in the Notes to Consolidated Financial Statements in this Annual Report on Form 10-K.

Regulations related to conflict minerals could adversely impact our business.

The Dodd-Frank Wall Street Reform and Consumer Protection Act contains provisions designed to improve transparency and accountability concerning the supply of certain minerals, known as conflict minerals, originating from the Democratic Republic of the Congo ("DRC") and adjoining countries. In August 2012, the SEC promulgated disclosure and reporting requirements for companies who use conflict minerals in their products. Complying with these disclosure and reporting requirements requires us to incur substantial costs and expenditures to conduct due diligence to determine the sources of conflict minerals used in our products. Moreover, these requirements may result in changes to the sourcing practices of our customers which may require the identification and qualification of alternate sourcing for the components of products we manufacture, which could impact the availability of, or cause increases in the price of, materials used in our products. We may face reputational challenges if we determine that certain of our products contain minerals not determined to be conflict free or if we are unable to verify the origin of conflict minerals used in our products through the procedures we implemented. As there may be only a limited number of suppliers offering “conflict free” conflict minerals, there can be no assurance that we will be able to obtain necessary conflict minerals from such suppliers in sufficient quantities or at competitive prices.

Our foreign operations require us to comply with a number of United States and international laws and regulations, violations of which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our operations outside the United States require us to comply with a number of United States and international laws and regulations, such as the U.S. Foreign Corrupt Practices Act of 1977 (the "FCPA"), the U.K. Bribery Act of 2010 (the "Bribery Act") and other similar anticorruption laws. The FCPA generally prohibits United States companies or their agents and employees from providing anything of value to a foreign official for the purposes of influencing any act or decision of these individuals in their official capacity to help obtain or retain business, direct business to any person or corporate entity or obtain any unfair advantage. While we have internal controls and procedures and compliance programs to train our employees and agents with respect to compliance with the FCPA and other similar international laws and regulations, there can be no assurance that our policies, procedures and programs will always protect us from reckless or criminal acts committed by our employees or

agents. Allegations of violations of applicable anti-corruption laws, including the FCPA and the Bribery Act, may result in internal, independent, or government investigations. Violations of the FCPA and other international laws and regulations may lead to severe criminal or civil sanctions and could result in liabilities that have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our foreign operations present additional risks and uncertainties which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our foreign business operations create additional risks and uncertainties, including the following:

- 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 impacting 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, results of operations and cash flows.

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

We are exposed to risks 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 our insurance coverage may not cover all claims or liabilities, and we may be forced to bear substantial unanticipated costs.

Health care reform could adversely affect our operating results.

In 2010, the United States federal government enacted comprehensive health care reform legislation. Due to the breadth and complexity of this legislation, as well as the phased-in nature of its implementation and lack of interpretive guidance, it is difficult for the Company to predict the effects it will have on our business over the coming years. There can be no assurance that our operating results will not be adversely affected by increased costs, expanded liability exposure and requirements that change the ways we provide healthcare and other benefits to our employees.

Business disruptions could seriously affect our 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. We have developed and are implementing business continuity plans for each of our businesses, in order to mitigate the effects disruptions may have on our financial results.

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

We may in the future experience significant fluctuations in our quarterly operating results attributable to a variety of factors. Such factors include but are not limited to:

- 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;
- Difficulties with our technical programs;
- Budgeting cycles of customers;
- Mix of distribution channels;
- Mix of products and services sold;

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- Mix of domestic and international revenues;
- Fluctuations in currency exchange rates;
- Changes in the level of operating expenses;
- Changes in our sales incentive plans;
- Changes in tax laws in the jurisdictions in which we conduct business;
- Inventory obsolescence;
- Accrual of contract losses;
- Fluctuations in oil and utility costs;
- Completion or announcement of acquisitions; and
- General economic conditions in regions in which we conduct business.

Most of our expenses are relatively fixed in the short-term, including costs of personnel and facilities, and are not easily reduced. Thus, an unexpected reduction in our revenue, or failure to achieve an 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.

FORWARD-LOOKING STATEMENTS

This report contains "forward-looking statements" within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements also may be included in other publicly available documents issued by the Company and in oral statements made by our officers and representatives from time to time. These forward-looking statements are intended to provide management's current expectations or plans for our future operating and financial performance, based on assumptions currently believed to be valid. They can be identified by the use of words such as "anticipate," "intend," "plan," "goal," "seek," "believe," "project," "estimate," "expect," "strategy," "future," "likely," "may," "should," "would," "could," "will" and other words of similar meaning in connection with a discussion of future operating or financial performance. Examples of forward looking statements include, among others, statements relating to future sales, earnings, cash flows, results of operations, uses of cash and other measures of financial performance.

Because forward-looking statements relate to the future, they are subject to inherent risks, uncertainties and other factors that may cause the Company's actual results and financial condition to differ materially from those expressed or implied in the forward-looking statements. Such risks, uncertainties and other factors include, among others: (i) changes in domestic and foreign economic and competitive conditions in markets served by the Company, particularly the defense, commercial aviation and industrial production markets; (ii) changes in government and customer priorities and requirements (including cost-cutting initiatives, government and customer shut-downs, the potential deferral of awards, terminations or reductions of expenditures to respond to the priorities of Congress and the Administration, or budgetary cuts resulting from Congressional actions or automatic sequestration); (iii) changes in geopolitical conditions in countries where the Company does or intends to do business; (iv) the successful conclusion of competitions for government programs (including new, follow-on and successor programs) and thereafter successful contract negotiations with government authorities (both foreign and domestic) for the terms and conditions of the programs; (v) the existence of standard government contract provisions permitting renegotiation of terms and termination for the convenience of the government; (vi) the successful resolution of government inquiries or investigations relating to our businesses and programs; (vii) risks and uncertainties associated with the successful implementation and ramp up of significant new programs, including the ability to manufacture the products to the detailed specifications required and recover start-up costs and other investments in the programs; (viii) potential difficulties associated with variable acceptance test results, given sensitive production materials and extreme test parameters; (ix) the receipt and successful execution of production orders under the Company's existing U.S. government JPF contract, including the exercise of all contract options and receipt of orders from allied militaries, but excluding any next generation programmable fuze programs, as all have been assumed in connection with goodwill impairment evaluations; (x) the continued support of the existing K-MAX® helicopter fleet, including sale of existing K-MAX® spare parts inventory and the receipt of orders for new aircraft sufficient to recover our investment in the restart of the K-MAX® production line; (xi) the accuracy of current cost estimates associated with environmental remediation activities; (xii) the profitable integration of acquired businesses and the ability to generate projected earnings and achieve cost synergies and other expense reduction objectives from such businesses; (xiii) the ability to implement our ERP systems in a cost-effective and efficient manner, limiting disruption to our business, and allowing us to capture their planned benefits while maintaining an adequate internal control environment; (xiv) changes in supplier sales or vendor incentive policies; (xv) the effects of price increases or decreases; (xvi) the effects of pension regulations, pension plan assumptions, pension plan asset performance and future contributions and the pension freeze; (xvii) future levels of indebtedness and capital expenditures; (xviii) the continued availability of raw materials and other commodities in adequate supplies and the effect of increased costs for such items; (xix) the effects of currency exchange rates and foreign competition on future operations; (xx) changes in laws and regulations, taxes, interest rates, inflation rates and general business conditions; (xxi) future repurchases and/or issuances of common stock; (xxii) the incurrence of unanticipated restructuring costs or the failure to realize anticipated savings or benefits from past or future expense reduction actions; and (xxiii) 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. We assume 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, 2015, we occupied major facilities at the following principal locations:

Segment	Location	Property Type [1]
Aerospace	Jacksonville, Florida	Leased - Manufacturing & Office
	Chihuahua, Mexico	Leased - Manufacturing & Office
	Rimpar, Germany	Owned - Manufacturing & Office
	Prachatice, Czech Republic	Owned - Assembly & Office
	Wichita, Kansas	Leased - Manufacturing & Office
	Darwen, Lancashire, United Kingdom	Leased - Manufacturing & Office
	Hyde, Greater Manchester, United Kingdom	Leased - Manufacturing & Office
	Burnley, Lancashire, United Kingdom	Leased - Manufacturing & Office
	Orlando, Florida	Owned - Manufacturing & Office
	Everett, Washington	Leased - Office
	Höchstadt, Germany	Owned - Manufacturing & Office
	Middletown, Connecticut	Owned - Manufacturing & Office
	Bloomfield, Connecticut	Owned - Manufacturing, Office & Service Center
	Bennington, Vermont	Owned - Manufacturing & Office
	Mesa, Arizona	Leased - Office & Service Center
Distribution	Bloomfield, Connecticut	Owned - Office
	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
	Gurabo, Puerto Rico	Leased - Distribution Center & Office
	Bolingbrook, Illinois	Leased - Office & Branch
	Rochester, New York	Leased - Office & Branch
	Akron, Ohio	Leased - Office
	Northvale, New Jersey	Leased - Office & Branch
Corporate	Bloomfield, Connecticut	Owned - Office & Information Technology Back-Up Data Center

	Square Feet
Distribution [2]	2,379,420
Aerospace	2,251,689
Corporate [3]	103,041
Total	4,734,150

(1) Owned facilities are unencumbered.

(2) The Distribution segment also has approximately 240 branches located across the United States and in Puerto Rico, generally operating in leased facilities.

(3) We occupy a 40,000 square foot corporate headquarters building, 38,000 square foot mixed use building and 8,000 square foot data center in Bloomfield, Connecticut.

ITEM 3. LEGAL PROCEEDINGS

General

From time to time, as a normal incident of the nature and kinds of businesses in which the Company and its subsidiaries are, and were, engaged, various claims or charges are asserted and legal proceedings are commenced by or against the Company and/or one or more of its subsidiaries. Claimed amounts may be substantial but may not bear any reasonable relationship to the merits of the claim or the extent of any real risk of court or arbitral awards. We record accruals related to those matters for which we consider a loss to be both probable and reasonably estimable. Gain contingencies, if any, are not recognized until they are realized. Legal costs are generally expensed when incurred.

We evaluate, on a quarterly basis, developments in legal proceedings that could affect the amount of any accrual and developments that would make a loss contingency both probable and reasonably estimable. Our loss contingencies are subject to substantial uncertainties, however, including for each such contingency the following, among other factors: (i) the procedural status of the case; (ii) whether the case has or may be certified as a class action suit; (iii) the outcome of preliminary motions; (iv) the impact of discovery; (v) whether there are significant factual issues to be determined or resolved; (vi) whether the proceedings involve a large number of parties and/or parties and claims in multiple jurisdictions or jurisdictions in which the relevant laws are complex or unclear; (vii) the extent of potential damages, which are often unspecified or indeterminate; and (viii) the status of settlement discussions, if any, and the settlement postures of the parties. Because of these uncertainties, management has determined that, except as otherwise noted below, the amount of loss or range of loss that is reasonably possible in respect of each matter described below (including any reasonably possible losses in excess of amounts already accrued), is not reasonably estimable.

While it is not possible to predict the outcome of these matters with certainty, based upon available information, management believes that all settlements, arbitration awards and final judgments, if any, which are considered probable of being rendered against us in legal proceedings and that can be reasonably estimated are accrued for at December 31, 2015. Despite this analysis, there can be no assurance that the final outcome of these matters will not have a material adverse effect on our business, financial condition, results of operations or cash flows.

Except as set forth below, as of December 31, 2015, neither the Company nor any of its subsidiaries is a party, nor is any of its or their property subject, to any material pending legal proceedings, other than ordinary routine litigation incidental to the business of the Company and its subsidiaries. Additional information relating to certain of these matters is set forth in Note 16, 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.

