

KAMAN CORP
Form 10-K
February 25, 2013

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, 2012

Commission File No. 0-1093

KAMAN CORPORATION

(Exact name of registrant as specified in its charter)

Connecticut

06-0613548

(State or other jurisdiction

(I.R.S. Employer

of incorporation or organization)

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 June 29, 2012 (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 \$794,131,195.

At January 25, 2013, there were 26,621,392 shares of Common Stock outstanding.

Documents Incorporated Herein By Reference

Portions of our definitive proxy statement for our 2013 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 2012 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 (formerly referred to as the Industrial Distribution segment) brings our commitment to technological leadership and value-added services to the distribution business. The Distribution segment is the third largest power transmission/motion control industrial distributor in North America. We provide products including bearings, mechanical and electrical power transmission, fluid power, motion control, automation, material handling components, electrical control and power distribution, and MRO supplies to a broad spectrum of industrial markets throughout North America. Locations consist of over 200 branches, distribution centers and call centers across the United States (including Puerto Rico) and in Mexico. We offer approximately four million items, as well as value-added services, to a base of over 60,000 active customers representing a highly diversified cross section of North American industry.

Aerospace Segment

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

Principal customers include the U.S. military, Sikorsky Aircraft Corporation, The Boeing Company, Bell Helicopter, Airbus, Lockheed Martin and Raytheon. The SH-2G aircraft is currently in service with the Egyptian Air Force and the New Zealand and Polish navies. Operations are conducted throughout the United States, as well as in facilities located in the United Kingdom, Germany and Mexico.

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' delivery requirements. Sales returns do not have a material effect on our working capital requirements.

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

In November 2012, we entered into a new credit agreement which replaced our former revolving credit facility. This new 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 is information for the three preceding years concerning the percentage contribution of each business segment's products and services to consolidated net sales from continuing operations:

	Years Ended December 31,					
	2012		2011		2010	
Distribution	63.5	%	63.0	%	62.6	%
Aerospace	36.5	%	37.0	%	37.4	%
Total	100.0	%	100.0	%	100.0	%

AVAILABILITY OF RAW MATERIALS

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

PATENTS AND TRADEMARKS

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

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

Registered trademarks of Kaman Corporation include KAflex®, KAron®, and K-MAX®. In all, we maintain 34 U.S. and foreign trademarks.

BACKLOG

The majority of our backlog is attributable to the Aerospace segment. We anticipate that approximately 84.2% of our backlog at the end of 2012 will be performed in 2013. Approximately 62.4% of the Aerospace segment's backlog at the end of 2012 is related to U.S. Government contracts or subcontracts, which include government orders that are

firm but not yet funded.

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Total backlog at the end of December 31, 2012, 2011 and 2010, and the portion of the backlog we expect to complete in 2013, is as follows:

In thousands	Total Backlog at December 31, 2012	2012 Backlog to be completed in 2013	Total Backlog at December 31, 2011	Total Backlog at December 31, 2010
Aerospace	\$531,923	\$440,432	\$531,920	\$532,630
Distribution	47,607	47,607	32,650	21,742
Total	\$579,530	\$488,039	\$564,570	\$554,372

REGULATORY MATTERS

Government Contracts

The U.S. Government ("USG"), and other governments, may terminate any of our government contracts at their convenience as well as for default based on our failure to meet specified performance measurements. If any of our government contracts were to be terminated for convenience, we generally would be entitled to receive payment for work completed and allowable termination or cancellation costs. If any of our government contracts were to be terminated for default, generally the 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 2012, approximately 97.0% 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 U.S. government. It is reasonably possible that continued environmental compliance could have a material impact on our results of operations, financial condition or cash flows if more stringent clean-up standards are imposed, additional contamination is discovered and/or clean-up costs are higher than estimated.

See Note 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, compliance with relevant environmental protection laws is not likely to have a material adverse effect upon our capital expenditures, earnings or competitive position. In arriving at this conclusion, we have taken into consideration site-specific information available regarding total costs of any work to be performed, and the extent of work previously performed. If we are identified as a "potentially responsible party" (PRP) by environmental authorities at a particular site, we, using information available to us, will also review and consider a number of other factors, including: (i) the financial resources of other PRPs involved in each site, and their

proportionate share of the total volume of waste at the site; (ii) the existence of insurance, if any, and the financial viability of the insurers; and (iii) the success others have had in receiving reimbursement for similar costs under similar insurance policies issued during the periods applicable to each site.