Environmental Matters

The Company and its subsidiaries are subject to numerous U.S. Federal, state and international environmental laws and regulatory requirements and are involved from time to time in investigations or litigation of various potential environmental issues concerning activities at our facilities or former facilities or remediation as a result of past activities (including past activities of companies we have acquired). From time to time, we receive notices from the U.S. Environmental Protection Agency or equivalent state or international environmental agencies that we are a potentially responsible party under the Comprehensive Environmental Response, Compensation and Liability Act (commonly known as the “Superfund Act”) and/or equivalent laws. Such notices assert potential liability for cleanup costs at various sites, which may include sites owned by us, sites we previously owned and treatment or disposal sites not owned by us, allegedly containing hazardous substances attributable to us from past operations. We are currently named as a potentially responsible party at one site. While it is not possible to predict the outcome of these proceedings, in the opinion of management, any payments we may be required to make as a result of all such claims in

existence at December 31, 2015, will not have a material adverse effect on our business, financial condition, results of operations or cash flows.

Asbestos Litigation

Like many other industrial companies, the Company and/or one of its subsidiaries may be named as a defendant in lawsuits alleging personal injury as a result of exposure to asbestos integrated into certain products sold or distributed by the Company and/or the named subsidiary. A substantial majority of these asbestos-related claims have been covered by insurance or other forms of indemnity or have been dismissed without payment. The rest have been resolved for amounts that are not material to the Company, either individually or in the aggregate. Based on information currently available, we do not believe that the resolution of any currently pending asbestos-related matters will have a material adverse effect on our business, financial condition, results of operations or cash flows.

ITEM 4. MINE SAFETY DISCLOSURES

Information concerning mine safety violations required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") and Item 104 of Regulation S-K has been included in Exhibit 95 to this Annual Report on Form 10-K.

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 New York Stock Exchange under the symbol "KAMN". As of January 29, 2016, there were 3,400 registered holders of our Common Stock. Holders of the Company's Common Stock are eligible to participate in the Computershare Shareowner Services program, which offers a variety of services including dividend reinvestment. A booklet describing the program may be obtained by contacting Computershare at (800) 522-6645 or via the web at www.cpushareownerservices.com.

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

	Market Quotations			
	High	Low	Close	Dividend Declared
2015				
First quarter	$42.82	$37.54	$42.31	$0.18
Second quarter	43.47	41.00	42.06	0.18
Third quarter	42.29	35.09	35.96	0.18
Fourth quarter	41.82	36.06	40.81	0.18
2014				
First quarter	$41.77	$37.83	$40.02	$0.16
Second quarter	44.60	39.19	42.87	0.16
Third quarter	43.47	38.62	39.70	0.16
Fourth quarter	43.49	37.43	40.09	0.16

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, 2015:

Period	Total Number of Shares Purchased (a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan (b)	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plan (in thousands)
October 3, 2015 – October 30, 2015	27,224	$37.69	27,224	$90,767
October 31, 2015 – November 27, 2015	22,201	$39.48	22,000	$89,898
November 28, 2015 – December 31, 2015	48,906	$40.42	48,000	$87,959
Total	98,331		97,224	

(a) During the quarter the Company purchased 1,107 shares in connection with employee tax withholding obligations as permitted by our equity compensation plans, which are SEC Rule 16b-3 qualified compensation plans. These are not purchases under our publicly announced program.

(b) On April 29, 2015, the Company announced that its Board of Directors approved a $100.0 million share repurchase program ("2015 Share Repurchase Program").

PERFORMANCE GRAPH

Following is a comparison of our total shareholder return for the period 2010 – 2015 compared to the S&P 600 Small Cap Index and the Russell 2000 Small Cap 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 market capitalizations generally similar to that of the Company.

	2010	2011	2012	2013	2014	2015
Kaman Corporation	100.00	95.87	131.60	144.61	148.24	153.61
S&P Small Cap 600	100.00	101.02	115.25	166.05	175.61	172.15
Russell 2000	100.00	95.82	111.49	154.78	162.35	155.18

ITEM 6. SELECTED FINANCIAL DATA

FIVE-YEAR SELECTED FINANCIAL DATA
(in thousands, except per share amounts, shareholders and employees)

	2015[1]	2014[2,6,7]	2013[3,6,7]	2012[4,6,7]	2011[5,6,7]
OPERATIONS					
Net sales from continuing operations	$1,775,125	$1,794,962	$1,653,921	$1,563,342	$1,452,182
Operating income from continuing operations	104,519	110,507	103,346	91,589	86,819
Earnings from continuing operations before income taxes	87,989	96,502	90,654	79,695	75,541
Income tax expense	27,551	30,722	31,588	26,748	26,214
Earnings from continuing operations	60,438	65,780	59,066	52,947	49,327
Earnings (loss) from discontinued operations, net of taxes	—	(2,924)	(2,386)	755	1,815
Gain (loss) on disposal of discontinued operations, net of taxes	—	(4,984)	420	1,323	—
Net earnings	$60,438	$57,872	$57,100	$55,025	$51,142
FINANCIAL POSITION					
Current assets	$676,035	$662,256	$665,205	$618,045	$600,102
Current liabilities	236,689	221,724	227,956	223,952	218,698
Working capital	439,346	440,532	437,249	394,093	381,404
Property, plant and equipment, net	175,586	147,825	148,508	128,669	111,895
Total assets	1,441,205	1,201,205	1,140,631	1,096,993	996,398
Long-term debt, excluding current portion	435,821	271,232	264,655	249,585	198,522
Shareholders' equity	543,077	517,665	511,292	420,193	373,071
PER SHARE AMOUNTS					
Basic earnings per share from continuing operations	$2.22	$2.43	$2.21	$2.00	$1.88
Basic earnings (loss) per share from discontinued operations	—	(0.11)	(0.09)	$0.03	0.07
Basic earnings (loss) per share from disposal of discontinued operations	—	(0.18)	0.02	$0.05	—
Basic earnings per share	$2.22	$2.14	$2.14	$2.08	$1.95
Diluted earnings per share from continuing operations	$2.17	$2.37	$2.17	$1.99	$1.86
Diluted earnings (loss) per share from discontinued operations	—	(0.11)	(0.09)	0.03	0.07
Diluted earnings (loss) per share from disposal of discontinued operations	—	(0.18)	0.02	$0.05	—
Diluted earnings per share	$2.17	$2.08	$2.10	$2.07	$1.93
Dividends declared	$0.72	$0.64	$0.64	$0.64	$0.60
Shareholders' equity	20.09	19.08	19.04	15.79	14.22
Market price range – High	43.47	44.60	40.35	37.54	38.40
Market price range – Low	35.09	37.43	32.16	26.10	25.73
AVERAGE SHARES OUTSTANDING					
Basic	27,177	27,053	26,744	26,425	26,246
Diluted	27,868	27,777	27,143	26,622	26,500
GENERAL STATISTICS					
Registered shareholders	3,402	3,532	3,642	3,685	3,813
Employees	5,258	4,797	4,743	5,007	4,614

(See Footnotes below)

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(Footnotes to Five-Year Selected Financial Data above)

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.

1. Results for 2015 include $5.1 million in expense related to the acquisitions at both the Aerospace and Distribution segments, $4.0 million in expense associated with the resolution of the matters related to our AH-1Z program, $3.0 million of expenses related to foreign currency transactions associated with the purchase of GRW, and $2.4 million of expenses associated with restructuring and severance costs at our Distribution segment.
2. Results for 2014 include the sale of the Distribution segment's Mexican operations for $9.6 million on December 19, 2014. The net loss of $5.3 million resulting from the sale is included in the loss on disposal of discontinued operations for 2014. Additionally, we incurred $2.2 million of costs associated with the sale of our Moosup facility.
3. Results for 2013 include a $2.1 million non-cash non-tax deductible charge for the impairment of goodwill related to VT Composites and a gain on discontinued operations due to a $0.4 million favorable tax result versus previous estimates and other activity related to the settlement of the closing balance sheet of the Distribution segment's Canadian operations.
4. Results for 2012 include the sale of certain assets and certain liabilities of the Distribution segment's Canadian operations for $8.7 million on December 31, 2012, resulting in a net gain of $1.3 million. Additionally, we recorded $3.3 million of net loss related to the resolution of an Aerospace segment program related matter.
5. Results for 2011 include $6.2 million in expense related to the settlement of the FMU-143 matter and a nonrecurring benefit of $2.4 million resulting from the death of a former executive.
6. The Company sold the Distribution segment's Mexican operations on December 19, 2014. The results of these discontinued operations have been reported as such in the table.
7. The Company sold substantially all assets and liabilities of the Distribution segment's Canadian operations on December 31, 2012. The results of these discontinued operations have been reported as such in the table.

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 should 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.

OVERVIEW OF BUSINESS

Kaman Corporation conducts business through two business segments:

- The Distribution segment is a leading power transmission, motion control, electrical and automation, and fluid power industrial distributor with operations throughout the United States. We provide products, including bearings, mechanical and electrical power transmission, fluid power, motion control, automation, material handling components, electrical control and power distribution, and MRO supplies to a broad spectrum of industrial markets throughout the United States.
- The Aerospace segment produces and markets proprietary aircraft bearings and components; super precision, miniature ball bearings; complex metallic and composite aerostructures for commercial, military and general aviation fixed and rotary wing aircraft; safe and arming solutions for missile and bomb systems for the U.S. and allied militaries; super precision miniature bearings for commercial and aerospace applications; design and supply of aftermarket parts to businesses performing maintenance, repair, and overhauls in aerospace markets; subcontract helicopter work; restoration, modification and support of our SH-2G Super Seasprite maritime helicopters; manufacture and support of our K-MAX® manned and unmanned medium-to-heavy lift helicopters; and engineering design, analysis and certification services.

Company financial performance

- Net sales from continuing operations decreased 1.1% compared to the prior year.
- Earnings from continuing operations decreased 8.1% compared to the prior year.
- Diluted earnings per share from continuing operations decreased to $2.17 in 2015 compared to $2.37 in the prior year.
- Cash flows provided by operating activities from continuing operations were $109.6 million for 2015, an increase of $0.5 million when compared to the prior year.

Acquisitions

- On December 1, 2015, the Company's Distribution segment acquired substantially all the assets of Calkins Fluid Power, Inc. (Calkins), a distributor of fluid power components and systems.
- On November 30, 2015, the Company's Aerospace segment acquired GRW Bearing GmbH (GRW), a German-based designer and manufacturer of super precision, miniature ball bearings.
- On October 21, 2015, the Company's Aerospace segment acquired Timken Alcor Aerospace Technologies, Inc. ("TAAT") of Mesa, Arizona. TAAT, which has been renamed “EXTEX Engineered Products, Inc.,” designs and supplies aftermarket parts to support businesses conducting maintenance, repair and overhauls in aerospace markets primarily located in North America.
- On January 30, 2015, the Company's Distribution segment acquired substantially all the operating assets of G.C. Fabrication, Inc. (GCF) of Northvale, New Jersey, a premier Schneider Electric/Square D distributor carrying a variety of electrical power, automation, process controls, specialized HVAC, water and wastewater systems, communication and networking devices.

Other events

-

In February 2016, the Company reached an agreement with our customer that modified the scope of our AH-1Z contract and which, among other things, resolved outstanding claims associated with this program.

- On January 14, 2016, the Company announced that its Aerospace segment was awarded a five-year contract extension on the Airbus A330 Long Range program for the supply of the Upper and Lower Wing panels to Spirit AeroSystems Europe. This extends A330 Long Range program deliveries to 2020.
- On January 5, 2016, the Company announced that its Aerospace segment was awarded a direct commercial sales order for the procurement of Joint Programmable Fuzes ("JPF") with a total value of $93.0 million. This order is in addition to the direct commercial sales orders of $124.5 million awarded in 2015. Delivery of these orders is anticipated to occur in 2016 and 2017.

- On December 8, 2015, the Company announced that its Aerospace segment was awarded an additional order under Option 12 of its JPF contract with the U.S. Air Force ("USAF") with a total value of $20.8 million. Including this award, contract modifications added an additional $78.8 million for the procurement of the JPF in 2015. Delivery of the USAF fuzes are anticipated to occur in 2016 and 2017.
- On November 23, 2015, the Company announced that its Aerospace segment executed an agreement for delivery in 2017 of two manned K-MAX® heavy-lift utility helicopters with Lectern Aviation Supplies Co., Ltd of China.
- On September 21, 2015, the Company delivered the final two SH-2G(I) Super Seasprite aircraft to the New Zealand Ministry of Defence.
- On June 5, 2015, the Company announced that it would resume production of commercial K-MAX® heavy-lift utility helicopters. The aircraft will be manufactured at our Jacksonville, Florida and Bloomfield, Connecticut facilities. We have received orders for five aircraft as of December 31, 2015.
- On June 2, 2015, the Company announced that its Board of Directors appointed Jennifer M. Pollino as a Director. The Board also appointed Ms. Pollino to serve on its Personnel & Compensation Committee.
- On May 6, 2015, the Company announced it closed on an amended and restated $700 million credit facility.
- On April 29, 2015, the Company announced that the Board of Directors approved a $100.0 million share repurchase program, which replaced our previous share repurchase program.
- On March 26, 2015, the Company announced that its Aerospace segment was awarded an extension to its current contract with Bell Helicopter to manufacture skin and skin to core components for the Bell UH-1Y and AH-1Z helicopters. This five-year follow-on contract has an expected value in excess of $25 million.
- On February 23, 2015, the Company announced that the Board of Directors approved an increase of 12.5% in the quarterly dividend on the Company's common shares, to $0.18 per share.

Outlook

Our 2016 outlook is as follows:

- Distribution:
  Sales of $1,125.0 million to $1,165.0 million
  Operating margin of 4.4% to 4.6%
  Adjusted EBITDA margin of 5.8% to 6.0%
- Aerospace:
  Sales of $700.0 million to $720.0 million
  Operating margin of 17.5% to 17.8%, or 18.3% to 18.6%, when adjusted for $5.5 million of integration costs in 2016 associated with the 2015 acquisitions
  Adjusted EBITDA margin of 21.8% to 22.0%
- Interest expense of approximately $16.0 million
- Corporate expenses of $55.0 million
- Estimated annualized tax rate of approximately 34.5%
- Depreciation and amortization expense of approximately $45.0 million
- Capital expenditures of $30.0 million to $40.0 million
- Free cash flow* in the range of $50.0 million to $60.0 million

In millions	2016 Outlook Low End of Range		High End of Range
Free Cash Flow[(a)]:			
Net cash provided by operating activities	$80.0	to	$100.0
Less: Expenditures for property, plant and equipment	30.0	to	40.0
Free Cash Flow	$50.0	to	$60.0

[(a)] Free Cash Flow, a non-GAAP financial measure, is defined as net cash provided by operating activities less expenditures for property, plant and equipment, both of which are presented in our consolidated statements of cash flows. See Management's Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP Financial Measures, in this Form 10-K.

The following table reconciles our operating margin outlook for 2016 to our Adjusted EBITDA margin outlook for 2016:

	2016 Outlook		
Adjusted EBITDA[(a)]:	Low End of Range		High End of Range
Distribution			
GAAP Operating margin	4.4	% to	4.6 %
Depreciation and Amortization as a percentage of sales	1.4	% to	1.4 %
Adjusted EBITDA margin	5.8	% to	6.0 %
Aerospace			
GAAP operating margin	17.5	% to	17.8 %
Transaction and integration costs as a percentage of sales	0.8	% to	0.8 %
Adjusted operating margin	18.3	% to	18.6 %
Depreciation and Amortization as a percentage of sales	3.5	% to	3.4 %
Adjusted EBITDA margin	21.8	% to	22.0 %

(a) Adjusted EBITDA, a non-GAAP financial measure, is defined as operating income before depreciation and amortization. Adjusted EBITDA is calculated on our consolidated results as well as the results of our reportable segments. Adjusted EBITDA differs from Segment Operating Income, as calculated in accordance with GAAP, in that it excludes depreciation and amortization. We have made numerous investments in our business, such as acquisitions and increased capital expenditures, including facility improvements, new machinery and equipment, improvements to our information technology infrastructure and new ERP systems. Management believes Adjusted EBITDA provides an additional perspective on the operating results of the organization and its earning capacity and helps improve the comparability of our results between periods by eliminating the impact of non-cash depreciation and amortization expense.

The following table reconciles our GAAP operating margin outlook for Aerospace for 2016 to our Adjusted operating margin outlook for Aerospace for 2016:

	2016 Outlook		
Adjusted Operating Margin[(a)]:	Low End of Range		High End of Range
Aerospace			
GAAP operating margin	17.5	% to	17.8 %
Transaction and integration costs as a percentage of sales	0.8	% to	0.8 %
Adjusted operating margin	18.3	% to	18.6 %

(a) Non-GAAP adjusted operating income is defined as operating income, less items that are not indicative of the operating performance of the Company's segments or corporate for the period presented. Management uses Non-GAAP adjusted operating income to evaluate performance period over period, to analyze the underlying trends impacting our segments and corporate function and to assess their performance relative to their competitors. We believe that this information is useful for investors and financial institutions seeking to analyze and compare companies on the basis of operating performance.

RESULTS OF CONTINUING OPERATIONS

Consolidated Results

Net Sales from Continuing Operations

In thousands	2015	2014	2013
Distribution	$1,177,539	$1,161,992	$1,039,954
Aerospace	597,586	632,970	613,967
Total	$1,775,125	$1,794,962	$1,653,921
$ change	$(19,837)	$141,041	$90,579
% change	(1.1)%	8.5%	5.8%

The following table details the components of the above changes as a percentage of consolidated net sales:

	2015	2014	2013
Organic Sales:			
Distribution	(2.0)%	2.0%	(1.0)%
Aerospace	(2.4)%	1.1%	2.1%
Total Organic Sales	(4.4)%	3.1%	1.1%
Acquisition Sales:			
Distribution	2.9%	5.4%	4.7%
Aerospace	0.4%	—%	—%
Total Acquisition Sales	3.3%	5.4%	4.7%
% change in net sales	(1.1)%	8.5%	5.8%

The decrease in net sales from continuing operations for 2015 as compared to 2014 was attributable to a decrease in organic sales at both our Aerospace and Distribution segments and the unfavorable impact on sales of foreign currency exchange rates of $8.1 million. These decreases were offset by the contribution of $60.1 million in sales from acquisitions completed in 2015 and 2014.

The increase in net sales from continuing operations for 2014 as compared to 2013 was attributable to an increase in organic sales at both our Aerospace and Distribution segments and the contribution of $89.4 million in sales from Distribution segment acquisitions completed in 2014 and 2013. Foreign currency exchange rates had a $2.4 million favorable impact on sales from continuing operations during 2014.

See Segment Results of Operations and Financial Condition below for further discussion of segment net sales.

Gross Profit from Continuing Operations

In thousands	2015	2014	2013
Gross profit	$517,234	$507,939	$463,311
$ change	9,295	44,628	28,216
% change	1.8%	9.6%	6.5%
% of net sales	29.1%	28.3%	28.0%

Gross profit from continuing operations increased in 2015 reflecting higher gross profit at both our Distribution and Aerospace segments. The primary driver of the increases was the contribution of $17.7 million of gross margin from acquisitions completed in 2015 and 2014. Additionally, gross profit as a percentage of net sales increased due to the mix of sales shifting to higher margin programs in our Aerospace segment, specifically higher JPF direct commercial

sales, the contribution of gross profit on our SH-2G program with Peru, higher sales volume and corresponding gross profit on our military bearing products

and the contribution of gross profit on our commercial bearing products primarily used in distribution, regional aircraft and engines. These increases were partially offset by lower sales under our SH-2G(I) program with New Zealand, lower sales volume on our legacy missile fuze programs, a decline in gross margin on certain composite structure programs, $4.0 million in expense associated with the resolution of the matters related to our AH-1Z program and lower sales volume on our Bell composite blade program. Additionally, there was a decline in organic gross profit at our Distribution segment primarily due to decreases in the machinery manufacturing, merchant wholesalers durable goods, mining and transportation equipment manufacturing industries. These decreases were partially offset by increases in the computer and electronic product manufacturing, paper manufacturing and chemical manufacturing industries.

Gross profit from continuing operations increased in 2014 primarily due to the contribution of $25.7 million of gross profit from the Distribution segment's 2014 and 2013 acquisitions and a combined 4.2% organic growth in Aerospace and Distribution segment gross profit. Contributing to the Aerospace segment's improved gross profit were the higher sales on the SH-2G(I) contract with New Zealand and higher sales of our commercial bearing products. These program/product profit increases of $16.6 million, which were in addition to the acquisition related gross profit noted above, were partially offset by $10.7 million related to the decrease in military bearing product sales and lower margin on the JPF as a result of decreased commercial sales to foreign militaries in 2014. The Distribution segment's organic gross profit increase was primarily due to increases in the machinery manufacturing, transportation equipment manufacturing and paper manufacturing industries partially offset by a decrease in the computer and electronic manufacturing industry.

Selling, General & Administrative Expenses (S,G&A) from Continuing Operations

In thousands	2015	2014	2013
S,G&A	$413,043	$397,199	$357,752
$ change	15,844	39,447	14,356
% change	4.0 %	11.0 %	4.2 %
% of net sales	23.3 %	22.1 %	21.6 %

S,G&A increased for the year ended December 31, 2015, as compared to 2014. The following table details the components of this change:

	2015	2014	2013
Organic S,G&A:			
Distribution	— %	2.5 %	(0.9)%
Aerospace	0.2 %	0.2 %	0.5 %
Corporate	0.2 %	2.5 %	(0.4)%
Total Organic S,G&A	0.4 %	5.2 %	(0.8)%
Acquisition S,G&A:			
Distribution	3.1 %	5.8 %	5.0 %
Aerospace	0.5 %	— %	— %
Total Acquisition S,G&A	3.6 %	5.8 %	5.0 %
% change in S,G&A	4.0 %	11.0 %	4.2 %

S,G&A expenses associated with continuing operations increased for 2015 as compared to 2014 primarily due to $14.4 million of S,G&A expenses related to our 2015 and 2014 acquisitions, a $0.9 million increase in corporate expenses and higher expenses at our Aerospace segment. Corporate expenses increased due to acquisition costs associated with our 2015 acquisitions and an increase in consulting costs. These increases were partially offset by the

absence of costs incurred in the prior year in connection with the sale of our Moosup facility, lower salary and benefit expenses and lower long-term incentive compensation costs. The increase in expenses at our Aerospace segment was primarily due to a reduction of inventory on government contracts where allowable general and administrative expenses are included in inventory. Organic expenses at our Distribution segment remained relatively flat from 2014 to 2015. This was a result of lower expenses primarily due to a

decrease in salary and benefit expenses, specifically lower incentive compensation costs, and lower costs associated with our vehicles, offset by costs related to restructuring activities, higher pension expense, an increase in consulting costs and higher depreciation and project expenses in part attributable to the introduction of the new enterprise resource planning system ("ERP").

S,G&A expenses associated with continuing operations increased for 2014 as compared to 2013 primarily due to $20.8 million of expenses related to our 2014 and 2013 acquisitions, a $9.2 million increase in corporate expenses and higher expenses at our Distribution segment. The increase in corporate expenses was driven by costs related to the sale of our Moosup facility, higher salary and wage expense, higher incentive compensation costs, higher campus costs and an increase in professional service fees. Higher Distribution segment costs related to higher employee related incentive costs, higher salary and wage expenses primarily associated with the expansion of our sales force and higher depreciation related to the new ERP system.

Goodwill Impairment

In thousands	2015	2014	2013
Goodwill impairment	$—	$—	$2,071

During 2013, we recorded a non-cash non-tax deductible goodwill impairment charge of $2.1 million for our VT Composites reporting unit. This represented 11% of the reporting unit's total goodwill balance and reduced the carrying value of goodwill to its implied fair value. This charge has been included in the 2013 operating results of the Company's Aerospace segment. No such charges were taken in 2015 or 2014.