International

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

Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 (ITRA) added a new subsection (r) to section 13 of 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 SEC if any disclosable activities under ITRA have been included in the annual or quarterly report. Upon receiving such a notice, the SEC is required under ITRA to transmit the notice to the President, the House Committees on Foreign Affairs and Financial Services and the Senate Committees on Foreign Relations and Banking, Housing and Urban Affairs and is required to make these separate notices publicly available on its website. We do not have any disclosable activities for the year-ended December 31, 2012.

COMPETITION

The Distribution segment competes for business with several other national distributors of bearings, power transmission and material handling products, two of which are substantially larger, and with many regional and local distributors and original equipment manufacturers. Competitive forces have intensified due to the increasing trend towards large national accounts, the use of integrated suppliers, supplier product authorizations and the increasing consolidation in supplier relationships. We compete for business on the breadth and quality of products, product availability, delivery, on the basis of price, performance and 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 and have greater financial strength and other resources. We compete for composite and metallic aerostructures subcontract, helicopter structures, bearings and components business on the basis of price and quality; product endurance and special performance characteristics; proprietary knowledge; the quality of our products and services; the availability of facilities, equipment and personnel to perform contracts; and the reputation of our business. Competitors for our business also include small machine shops and offshore manufacturing facilities. We compete for engineering design services business primarily on the basis of technical competence, the reputation of our business, the availability of our personnel and, to some extent, price. We compete for advanced technology fuzing business primarily on the basis of technical competence, product quality, and to some extent, price; and also on the basis of our experience as a developer and manufacturer of fuzes for particular weapon types and the availability of our facilities, equipment and personnel. We are also affected by the political and economic circumstances of our potential foreign customers.

RESEARCH AND DEVELOPMENT EXPENDITURES

Government funded research expenditures (which are included in cost of sales) were \$7.8 million in 2012, \$5.5 million in 2011, and \$7.5 million in 2010. Independent research and development expenditures (which are included in selling, general and administrative expenses) were \$5.5 million in 2012, \$4.8 million in 2011, and \$4.2 million in 2010.

EMPLOYEES

As of December 31, 2012, we employed 5,007 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 Securities Exchange Act of 1934, as amended (the “Exchange Act”) and its rules and regulations. The Exchange Act requires us to file reports, proxy statements and other information with the U.S. Securities and Exchange Commission (“SEC”). Copies of these reports, proxy statements and other information can be read and copied at:

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

Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-732-0330. The SEC maintains a website that contains reports, proxy statements and other information regarding issuers that file electronically with the SEC. These materials may be obtained electronically by accessing the SEC’s website at <http://www.sec.gov>.

We make available, free of charge on our website, our annual reports on Form 10-K, quarterly reports on Form 10-Q, proxy statements, and current reports on Form 8-K as well as amendments to those reports filed or furnished pursuant to Section 13 or 15(d) of the 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 “Investor Relations” link, then the "Financial Information" link and then the “SEC Filings” link.