Operating Income from Continuing Operations

In thousands	2015	2014	2013
Operating income	$104,519	$110,507	$103,346
$ change	(5,988)	7,161	11,757
% change	(5.4)%	6.9%	12.8%
% of net sales	5.9%	6.2%	6.2%

The decrease in operating income from continuing operations for 2015 as compared to 2014 was driven by lower organic operating income at our Distribution segment and higher corporate expenses. These decreases were partially offset by an increase in operating income at our Aerospace segment and the contribution of operating income from our acquisitions completed in 2015 and 2014. The increase in operating income from continuing operations for 2014 as compared to 2013 was driven by increases at both our Aerospace and Distribution segments. See Segment Results of Operations and Financial Condition below for further discussion of segment operating income.

Interest Expense, Net

In thousands	2015	2014	2013
Interest expense, net	$13,144	$13,382	$12,294

Net interest expense generally consists of interest charged on the revolving credit facility and other borrowings and the amortization of debt issuance costs, offset by interest income. The decrease in net interest expense for 2015 as compared to 2014 was primarily due to lower average borrowings under our revolving credit facility. At December 31, 2015, the interest rate for outstanding amounts on both the revolving credit facility and term loan agreement was 1.67% compared to 1.70% at December 31, 2014.

The increase in net interest expense for 2014 as compared to 2013 was primarily due to higher average borrowings under our revolving credit facility. At December 31, 2014, the interest rate for outstanding amounts on both the revolving credit facility and term loan agreement was 1.70% compared to 1.72% at December 31, 2013.

Effective Income Tax Rate for Continuing Operations

	2015	2014	2013
Effective income tax rate	31.3 %	31.8 %	34.8 %

The effective tax rate for continuing operations represents the combined federal, state and foreign tax effects attributable to pretax earnings for the year. The decrease in the effective rate for 2015 as compared to prior periods was primarily the result of discrete items recognized in 2015 related to changes in tax laws. Prior to the law changes, we had established valuation allowances against certain net operating loss carryforwards. Some of these allowances are no longer deemed necessary as the changes to the tax laws now make it more likely than not that these benefits will be realized in the future.

The decrease in the effective rate for 2014 as compared to 2013 was primarily due to adjustments between the provision for taxes for 2013 and the actual returns filed.

Gain/(Loss) on Disposal of Discontinued Operations, Net of Tax

The Company sold the Distribution segment's Mexican business unit, Delamac, on December 19, 2014. The sale resulted in a net loss on disposal of discontinued operations of $5.3 million for the year ended December 31, 2014.

The Company sold substantially all of the assets and liabilities of our Distribution segment's Canadian operations on December 31, 2012. The sale resulted in a net gain on disposal of discontinued operations of $0.3 million and $0.4 million for the years ended December 31, 2014 and 2013, respectively.

There were no earnings or losses from these discontinued operations during 2015. More information on these transactions can be found in Note 2, Discontinued Operations, in the Notes to Consolidated Financial Statements included in this Form 10-K.

Other Matters

Information regarding our various environmental remediation activities and associated accruals can be found in Note 16, Commitments and Contingencies, in the Notes to Consolidated Financial Statements included in this Form 10-K.

SEGMENT RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Distribution Segment

Our Strategy

The Distribution segment's strategy is to offer a comprehensive portfolio of products and services to serve the mechanical, automation and fluid power markets driven by a highly trained technical sales and service organization while investing in technology to drive increased productivity and improved operating margins.

Results of Operations

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

In thousands	2015	2014	2013
Net sales from continuing operations	$1,177,539	$1,161,992	$1,039,954
$ change	15,547	122,038	57,381
% change	1.3 %	11.7 %	5.8 %

Operating income	$49,441	$56,765	$46,206
$ change	(7,324)	10,559	(3,110)
% change	(12.9)%	22.9%	(6.3)%
% of net sales	4.2%	4.9%	4.4%

Net sales from continuing operations

Organic sales per sales day is a metric management uses to evaluate performance trends in its Distribution segment and is calculated by taking total organic sales during a specific period divided by the number of sales days in that period. See Management's Discussion and Analysis of Financial Condition and Results of Operations - Non-GAAP Financial Measures, in this Form 10-K.

		2015	2014	2013
Organic Sales Per Sales Day				
(in thousands, except numbers of sales days)				
Current period				
Net sales from continuing operations		$1,177,539	$1,161,992	$1,039,954
Acquisition sales [(a)]		52,798	89,388	72,578
Organic sales		$1,124,741	$1,072,604	$967,376
Sales days		253	253	253
Organic sales per sales day for the current period	a	$4,446	$4,240	$3,824
Prior period				
Net sales from the prior year		$1,161,992	$1,039,954	$982,573
Sales days in the prior year		253	253	253
Organic sales per sales day from the prior year	b	$4,593	$4,110	$3,884
% change in organic sales per sales day	(a-b)/b	(3.2)%	3.2%	(1.5)%

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

2015 versus 2014

Net sales from continuing operations for 2015 increased as compared to 2014 due to the contribution of $52.8 million in sales in 2015 from our 2015 and 2014 acquisitions. The Distribution segment's organic sales per sales day decreased in 2015 primarily due to lower sales volume to our original equipment manufacturer customers. Looking at the markets we serve, sales were lower in the mining, machinery manufacturing and merchant wholesalers durable goods markets. Partially offsetting these decreases, were higher sales in paper manufacturing and chemical manufacturing.

2014 versus 2013

Net sales from continuing operations for 2014 increased as compared to 2013 due to the contribution of $89.4 million in sales in 2014 from our 2014 and 2013 acquisitions and an increase in organic sales. The Distribution segment's organic sales per sales day increased in 2014 primarily due to higher sales in the machinery manufacturing, transportation equipment manufacturing and paper manufacturing industries, while the demand in computer and electronic product manufacturing partially offset these increases.

Operating Income

2015 versus 2014

Operating income from continuing operations decreased during 2015 as compared to 2014 primarily due to lower operating income associated with lower organic sales. This was partially offset by the contribution of operating income from our 2015 and 2014 acquisitions. Organic operating expenses remained relatively flat from 2014 to 2015.

This was a result of lower expenses primarily due to a decrease in salary and benefit expenses, specifically lower incentive compensation costs, and lower costs associated with our vehicles, offset by costs related to restructuring activities, higher pension expense, an increase in consulting costs and higher depreciation and project expenses in part attributable to the introduction of the new ERP system.

2014 versus 2013

Operating income from continuing operations increased during 2014 as compared to 2013 primarily due to the contribution of operating income from 2014 and 2013 acquisitions, incremental gross profit associated with the increase in organic sales, the absence of $2.8 million of restructuring costs, lower pension expense and higher rebate income on our national accounts. These increases were partially offset by increased SG&A costs related to higher employee related incentive costs, and higher salary and wage expense primarily associated with the expansion of our sales force.

Other Matters

Enterprise Resource Planning System ("ERP")

In July 2012, we announced a decision to invest in a new enterprise resource planning business system for our Distribution segment with an estimated total cost of $45.0 million. Since our announcement in 2012, Distribution has acquired seven businesses. To date, we have implemented the new ERP system at four acquired entities, of which two were not included in the original project scope. Additionally, an upgraded version of the software has become available since we developed our initial implementation plan. The upgrade is a major release of the ERP software and provides additional functionality and features, along with a new user interface. As a result of the unplanned implementations at the acquired businesses and the software upgrade, our implementation timeline has been extended. With the extension of our implementation timeline, the estimated total project cost has increased to $51.1 million.

For the years ended December 31, 2015, 2014, and 2013, expenses incurred totaled approximately $1.0 million, $0.8 million and $1.3 million, respectively, and capital expenditures totaled $5.1 million, $8.0 million, and $9.9 million, respectively. Depreciation expense for the ERP system for the years ended December 31, 2015 and 2014, totaled $2.9 million and $1.9 million, respectively. Depreciation of the capitalized project cost commenced in 2014; accordingly no depreciation expense was recorded in 2013.

Aerospace Segment

Our Strategy

Our strategic goals for the Aerospace segment are built upon four objectives: Depth, Diversity, Differentiation and Development. In order to achieve these objectives, we focus our efforts on improving balance between commercial and defense program content, leveraging our broad capabilities to expand market positions, executing strategic acquisitions and increasing focused investments in our people and infrastructure to increase capabilities and drive continuous improvement. The creation of our “One Kaman” approach combines design and build capabilities to provide customers with global integrated solutions. This approach provides us with the size and strength to address larger, integrated work packages from OEMs and Tier 1 suppliers.

Results of Operations

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

	2015	2014	2013
In thousands			
Net sales	$597,586	$632,970	$613,967
$ change	(35,384)	19,003	33,198
% change	(5.6)%	3.1%	5.7%
Operating income	$110,328	$108,697	$102,573
$ change	1,631	6,124	13,431

% change	1.5 %	6.0 %	15.1 %
% of net sales	18.5 %	17.2 %	16.7 %

Net Sales

2015 versus 2014

Aerospace segment net sales decreased due to decreases in sales of both our military and commercial product programs of $28.7 million and $6.7 million, respectively, including an adverse impact of foreign currency translation of $8.1 million. The decrease in military sales is primarily attributable to lower sales associated with the JPF program with the USG, our SH-2G contracts with New Zealand and Egypt, legacy missile and bomb fuze programs, certain composite structure programs and the Sikorsky BLACK HAWK helicopter program. Additionally, the absence of sales under the C-17 program contributed to this decrease, as this program was completed in 2014. These decreases, totaling $99.0 million, were offset by $70.6 million in increases, primarily due to higher direct sales to foreign militaries of the JPF, higher sales under the AH-1Z program and sales under the SH-2G program with Peru.

The decrease in commercial sales is primarily attributable to lower sales associated with our Bell composite blade program and certain composite structure programs and a decline in sales volume on commercial bearing products primarily used in regional aircraft and engines and sold through distribution channels. These decreases, totaling $25.5 million, were partially offset by a $19.1 million increase in commercial sales associated with our K-MAX® program, higher commercial bearing product sales to original equipment manufacturers, higher composite imaging sales, an increase in sales associated with our Boeing 747-8 wing-to-body program and $7.0 million in sales from our 2015 acquisitions.

2014 versus 2013

Aerospace segment net sales increased as a result of an $11.6 million increase in commercial product/program sales and a $7.4 million increase in military program sales. The increase in commercial sales is primarily due to increased deliveries on commercial composite structures products/programs and higher commercial bearing product sales. These increases totaled $19.2 million and were partially offset by decreases totaling $7.5 million due to lower sales of engineering design services and a decline in sales volume of composite imaging products.

The increase in military sales was primarily attributable to higher sales associated with the SH-2G(I) contract with New Zealand, increased sales of our JPF to the USG and higher sales volume associated with the A-10 program. These increases totaled $74.5 million and were largely offset by a $67.7 million decrease in other sales, including lower commercial sales of the JPF to foreign militaries, a decline in shipments on the Sikorsky BLACK HAWK helicopter program, lower military bearing product sales and lower volume associated with our Boeing CH-47 inlet screen program.

Operating Income

2015 versus 2014

The increase in operating income for 2015 as compared to 2014 was primarily due to higher direct sales to foreign militaries of our JPF and the corresponding gross profit from these sales. In addition, operating income increased, to a lesser extent, due to gross profit contribution from our SH-2G program with Peru, higher sales volume for our military bearing products, higher sales volume for our commercial bearing products primarily used in regional aircraft and engines and sold through distribution channels and the contribution of gross margin from our 2015 acquisitions. Additionally, improved performance on our long-term contracts leading to changes in our contract cost estimates contributed approximately $4.8 million to operating income in 2015, the largest of these improvements being approximately $3.4 million associated with our JPF program. These increases totaled $35.8 million and were partially offset by lower sales associated with our SH-2G(I) program with New Zealand, lower sales volume on our legacy missile fuze programs, a decline in gross margin on certain composite structure programs, $4.0 million in expense associated with the resolution of the matters related to our AH-1Z program and lower sales volume on our Bell

composite blade program.

2014 versus 2013

The increase in operating income for 2014 as compared to 2013 was primarily due to gross profit attributable to the revenue recognized on the SH-2G(I) program, gross margin associated with higher commercial bearing product sales and the absence of the $2.1 million non-cash non-tax deductible goodwill impairment charge recorded in 2013. These increases totaled $18.7 million and were partially offset by a $13.6 million decrease related to lower sales of military bearing products, lower margin on the JPF as a result of lower commercial sales to foreign militaries and lower margins on our tooling sales.

Long-Term Contracts

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 on either (1) the cost-to-cost method, which results in costs being reported as cost of sales as incurred and sales (and profit) being recorded based upon the ratio of costs incurred to estimated total costs to complete the contract, or (2) the units-of-delivery method, which results in sales being recognized as deliveries are made and cost of sales being computed on the basis of the estimated ratio of total contract cost to total contract sales.

Revenue and cost estimates for all significant long-term contracts for which revenue is recognized using the percentage-of-completion method of accounting are reviewed and reassessed quarterly. Based upon these reviews, 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. Excluding the $4.0 million in expense associated with the resolution of the matters related to our AH-1Z program, the net increase in our operating income from changes in contract estimates totaled $4.8 million for the year ended December 31, 2015. The increase in 2015 was primarily a result of improved performance on the JPF and another legacy bomb fuze program. The net increase in our operating income from changes in contract estimates totaled $1.9 million for the year ended December 31, 2014. The increase in 2014 was primarily a result of improved performance on the New Zealand SH-2G(I) program, the JPF program and a mix of composite programs. These improvements were slightly offset by cost growth on the Sikorsky BLACK HAWK helicopter program. The net decrease in operating income from changes in contract estimates totaled $3.0 million for the year ended December 31, 2013. The decrease in 2013 was primarily driven by cost growth on aerostructure assemblies.

Backlog

	2015	2014	2013
In thousands			
Backlog	$659,350	$518,025	$601,954

The backlog balance increased from 2014 to 2015, primarily due to the USG JPF Program Option 12 award and JPF commercial sales orders received for foreign militaries, orders for our K-MAX® aircraft and orders under certain legacy missile and bomb fuze programs. These increases were partially offset by work performed on the SH-2G(I) New Zealand program.

The backlog balance decreased from 2013 to 2014, primarily due to work performed on the SH-2G(I) New Zealand program and deliveries of BLACK HAWK helicopter cockpits. These reductions were partially offset by new JPF program orders.

Major Programs/Product Lines

Defense Markets

A-10

The segment has contracted with Boeing to produce the wing control surfaces (inboard and outboard flaps, slats and deceleron assemblies) for the USAF's A-10 fleet. This contract has a potential value of over $110.0 million; however, annual quantities will vary, as they are dependent upon the orders Boeing receives from the USAF. Initial deliveries under this program began in the third quarter of 2010 and full rate production began during the fourth quarter of 2012. Through December 31, 2015, 140 shipsets have been delivered over the life of the program. In January 2016, the USAF indicated that they would delay the retirement of the A-10 fleet due to its importance in current operations in the Middle East. Formal details of the USAF plans regarding the A-10 will not be released until the 2017 Department

of Defense budget is released in February 2016. We will continue to monitor the defense budget and understand that despite this positive indication, the future of this program could be at risk without the continued support of Congress. As of the date of this filing, we believe congressional support remains strong and we have confidence that this program will continue. We have not received any orders for additional shipsets in 2015, and through the date of this filing we have not received any indication from our customer that this program will be terminated. Tooling and nonrecurring costs on this program are being amortized over 242 shipsets, the number of shipsets expected to be delivered under this program. At December 31, 2015, our program backlog was $14.4 million, representing approximately 33 shipsets, and total program inventory was $17.1 million, of which a significant portion may not be recoverable in the event of a contract termination.

Bearings

Our bearings products are included on numerous military platforms manufactured in North America, Asia 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 bearings sales is derived from U.S. military platforms, such as the AH-64 helicopter, Virginia Class submarine and JSF 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 helicopter driveline couplings.

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. As a result of lower customer demand, we delivered 76 cockpits in 2015 as compared to the 84 cockpits delivered in 2014. Included in backlog at December 31, 2015, is $56.5 million for orders on this program. We anticipate cockpit deliveries to total 74 in 2016.

AH-1Z

In February 2016, we reached an agreement with our customer that modified the scope of our AH-1Z contract and which, among other things, resolved outstanding claims associated with this program. We agreed to pay our customer $4.0 million, all of which has been accrued as of December 31, 2015. We will receive $4.3 million from our customer, the retention of this amount being contingent on the resolution of certain contractual matters. If these contractual matters are not satisfactorily resolved, we may be required to reimburse our customer for all or a portion of this amount. We have included this amount in the current estimate of the contract revenue, as we believe the favorable resolution of this contractual matter is probable. We consider this a Type I subsequent event and have updated our contract estimates as of December 31, 2015, to reflect this contract modification and claims resolution. Given the current volume of firm orders, we estimate the contract to be a zero margin program, taking into consideration the $2.8 million of G&A costs capitalized in inventory associated with this contract.

SH-2G Programs

New Zealand

On May 6, 2013, we announced that the New Zealand Ministry of Defence ("MoD") entered into a $120.6 million contract for the purchase of ten SH-2G(I) Super Seasprite aircraft, spare parts, a full mission flight simulator, and related logistics support. During the third quarter of 2015, the final two upgraded SH-2G(I) aircraft were accepted by the New Zealand MoD.

Peru

During the fourth quarter of 2014, we entered into a contract with General Dynamics Canada to remanufacture and upgrade four Kaman SH-2G Super Seasprite aircraft and provide support for the operation of a fifth aircraft for the Peruvian Navy. The program value to Kaman is expected to exceed $40 million. Total backlog at December 31, 2015, is $10.8 million.

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

We manufacture the JPF, an electro-mechanical bomb safe and arming device, which allows the settings of a weapon to be programmed in flight. During 2015, we were awarded approximately $78.8 million of USAF sales orders under Option 12 of our contract with the USG, for fuzes to be delivered in 2016 and 2017. Additionally, we were awarded direct commercial sales contracts of $124.5 million for fuzes to be delivered through 2017. Total JPF backlog at

December 31, 2015, is $213.4 million.

A total of 9,941 fuzes passed acceptance testing and were delivered to our customers during the fourth quarter of 2015, for a total of 24,730 fuzes delivered in 2015. We occasionally experience lot acceptance test failures due to the complexity of the product and the extreme parameters of the acceptance test. Given the maturity of the product, we now generally experience isolated failures, rather than systemic ones. As a result, identifying a root cause can take longer and result in inconsistent delivery quantities from quarter to quarter. We expect to deliver 30,000 to 34,000 fuzes in 2016.

The Company currently provides the FMU-152A/B to the USAF and twenty-six other nations, but the U.S. Navy currently utilizes a different fuze - the FMU-139. Earlier in 2015, the U.S. Naval Air Systems Command ("NAVAIR") solicited proposals for a firm fixed price production contract to implement improvements to the performance characteristics of the FMU-139 (such improved fuze having been designated the FMU-139D/B), and the USAF has stated that, if and when a contract is awarded and production begins, the funds associated with the FMU-152A/B will be redirected to the FMU-139D/B. During the third quarter

of 2015, the U.S. Navy announced that a competitor was awarded the contract for the FMU-139 D/B. In the event the FMU-139 D/B program proceeds as planned and the U.S. Air Force redirects the funds associated with the FMU-152 A/B to the FMU-139 D/B, our business, financial condition, results of operations and cash flows may be materially adversely impacted, although any such impact would not be likely to occur for a number of years.

Commercial Markets

K-MAX®

During the second quarter of 2015, we announced that our Aerospace segment resumed production of commercial K-MAX® aircraft. The aircraft are being manufactured at our Jacksonville, Florida and Bloomfield, Connecticut facilities. The first new helicopter is expected to be delivered in early 2017. Currently, we have $30.0 million remaining in backlog for this program, representing orders for five aircraft. In addition to the aircraft on order, we have received initial deposits on three more aircraft and believe there is additional demand for new aircraft to support firefighting, logging and other industries requiring repetitive aerial lift capabilities for which K-MAX® is extremely well suited.

777 / 767

In January 2015, we signed a multi-year follow-on contract with Boeing for the production of fixed trailing edge ("FTE") assemblies for the Boeing 777 and 767 commercial aircraft. To date, Kaman has provided more than 1,000 FTE kits and assemblies for each of the 777 and 767 programs since 1995 and 1986, respectively. During 2015, on average we delivered eight ship sets per month on the Boeing 777 platform and one ship set per month on the Boeing 767 platform. For 2016, we estimate deliveries on the 777 program to be eight shipsets per month and on the 767 program to be two shipsets per month which includes one shipset per month associated with a military tanker derivative of the 767. The total contract value is estimated to be in excess of $75 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 A350. Orders for all of these platforms 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, landing gear, and helicopter driveline couplings. 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.
With the addition of GRW in the fourth quarter of 2015, we have broadened the scope of our bearings offerings to include super precision miniature ball bearings used primarily in aerospace applications, dental products, surgical power tools, analytical devices and various industrial applications.

Bell Helicopter

In November 2014, we were awarded an extension to our current contract with Bell Helicopter to manufacture skin and skin to core components for several of Bell’s commercial helicopter models. This three-year follow on contract has an expected value in excess of $24.0 million. The components are manufactured at our full-service aerospace

innovation and manufacturing support center in Bloomfield, Connecticut. At December 31, 2015, $12.1 million was included in backlog for orders under this program. Annual quantities for this program will vary, as they are dependent upon the orders Bell receives from its customers.

Engineering Design Services

The Company offers engineering design services to Aerospace OEM customers. Engineering design service programs generate revenue primarily through the billing of employees' time spent on customer projects. Our engineers provide value to new aircraft development and product improvement programs.

Learjet 85

In 2010, our U.K. Composites operation was awarded a contract to manufacture composite passenger entry and over-wing exit doors for the Learjet 85, a mid-sized business jet built primarily from composites and featuring advances in aerodynamics, structures and efficiency; however, in October 2015, Bombardier Inc. announced the cancellation of its Learjet 85 business aircraft program. At December 31, 2015, total accounts receivable and inventory related to the program was $3.5 million, all of which we anticipate recovering. We continue to monitor the financial performance of our customer as recent press reports indicate deterioration in its financial condition. Continued deterioration in the financial condition of our customer could call into question our ability to collect on amounts owed to the Company. Management will continue to monitor this situation.

747-8 Wing-to-Body Fairing

The segment has contracted with Boeing Canada Winnipeg to manufacture and assemble two major sections of the 747-8 Wing-to-Body Fairing. Initial production for these components began at our Jacksonville facility and upon completion these components are being delivered directly to Boeing's wide-body assembly line in Everett, Washington. Initial deliveries under this program began in the second quarter of 2014 and we shipped 16 shipsets in 2015. Recently, Boeing announced its intention to slow production for this program from one shipset per month to half a shipset per month. This decrease in the rate of production is expected to occur in September 2016. We currently expect to ship 10 shipsets in 2016; however, we may need to adjust our expectations for 2016 to meet the new production requirements of Boeing.

Other Matters

For a discussion of other matters related to our Aerospace segment see Note 16, Commitments and Contingencies, in the Notes to Consolidated Financial Statements included in this Form 10-K.