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

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

EXECUTIVE OFFICERS OF THE REGISTRANT

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

William C. Denninger	Mr. Denninger, 62, joined the company as Senior Vice President – Finance on November 17, 2008 and was elected Senior Vice President and Chief Financial Officer effective December 1, 2008. Effective February 20, 2012, he was elected Executive Vice President of Kaman Corporation. Prior to joining the company, Mr. Denninger served for eight years as Senior Vice President and Chief Financial Officer of Barnes Group, Inc., a \$1.0 billion global industrial products manufacturer and distributor. He also served on that company's board of directors.
Ronald M. Galla	Mr. Galla, 61, has been Senior Vice President and Chief Information Officer since 1995. Mr. Galla has been director of the company's Management Information Systems since 1984.
Neal J. Keating	Mr. Keating, 57, was elected President and Chief Operating Officer as well as a Director of the company effective September 17, 2007. Effective January 1, 2008, he was elected to the offices of President and Chief Executive Officer and effective March 1, 2008 he was appointed to the additional position of Chairman. Prior to joining the company, Mr. Keating served as Chief Operating Officer at Hughes Supply, a \$5.4 billion industrial distributor that was acquired by Home Depot in 2006. Prior to that, he held senior positions at GKN Aerospace, an aerospace subsidiary of GKN, plc, and Rockwell Collins Commercial Systems, as well as serving as a board member of GKN plc and Agusta-Westland.
Shawn G. Lisle	Mr. Lisle, 46, joined the company in 2011 and was elected 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, TN. Prior to that he served as legal counsel for Dana Corporation in Toledo, OH, and as an attorney at Porter Wright Morris & Arthur LLP in Columbus, OH, where his practice was concentrated on employee benefits, banking and financial transactions, bankruptcy and creditor's rights and civil litigation. 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.
Steven J. Smidler	Mr. Smidler, 54, 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, was elected 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, with responsibility for product, service and system sales for critical power applications and at Rockwell Automation, Inc., serving in a number of progressively responsible positions, and departing as Vice President, Marketing of the Global Manufacturing Group.
Gregory L. Steiner	Mr. Steiner, 55, 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 elected Executive Vice President of Kaman Corporation. Since 2005, Mr. Steiner was employed at GE Aviation-Systems, serving first as Vice President and General Manager, Military Mission Systems and then as Vice

President, Systems for GE Aviation-Systems, responsible for systems integration. Prior to that, he served as Group Vice President at Curtiss-Wright Controls, Inc., with responsibility for four aerospace and industrial electronics businesses located in the U.S. and United Kingdom and at Rockwell Collins, Inc., serving in a number of progressively responsible positions, and departing as Vice President and General Manager of Passenger Systems.

John J. Tedone

Mr. Tedone, 48, has been Vice President, Finance and Chief Accounting Officer of the Company since April 2007. From April 2006 to April 2007, he served as Vice President, Internal Audit and prior to that as Assistant Vice President, Internal Audit. Mr. Troy, 57, joined the company as Senior Vice President – Human Resources in March 2012. On February 19, 2013, he was appointed to the additional 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 an active 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 in OMNOVA Solutions Inc., Bosch Corporation, and Mobil Corporation, after serving as a Transportation Officer in the United States Army.

Gregory T. Troy

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 future availability of credit and our ability to obtain additional 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 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 the Euro, the British Pound, the Australian Dollar and the Mexican Peso, any adverse change 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 amount of orders we receive from our customers, particularly in the Distribution segment, 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, which may require us to find and qualify new suppliers.

Although consumer confidence in the U.S. has improved since the recent economic downturn, it still remains low, unemployment remains high and the housing market remains depressed. While these economic developments 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 further adverse effects that may be material to our cash flows, competitive position, financial condition, results of operations, or our ability to access capital.

Our foreign operations present additional risks and uncertainties.

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 in the conduct of business.

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

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

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

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

The results of our Aerospace segment, which generated approximately 36.5 percent of our consolidated net sales from continuing operations in 2012, are directly tied to economic conditions in the commercial aviation and defense industries. As a result, changes in economic conditions may cause customers to request that firm orders be rescheduled or canceled, which could put a portion of our backlog at risk. Additionally, a significant amount of work that we perform under contract tends to be for a few large customers.

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

Changes to the defense industry and continued pressure to reduce U.S. defense spending could have a material impact on several of our current aerospace programs, which could adversely affect our operating results. To mitigate these risks, we have worked to expand our customer and product bases within the commercial market.

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

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

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 Boeing C-17 and A-10 programs. These contracts are subject to unique risks, some of which are beyond our control. Examples of such risks include:

The U.S. Government may modify, curtail or terminate its contracts and subcontracts at its convenience without prior notice, upon payment for work done and commitments made at the time of termination. Modification, curtailment or termination of our major programs or contracts could have a material adverse effect on our business, results of operations and financial condition.

Our U.S. Government business is subject to specific procurement regulations and other requirements. These requirements, although customary in U.S. Government contracts, increase our performance and compliance costs. These costs might increase in the future, reducing our margins, which could have a negative effect on our financial condition. Although we have procedures to comply with these regulations and requirements, failure to do so under certain circumstances could lead to suspension or debarment, for cause, from U.S. Government contracting or subcontracting for a period of time and could have a negative effect on our reputation and ability to receive other U.S. Government contract awards in the future.