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, availability of future credit, 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 $40.0 million in 2016, primarily related to machinery and equipment and information technology infrastructure.
In addition to our working capital requirements, one or more of the following items could have an impact on our liquidity during the next 12 months:

- the matters described in Note 16, Commitments and Contingencies, in the Notes to Consolidated Financial Statements, including the cost of existing environmental remediation matters and deposits required to be made to the environmental escrow for the Moosup facility sold in 2014;

- contributions to our qualified pension plan and Supplemental Employees’ Retirement Plan (“SERP”);
- repurchase of common stock under the 2015 Share Repurchase Program;
- payment of dividends;
- costs associated with the start-up of new aerospace programs, including the K-MAX® line; and
- 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.

Management regularly monitors its pension plan asset performance and the assumptions used in the determination of our benefit obligation, comparing them to actual experience. We continue to believe the assumptions selected are valid due to the long-term nature of our benefit obligation. In 2015 and prior, we used a single-weighted average discount rate to calculate interest and service cost associated with our defined contribution pension plans. We plan to utilize a "spot rate approach" in the calculation of interest and service cost for these plans for 2016 and beyond. The spot rate approach applies separate discount rates for each projected benefit payment in the calculation of pension interest and service cost. This calculation change is considered a change in accounting estimate and will be applied prospectively in 2016. The use of the spot rate approach is expected to result in a favorable impact to pension expense of $4.6 million in 2016 relative to our estimate of what the expense would have been had we not changed our approach. See additional details in the "Critical Accounting Policies" section in Item 7 below.

Effective December 31, 2015, the qualified pension plan was frozen with respect to future benefit accruals. Under CAS 413 we must calculate the USG's share of any pension curtailment adjustment resulting from the freeze. Such adjustments can result in an amount due to the USG for pension plans that are in a surplus position or an amount due to the contractor for plans that are in a deficit position. We are unable to make a determination at this time as to the financial implications this curtailment adjustment will have, if any, on our balance sheet as of December 31, 2015, and the current year's results of operations. Based upon the analysis completed thus far, we believe the low end of our estimated range of a potential liability to the USG associated with the pension plan closeout is zero and therefore no accrual is required at December 31, 2015.

In 2013, the Company signed a $120.6 million contract to resell ten of the former Australian SH-2G(A) (now designated SH-2G(I)) aircraft, a full mission flight simulator, and related logistics support to the New Zealand MoD. Upon entering into the sales contract with the New Zealand MoD, we agreed to provide unconditional letters of credit for the receipt of advance payments on this program. As we performed under the contract and met certain predetermined milestones, the letter of credit requirements were gradually reduced. As of December 31, 2015, we have satisfied all performance criteria related to the predetermined conditions and there were no letters of credit outstanding for this program.

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

(in thousands)	2015	2014	2013	15 vs. 14	14 vs. 13
Total cash provided by (used in):					
Operating activities	$109,584	$109,089	$64,840	$495	$44,249
Investing activities	(232,608)	(100,059)	(61,219)	(132,549)	(38,840)
Financing activities	127,588	(3,538)	(8,115)	131,126	4,577
Free Cash Flow[(a)] :					
Net cash provided by (used in) operating activities	$109,584	$109,089	$64,840	$495	$44,249
Expenditures for property, plant and equipment	(29,932)	(28,283)	(40,852)	(1,649)	12,569
Free cash flow	$79,652	$80,806	$23,988	$(1,154)	$56,818

(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 in our consolidated statements of cash flows. See Management's Discussion and Analysis of Financial Condition and Results of Operations-Non-GAAP Financial Measures, in this Form 10-K.

2015 vs. 2014

Net cash provided by operating activities of continuing operations increased $0.5 million in 2015 compared to 2014, primarily due to higher accounts receivable collections and cash generated as we near completion of our SH-2G(I) program. Offsetting these changes were a growth in inventory due to a delay in sales associated with our legacy missile fuze and composite structure programs, advances on contracts received for our Peru and K-MAX® programs, and higher employee benefit related payments.

Net cash used in investing activities of continuing operations increased $132.5 million primarily due to a $123.6 million increase in cash used for acquisitions and the absence of $7.9 million of proceeds received in 2014 from the disposal of our Distribution segment's Mexico business unit, Delamac.

Net cash provided by financing activities of continuing operations increased $131.1 million primarily due to a $227.2 million increase in borrowings under our revolving credit facility and Term Loan facility. These increases were partially offset by repayments under the revolving credit agreement in 2015 of $83.8 million, compared to $10.0 million of repayments in the prior year, and $12.0 million of cash used to buy treasury stock under our share repurchase program.

2014 vs. 2013

Net cash provided by operating activities of continuing operations increased $44.2 million in 2014 compared to 2013, primarily due to proceeds from the sales of SH-2G(I) inventory as we continue to perform under the New Zealand program and JPF program inventories and an increase in earnings from continuing operations, driven by increased operating income at both our segments. These changes are partially offset by the reduction of advances on contracts as we achieve milestones on certain Aerospace segment programs.

Net cash used in investing activities of continuing operations increased $38.8 million due to a $59.5 million increase in cash used for acquisitions, partially offset by a decrease of $12.6 million in cash used for the purchase of property, plant and equipment and $8.9 million in proceeds received from the sale of our Distribution segment's Mexico business unit, Delamac.

Net cash used in financing activities of continuing operations decreased $4.6 million primarily due to the repayment of borrowings under our revolving credit facility due to the significant cash flow generation for the year.

Financing Arrangements

Credit Agreement

On May 6, 2015, the Company closed on an amended and restated $700.0 million Credit Agreement (the "Credit Agreement") with JPMorgan Chase Bank N.A., as Administrative Agent, Bank of America, N.A. and Citizens Bank, N.A. as Co-Syndication Agents and SunTrust Bank, Keybank National Association, TD Bank, N.A., Branch Banking & Trust Company and Fifth Third Bank, as Co-Documentation Agents. The Credit Agreement amends and restates the Company's previously existing credit facility in its entirety to, among other things: (i) extend the maturity date to May 6, 2020; (ii) increase the aggregate amount of revolving commitments from $400.0 million to $600.0 million; (iii) reinstate the aggregate amount of outstanding Term Loans to $100.0 million; (iv) modify the affirmative and negative covenants set forth in the facility; and (v) effectuate a number of additional modifications to the terms and provisions of the facility, including its pricing. Capitalized terms used but not defined within this discussion of the Credit Agreement have the meanings ascribed thereto in the Credit Agreement.

The term loan commitment requires quarterly payments of principal (which commenced on June 30, 2015) at the rate of $1.25 million, increasing to $1.875 million on June 30, 2017, and then to $2.5 million on June 30, 2019, with $65.0 million payable in the final quarter of the facility's term. The facility includes an accordion feature that allows the Company to increase the aggregate amount available up to $900.0 million with additional commitments from the Lenders.

Interest rates on amounts outstanding under the Credit Agreement are variable. At December 31, 2015 and 2014, the interest rates for the outstanding amounts on the Credit Agreement were 1.67% and 1.70%, respectively. In addition, we are required to pay a quarterly commitment fee on the unused revolving loan commitment amount at a rate ranging from 0.175% to 0.300% per annum, based on the Consolidated Senior Secured Leverage Ratio. Fees for outstanding letters of credit range from 1.25% to 2.00%, based on the Consolidated Senior Secured Leverage Ratio.

The financial covenants associated with the Credit Agreement include a requirement that (i) the Consolidated Senior Leverage Ratio cannot be greater than 3.50 to 1.00, with an election to increase the maximum to 3.75 to 1.00 for four consecutive quarters, in connection with a Permitted Acquisition with consideration in excess of $125.0 million; (ii) the Consolidated Total Leverage Ratio cannot be greater than 4.00 to 1.00, with an election to increase the maximum to 4.25 to 1.00 for four consecutive quarters, in connection with a Permitted Acquisition with consideration in excess of $125.0 million; (iii) the Consolidated Interest Coverage Ratio cannot be less than 4.00 to 1.00; and (iv) Liquidity: (a) as of the last day of the fiscal quarter of the Company ending two full fiscal quarters prior to the stated maturity of the Specified Convertible Notes, cannot be less than an amount equal to 50% of the outstanding principal amount of the Specified Convertible Notes, and (b) as of the last day of each fiscal quarter of the Company ending thereafter, cannot be less than an amount equal to the outstanding principal amount of the Specified Convertible Notes as of such day. The Company was in compliance with those financial covenants as of and for the quarter ended December 31, 2015, and management does not anticipate noncompliance in the foreseeable future.

Total average bank borrowings under our revolving credit facility and term loan facility during the year ended December 31, 2015, were $192.5 million compared to $214.8 million for the year ended December 31, 2014. As of December 31, 2015 and

2014, there was $259.9 million and $248.6 million available for borrowing, respectively, net of letters of credit. Letters of credit are generally considered borrowings for purposes of calculating available borrowings. A total of $5.9 million and $59.2 million in letters of credit were outstanding as of December 31, 2015 and 2014, respectively. The letter of credit balance related to the SH-2G(I) New Zealand sales contract was $54.5 million at December 31, 2014.

Convertible Notes

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

The following table illustrates the conversion rate at each date:

	December 31, 2015	December 31, 2014
Convertible Notes		
Conversion Rate per $1,000 principal amount [1]	29.8059	29.6876
Conversion Price [2]	$33.5504	$33.6841
Contingent Conversion Price [3]	$43.62	$43.79
Aggregate shares to be issued upon conversion [4]	3,427,679	3,414,074

[1] Represents the number of shares of Common Stock hypothetically issuable per $1,000 principal amount of Notes, subject to adjustments per the Convertible Note Indenture dated November 19, 2010. At the date the Company issued the Convertible Notes, the conversion rate initially equaled 29.4499 shares of common stock per $1,000 principal amount of notes (which is equivalent to an initial conversion price of approximately $33.96 per share of common stock). The conversion rate is subject to adjustment upon the occurrence of certain specified events, such as an increase in the dividend paid to shareholders.

[2] Represents $1,000 divided by the conversion rate as of such date. The conversion price reflects the strike price of the embedded option within the Convertible Note. Were the Company's share price to exceed the conversion price at conversion the noteholders would be entitled to receive additional consideration either in cash, shares or a combination thereof, the form of which is at the sole discretion of the Company.

[3] 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 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.

[4] Represents the number of shares hypothetically issuable upon conversion of the principal balance of the Convertible Notes at each date; however, as the terms of the Convertible Notes require net share settlement, the aggregate principal amount of the notes will be paid in cash. Amounts due in excess of the principal, if any, may be settled in cash, shares of the Company's common stock or a combination of cash and shares of common stock, at the Company's election.

Because the embedded conversion option is indexed to the Company's own stock and would be classified in shareholders' equity, it does not meet the criterion under FASB Accounting Standards Codification Topic 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 shareholders 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 additional paid-in capital. The convertible note hedge and warrant transactions effectively increased the conversion price of the convertible notes.

The following table illustrates the warrant price at each date:

	December 31, 2015	December 31, 2014
Warrants		
Warrant Price	$43.87	$44.05

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, is being amortized over the term of the notes. Total amortization expense for the years ended December 31, 2015, 2014, and 2013 was $0.5 million.

The following table illustrates the dilutive effect of securities issued under the convertible debt and warrants at various theoretical average share prices for our stock as of December 31, 2015:

	Theoretical Average Share Price of Kaman Stock				
	$33.55	$40.00	$43.87	$45.00	$50.00
Dilutive Shares associated with:					
Convertible Debt	—	552,679	806,519	872,123	1,127,679
Warrants	—	—	—	85,791	419,980
Total dilutive shares	—	552,679	806,519	957,914	1,547,659

Debt Issuance Costs

Total expense associated with the amortization of debt issuance costs for the years ended December 31, 2015, 2014 and 2013, was $1.0 million, $1.1 million and $1.1 million, respectively.

Interest Rate Swaps

During 2015, we entered into interest rate swap agreements for the purposes of hedging the eight quarterly variable-rate Term Loan interest payments due in 2016 and 2017. Additionally, we have entered into interest rate swap agreements to effectively convert $83.8 million of our variable rate revolving credit facility debt to a fixed interest rate. These interest rate swap agreements were designated as cash flow hedges and intended to manage interest rate risk associated with our variable-rate borrowings and minimize the impact on our earnings and cash flows of interest rate fluctuations attributable to changes in LIBOR rates. There was no interest expense associated with these interest rate swaps in 2015.

During 2013, we entered into interest rate swap agreements for the purposes of hedging the eight quarterly variable-rate Term Loan interest payments due in 2014 and 2015. These interest rate swap agreements were designated as cash flow hedges and intended to manage interest rate risk associated with our variable-rate borrowings and minimize the impact on our earnings and cash flows of interest rate fluctuations attributable to changes in LIBOR rates. Interest expense associated with the interest rate swap agreements for the years ended December 31, 2015 and 2014, was $0.3 million and $0.4 million, respectively. As of December 31, 2015, these interest rate swaps had matured.

Other Sources/Uses of Capital

Pension

We contributed $10.0 million to the qualified pension plan and paid $0.5 million in SERP benefits during 2015. In 2014, we contributed $10.0 million to the qualified pension plan and paid $0.8 million in SERP benefits. In 2016, we have contributed $10.0 million to the qualified pension plan (as of the date of this filing) and do not anticipate making any further contributions this year. We expect to pay $0.5 million in SERP benefits in 2016.

Acquisitions

The following table illustrates the cash paid for acquisitions:

	For the year ended December 31,		
	2015	2014	2013
In thousands			
Cash paid for acquisitions completed during the year	$196,395	$70,948	$17,284
Cash paid for holdback payments during the year	3,404	3,060	828
Earn-out and other payments during the year	1,453	3,610	50
Total cash paid for acquisitions	$201,252	$77,618	$18,162

Total consideration for the acquisitions completed in 2015 was $197.1 million, with $0.7 million remaining to be paid to sellers representing holdback provisions. Total consideration for acquisitions completed in 2014 and 2013 was $71.9 million and $17.8 million, respectively. We anticipate that we will continue to identify and evaluate potential acquisition candidates, the purchase of which may require the use of additional capital.

Stock Repurchase Plans

On April 29, 2015, we announced that our Board of Directors approved a share repurchase program ("2015 Share Repurchase Program") authorizing the repurchase of up to $100.0 million of the common stock, par value $1.00 per share, of the Company. This new program replaces our 2000 Stock Repurchase Program. We currently intend to repurchase shares to offset the annual issuance of shares under our employee stock plans, but the timing and actual number of shares repurchased will depend on a variety of factors including stock price, market conditions, corporate and regulatory requirements, capital availability and other factors, including acquisition opportunities. As of December 31, 2015, we had repurchased 300,000 shares under the 2015 Share Repurchase Program and approximately $88.0 million remained available for repurchases under this authorization.

NON-GAAP FINANCIAL MEASURES

Management believes that the non-GAAP 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 of the Distribution segment”, less sales derived from acquisitions completed during the preceding twelve months, divided by the number of sales days in a given period. Sales days are the number of business days that the Distribution segment’s branch locations were open for business and exclude weekends and holidays. Management believes sales per sales day provides an important perspective on how net sales may be impacted by the number of days the segment is open for business. Management uses organic 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", both of which are presented in our Consolidated Statements of Cash Flows. Management believes free cash flow provides 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.

Non-GAAP Adjusted Operating Income

Non-GAAP adjusted operating income is defined as operating income, less items that are not indicative of the operating performance of the Company's segments or corporate for the period presented. Management uses Non-GAAP adjusted operating income to evaluate performance period over period, to analyze the underlying trends impacting our segments and corporate and to assess their performance relative to their competitors. We believe that this information is useful for investors and financial institutions seeking to analyze and compare companies on the basis of operating performance.

Adjusted EBITDA and Adjusted EBTIDA Margin

Adjusted EBITDA is defined as operating income before depreciation and amortization. Adjusted EBITDA is calculated using our consolidated results as well as the results of our reportable segments. Adjusted EBITDA margin is calculated by dividing Adjusted EBITDA by Net sales for our reportable segments. Adjusted EBITDA differs from Segment Operating Income, as calculated in accordance with GAAP, in that it excludes depreciation and amortization. The Company has made numerous investments in our business, such as acquisitions and increased capital expenditures, including facility improvements, new machinery and equipment, improvements to our information technology infrastructure and new ERP systems. Management believes Adjusted EBITDA provides an additional perspective on the operating results of the organization and its earnings capacity and helps improve the comparability of our results between periods by eliminating the impact of non-cash depreciation and amortization expense. Adjusted EBITDA does not give effect to cash used for debt service requirements and thus does not reflect available funds for distributions, reinvestment or other discretionary uses. Adjusted EBITDA is not presented as an alternative measure of operating results or cash flows from operations, as determined in accordance with GAAP.

CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS

Contractual Obligations

The following table summarizes certain of the Company's contractual obligations as of December 31, 2015:

	Payments due by period (in millions)				
Contractual Obligations	Total	Within 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt	$329.8	$5.0	$14.4	$310.4	$—
Convertible notes	115.0	—	115.0	—	—
Interest payments on debt [a]	31.0	11.8	14.2	5.0	—
Operating leases	85.8	24.7	33.6	14.4	13.1
Capital leases	1.5	0.3	0.7	0.5	—
Purchase obligations [b]	108.5	84.0	24.4	0.1	—
Other long-term obligations [c]	53.6	13.1	19.1	4.7	16.7

Planned funding of pension and SERP [d]	19.3	10.5	3.5	1.0	4.3
Total	$744.5	$149.4	$224.9	$336.1	$34.1

Note: For more information refer to Note 11, Debt; Note 16, Commitments and Contingencies; Note 15, Other Long-Term Liabilities; Note 14, Pension Plans, and Note 13, Income Taxes in the Notes to Consolidated Financial Statements included in 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 of at least $50,000 are included.

(c) This category includes obligations under the Company's long-term incentive plan, deferred compensation plan, environmental liabilities, acquisition holdbacks and unrecognized tax benefits.

(d) This category includes planned funding of the Company’s SERP and qualified pension plan. Projected funding for the qualified 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.

Off-Balance Sheet Arrangements

The following table summarizes our 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]	$1.6	$1.6	$—	$—	$—
Total	$1.6	$1.6	$—	$—	$—

(1) The obligation to pay earn-out amounts depends upon the attainment of specific milestones by an aerospace operating unit acquired in 2002. To date we have paid $23.4 million in earn-outs of the total potential amount of $25.0 million for this acquisition.

As of December 31, 2015, we had $5.9 million of outstanding standby letters of credit under the Credit Agreement.

CRITICAL ACCOUNTING ESTIMATES

Our significant accounting policies are outlined in Note 1 to the Consolidated Financial Statements included in this Form 10-K. 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 contract cost to total contract 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 accurately 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 BLACK HAWK program, the JPF program, the K-MAX® program, the Boeing A-10 program, the AH-1Z program, and our other Bell Helicopter programs and several other programs. Estimating the ultimate total cost of these programs is challenging due to the complexity of the programs, unanticipated increases in production requirements, 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 of

these programs could have a material effect on our financial position and results of operations. The net increase in our operating income from changes in contract estimates totaled $4.8 million for the year ended December 31, 2015. The net increase in our operating income from changes in contract estimates totaled $1.9 million for the year ended December 31, 2014. The net decrease in our operating income from changes in contract estimates totaled $3.0 million for the year ended December 31, 2013.

Allowance for Doubtful Accounts

Methodology	Judgment and Uncertainties	Effect if Actual Results Differ From Assumptions
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.	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.	As of December 31, 2015 and 2014, our allowance for doubtful accounts was $3.0 million and $3.2 million, respectively. Receivables written off, net of recoveries, in 2015 and 2014 were $2.0 million and $1.9 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 $0.3 million effect on pre-tax earnings.

Inventory Valuation

Methodology	Judgment and Uncertainties	Effect if Actual Results Differ From Assumptions
We have five types of inventory (a) merchandise for resale, (b) raw materials, (c) contracts in process, (d) other work in process, and (e) finished goods. Merchandise for resale and raw materials are 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. 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 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. The K-MAX® inventory balance, consisting of work in process and finished goods, was $14.9 million as of December 31, 2015. We believe 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. Management believes $4.8 million of the SH-2G(I) inventory will be sold after December 31, 2016. This balance represents spares requirements and inventory to be used in SH-2G programs.	Inventory valuation at our 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, 2015, inventory balance would have affected pre-tax earnings by approximately $1.5 million in 2015.

Goodwill and Other Intangible Assets

Methodology

Goodwill and certain intangible assets that have indefinite lives are evaluated at least annually for impairment. The annual evaluation is generally performed during the fourth quarter, using forecast information. All intangible assets are also reviewed for possible impairment whenever changes in conditions indicate that their carrying value may not be recoverable. For reporting units that qualify for a qualitative assessment, management will perform the two-step impairment test after a period of three years has elapsed since its last evaluation. In accordance with generally accepted accounting principles, we test goodwill for impairment at the reporting unit level. The identification and measurement of goodwill impairment involves the estimation of fair value of the reporting unit as compared to its carrying value. In the Distribution segment, this testing is conducted at the segment level as no components represent reporting units. In the Aerospace segment, testing is conducted one level below the segment level, and components are not aggregated for purposes of goodwill testing.

The carrying value of goodwill as of December 31, 2015, was $149.2 million and $203.5 million for the Distribution and Aerospace segments, respectively. The specific Aerospace reporting units contributing to the total goodwill balance were as follows: Precision Products Orlando facility ("KPP-Orlando"), $39.8 million; Specialty Bearings RWG Germany GmbH ("RWG"), $5.9 million;

Judgment and Uncertainties

In years that management performs a qualitative assessment we consider the following qualitative factors: general economic conditions in the markets served by the reporting units carrying goodwill, relevant industry-specific performance statistics, changes in the carrying value of the individual reporting units, and assumptions used in the most recent fair value calculation, including forecasted results of operations, the weighted average cost of capital and recent transaction multiples.

For step one of the two-step impairment test, management estimated the fair value of the reporting units using an income methodology based on management's estimates of forecasted cash flows, with those cash flows discounted to present value using rates commensurate with the risks associated with 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. In estimating the fair value of the reporting units, a weighting of 80% to the income approach and 20% to the market-based valuation method was selected, consistent with the prior year. A higher weighting was applied to the estimate derived from the income approach as it is based on Management's assumptions specific for the reporting units, which are the outcome of an internal

Effect if Actual Results Differ From Assumptions

For each reporting unit, we performed the Step 1 test and the percentage by which the fair value exceeded the carrying value was in excess of 13%. A decrease of 1% in our terminal growth rate or an increase of 1% in our discount rate would not result in a fair value calculation less than the carrying value.

As with all assumptions, there is an inherent level of uncertainty and actual results, to the extent they differ from those assumptions, could have a material impact on fair value. For example, multiples for similar type reporting units could deteriorate due to changes in technology or a downturn in economic conditions. A reduction in customer demand would impact our assumed growth rate resulting in a reduced fair value. Potential events or circumstances could have a negative effect on the estimated fair value. The loss of a major customer or program could have a significant impact on the future cash flows of the reporting unit(s). Advances in technology by our competitors could result in our products becoming obsolete.

EXTEX Engineered Products ("EXTEX"), $14.5 million; GRW Bearings ("GRW"), $89.0 million; and Aerosystems, $54.3 million. During 2015, it was determined that the two-step impairment test would be performed for all reporting units carrying goodwill. See Note 9, Goodwill and Other Intangible Assets, Net, in the Notes to Consolidated Financial Statements for additional information regarding these assets.
continues on next page

planning process. While the guideline companies in the market based valuation method have comparability to the reporting units, they may not fully reflect the market share, product portfolio and operations of the reporting units.

Goodwill and Other Intangible Assets (continued)

Methodology	Judgment and Uncertainties	Effect if Actual Results Differ From Assumptions
The carrying value of other intangible assets as of December 31, 2015, was $53.4 million and $91.4 million for the Distribution and Aerospace segments, respectively. As a result of our Aerospace acquisitions, RWG, EXTEX and GRW was reorganized under the single management team of Kaman Specialty Bearings and Engineered Products. This new reporting unit will be the basis for our annual test for goodwill impairment in 2016.	In performing our step one test for the reporting units, we used an assumed terminal growth rate of 3.0%. The discount rate utilized to reflect the risk and uncertainty in the financial markets and specifically in our internally developed earnings projections ranged from 9.5% - 11.0% for these reporting units. Changes in these estimates and assumptions could materially affect the results of our tests for goodwill impairment. Under Step 2, 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. The results of the Step 1 tests indicated that the Company did not need to proceed to Step 2.	We do not currently believe there to be a reasonable likelihood that actual results will vary materially from estimates and assumptions used to test goodwill and other intangible assets for impairment losses. 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	Judgment and Uncertainties	Effect if Actual Results Differ From Assumptions
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 if the Company's performance is in the bottom quartile of the designated indices. The maximum award is payable if performance reaches the 75th percentile of the designated indices. Awards will be paid out at 100% at the 50th percentile. Awards for performance between the 25th and 75th percentiles are determined by straight-line interpolation between 0% and 200%. 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	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 future Russell 2000 results.	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 share-based compensation expense that could be material. If actual results are not consistent with the assumptions used, the share-based compensation expense reported in our financial statements may not be representative of the actual economic cost of the share-based compensation. A 10% change in our share-based compensation expense for the year ended December 31, 2015, would have affected pre-tax earnings by approximately $0.6 million in 2015. 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 2015 pretax earnings of $1.5 million.

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, 2015, was $15.1 million.

Pension Plans

Methodology	Judgment and Uncertainties	Effect if Actual Results Differ From Assumptions
We maintain a qualified defined benefit pension, as well as a non-qualified Supplemental Employees Retirement Plan ("SERP") for certain key executives. See Note 14, 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 and discount rate. 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. For 2015 we utilized the weighted-average discount rate in the calculation of service and interest costs, both of which are components of pension expense. For 2016 we utilized a "spot rate approach" in the calculation of pension interest and service cost. The spot rate approach applies separate discount rates for each projected benefit payment in the calculation of pension interest and service cost. This calculation change is considered a change in accounting estimate and will be applied prospectively in 2016. The	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 2014, management determined the Citigroup Above Median Double-A Curve to be most appropriate for 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 to 2013. Based upon this information, we used a 4.17% discount rate as of December 31, 2015, for the qualified defined benefit pension plan. This rate takes into consideration the participants in our pension plan and the anticipated payment stream as compared to the Citigroup Above Median Double-A Curve. For the SERP, we used the same methodology as the pension plan and derived a discount rate of 3.47% in 2015 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 3.80% and 3.15% at December 31, 2014, respectively, for purposes of calculating the benefit obligation.	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 2015 by $8.4 million. A one percentage point increase in the assumed discount rate would have decreased pension expense in 2015 by $7.2 million. A lower expected rate of return on pension plan assets would increase pension expense. For 2015 and 2014, the expected rate of return on plan assets was 7.5%. A one-percentage point increase/decrease in the assumed return on pension plan assets would have changed pension expense in 2015 by approximately $5.9 million. During 2015, the actual return on pension plan assets of (3.4%) was lower than our expected rate of return on pension plan assets of 7.5%.

use of the spot rate approach is expected to result in a favorable impact to pension expense of $4.6 million in 2016 relative to what pension expense would have been had we not changed our approach.

The expected long-term rate of return on plan assets of 7.5% 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.

Income Taxes

Methodology	Judgment and Uncertainties	Effect if Actual Results Differ From Assumptions
Deferred tax assets and liabilities generally represent temporary differences between the recognition of tax benefits/expenses in our financial statements and the recognition of these tax benefits/expenses for tax purposes. We establish reserves for deferred taxes 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. As of December 31, 2015, we had recognized $51.6 million of deferred tax assets, net of valuation allowances. A portion of this amount, $2.7 million, is related to a capital loss recorded on the disposition of our Distribution segment's Mexico operations. The realization of these benefits is dependent in part on future taxable capital gains and tax planning strategies designed to realize the benefit associated with the capital loss. For those jurisdictions where the expiration of tax loss or credit carryforwards or the projection of operating results indicates that	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 31.3% for 2015. 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 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 2011. 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 have affected our 2015 earnings by $0.9 million.

realization is not likely, a valuation allowance is provided.

Environmental Costs

Methodology	Judgment and Uncertainties	Effect if Actual Results Differ From Assumptions
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. 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.	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. Conditions of the site must be monitored throughout the remediation process as numerous factors could affect the estimated liability, including, but not limited to, the discovery of geological formations affecting the behavior or movement of contaminants; soil conditions and soil chemistry affecting the degradation of contaminants; or the discovery of further sources or types of contaminants. 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.	At December 31, 2015, amounts accrued for known environmental remediation costs were $11.6 million. A 10% change in this accrual would have impacted pre-tax earnings by $1.2 million. Further information about our environmental costs is provided in Note 10, Environmental Costs, 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, in the Notes to Consolidated Financial Statements, included in Item 8, Financial Statements and Supplementary Data, of this Form 10-K.

SELECTED QUARTERLY FINANCIAL DATA

2015	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
	(in thousands, except per share amounts)				
Net sales	$442,782	$446,324	$433,742	$452,277	$1,775,125
Gross profit	127,911	131,952	129,926	$127,445	517,234
Net earnings	12,749	21,691	17,224	$8,774	60,438
Basic earnings per share	0.47	0.80	0.63	0.32	2.22
Diluted earnings per share	0.46	0.77	0.62	0.32	2.17

2014	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
	(in thousands, except per share amounts)				
Net sales	$407,958	$453,018	$456,055	$477,931	$1,794,962
Gross profit	114,000	128,549	129,365	$136,025	507,939
Earnings from continuing operations	11,944	16,709	15,797	$21,330	65,780
Loss from discontinued operations, net of tax	(487)	(515)	(924)	$(998)	(2,924)
Gain on disposal of discontinued operations, net of tax	—	379	(94)	(5,269)	(4,984)
Net earnings	$11,457	$16,573	$14,779	$15,063	$57,872
Basic earnings (loss) per share:					
From continuing operations	$0.45	$0.62	$0.58	$0.79	$2.43
From discontinued operations	(0.02)	(0.02)	(0.03)	(0.04)	(0.11)
From disposal of discontinued operations	—	0.01	—	(0.19)	(0.18)
Basic earnings per share	$0.43	$0.61	$0.55	$0.56	$2.14
Diluted earnings (loss) per share:					
From continuing operations	$0.44	$0.61	$0.57	$0.77	$2.37
From discontinued operations	(0.02)	(0.02)	(0.04)	(0.04)	(0.11)
From disposal of discontinued operations	—	0.01	—	(0.19)	(0.18)
Diluted earnings per share	$0.42	$0.60	$0.53	$0.54	$2.08

Included within certain quarterly 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. Additionally, due to the nature of the earnings per share calculation, the sum of quarterly earnings per share data may not equal the cumulative earnings per share data for the year.

Nonrecurring items within the 2015 quarterly results are as follows: fourth quarter, $4.0 million in expense associated with the resolution of matters related to our AH-1Z program, $3.0 million of expenses related to foreign currency transactions associated with the purchase of GRW, a $2.1 million loss related to the reversal of a portion of the tax benefit recognized in the second quarter due to tax law changes in December, and $1.5 million of costs associated with restructuring activities at our Distribution segment; second quarter, a $4.4 million gain related to the recognition of a tax benefit due to tax law changes, $0.6 million of severance costs at our Distribution segment; first quarter, $0.3 million of severance costs associated with our Distribution segment.

Nonrecurring items within the 2014 quarterly results are as follows: fourth quarter, a $5.3 million loss on disposal of discontinued operations, net of tax related to the sale of Delamac; third quarter, $2.2 million of costs associated with the sale of our Moosup facility.

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 Czech koruna and the Australian dollar. Total annual foreign sales from continuing operations, including foreign export sales, averaged approximately $250.8 million over the last three years. Foreign sales from continuing operations represented 15.6% of consolidated net sales from continuing operations in 2015. We estimate a hypothetical 10% adverse change in foreign currency exchange rates relative to the U.S dollar for 2015 would have had an unfavorable impact of $7.1 million on sales and a $0.3 million favorable 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.

Interest Rates

Our primary exposure to interest rate risk results from our outstanding debt obligations. The level of fees and interest charged on revolving credit commitments and borrowings are based upon leverage levels and market interest rates.

Our principal debt facilities are contained within a variable rate credit agreement that provides a $600.0 million revolving credit facility and a $100.0 million term loan commitment. Both these agreements were entered into on May 6, 2015, and expire on May 6, 2020. Total average bank borrowings for 2015 were $192.5 million. The impact of a hypothetical 100 basis point increase in the interest rates on our average bank borrowings would have resulted in a $1.9 million increase in interest expense.

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%.

From time to time we will enter into interest rate swap contracts for the purpose of securing a fixed interest rate on our variable interest rate borrowings. These contracts allow us to create certainty related to future cash flows as they relate to fluctuations in LIBOR rates and the impact they have on interest payments on our variable rate debt.

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 practices.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Kaman Corporation:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of comprehensive income, of shareholders' equity, and of cash flows present fairly, in all material respects, the financial position of Kaman Corporation and its subsidiaries at December 31, 2015 and December 31, 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these 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 Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated 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 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 (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) 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 (iii) 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.

As described in Management's Report on Internal Control over Financial Reporting, management has excluded G.C. Fabrication, Inc., Calkins Fluid Power, Inc., EXTEX Engineered Products, Inc., and GRW Bearing GmbH (the "Acquired Businesses") from its assessment of internal control over financial reporting as of December 31, 2015 because these businesses were acquired by the Company through purchase business combinations during 2015. We

have also excluded the Acquired Businesses from our audit of internal control over financial reporting. The Acquired Businesses are wholly-owned subsidiaries whose total assets and total revenues represent 17% and 1%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2015.

/s/ PricewaterhouseCoopers LLP

Hartford, Connecticut
February 29, 2016

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

	December 31, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$16,462	$12,411
Accounts receivable, net	238,102	234,648
Inventories	385,747	359,741
Deferred income taxes	—	25,888
Income tax refunds receivable	3,591	—
Other current assets	32,133	29,568
Total current assets	676,035	662,256
Property, plant and equipment, net of accumulated depreciation of $202,648 and $183,829, respectively	175,586	147,825
Goodwill	352,710	238,581
Other intangible assets, net	144,763	94,491
Deferred income taxes	66,815	34,784
Other assets	25,296	23,268
Total assets	$1,441,205	$1,201,205
Liabilities and Shareholders’ Equity		
Current liabilities:		
Current portion of long-term debt	5,000	10,000
Accounts payable – trade	121,044	116,787
Accrued salaries and wages	40,284	42,214
Advances on contracts	11,274	2,406
Other accruals and payables	58,761	47,583
Income taxes payable	326	2,734
Total current liabilities	236,689	221,724
Long-term debt, excluding current portion	435,821	271,232
Deferred income taxes	15,207	3,391
Underfunded pension	158,984	141,546
Other long-term liabilities	51,427	45,647
Commitments and contingencies (Note 16)		
Shareholders' equity:		
Preferred stock, $1 par value, 200,000 shares authorized; none outstanding	—	—
Common stock, $1 par value, 50,000,000 shares authorized; voting; 27,735,757 and 27,518,226 shares issued, respectively	27,736	27,518
Additional paid-in capital	156,803	145,845
Retained earnings	520,865	479,984
Accumulated other comprehensive income (loss)	(140,138	