The costs we incur on our U.S. Government contracts, including allocated indirect costs, may be audited by U.S. Government representatives. Any costs found to be improperly allocated to a specific contract would not be reimbursed, and such costs already reimbursed would have to be refunded. We normally negotiate with those U.S. Government representatives before they settle on final adjustments to our contract costs. We have recorded contract revenues based upon results we expect to realize upon final audit. However, we do not know the outcome of any future audits and adjustments, and we may be required to reduce our revenues or profits upon completion and final negotiation of these audits. Although we have instituted controls intended to assure our compliance, if any audit reveals the existence of improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines and suspension or prohibition from doing business with the U.S. Government.

We are from time to time subject to certain routine U.S. Government inquiries and investigations of our business practices due to our participation in government contracts. Any adverse finding associated with such an inquiry or investigation could have a material adverse effect on our business, results of operations and financial condition.

The proposed spending cuts imposed by the Budget Control Act of 2011 ("BCA") could impact our operating results and profit.

The USG continues to focus on developing and implementing spending, tax, and other initiatives to stimulate the economy, create jobs, and reduce the deficit. One of these initiatives, the BCA, imposed greater constraints around government spending. In an attempt to balance decisions regarding defense, homeland security, and other federal spending priorities, the BCA immediately imposed spending caps that contain approximately \$487 billion in reductions to the Department of Defense ("DoD") base budgets over a ten-year period ending in 2021. The BCA also provides for an automatic sequestration process, originally slated to commence effective as of January 2, 2013, that imposes additional cuts of approximately \$50 billion per year to the currently proposed DoD budgets for each fiscal year beginning with 2013 and continuing through 2021. On January 2, 2013, the American Taxpayer Relief Act of 2012 ("ATRA") was signed into law, which among other things effectively delayed the implementation of the automatic sequestration process by approximately two months and reduced the spending cuts that were scheduled to occur during 2013 in proportion to the delay.

Although we cannot predict whether the automatic sequestration process will be allowed to proceed as set forth in ATRA and the BCA or will be further modified by new or additional legislation, we believe our portfolio of programs and product offerings are well positioned and will not be materially impacted by such proposed DoD budget cuts. Our

initial analysis, conducted during the fourth quarter of 2012, indicated that approximately \$20 to \$25 million of revenue at our Aerospace segment may be at risk for 2013, but the possibility remains that the adverse impact could be more significant than we anticipate. Moreover, one or more of our programs could be reduced, extended, or terminated as a result of the USG's continuing assessment of priorities, which could result in facility closures and personnel reductions that could significantly impact our operations.

New regulations related to conflict minerals could adversely impact our business.

The Dodd-Frank Wall Street Reform and Consumer Protection Act contains provisions to improve transparency and accountability concerning the supply of certain minerals, known as conflict minerals, originating from the Democratic Republic of Congo (DRC) and adjoining countries. As a result, in August 2012 the SEC adopted annual disclosure and reporting requirements for those companies who use conflict minerals in their products, mined from the DRC and adjoining countries. These new requirements will require due diligence efforts in fiscal 2013, with initial disclosure requirements beginning in May 2014. There will be costs associated with complying with these disclosure requirements, including for diligence to determine the sources of conflict minerals used in our products and other potential changes to products, processes or sources of supply as a consequence of such verification activities. The implementation of these rules could adversely affect the sourcing, supply and pricing of materials used in our products. As there may be only a limited number of suppliers offering “conflict free” conflict minerals, we cannot be sure that we will be able to obtain necessary conflict minerals from such suppliers in sufficient quantities or at competitive prices. Also, 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 sufficiently verify the origins for all conflict minerals used in our products through the procedures we implement.

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

On February 12, 2009, we completed the transfer of title for the 11 Australian SH-2G(A) Super Seasprite helicopters, including related inventory and equipment, from the Commonwealth of Australia to the Company. For more information, please refer to Note 16, Commitments and Contingencies, of the Notes to Consolidated Financial Statements in this Annual Report on Form 10-K.

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

- The potential absence of a market for the aircraft and spare parts; and
- The risk of the inventory becoming obsolete over time, resulting in the Company recording a lower of cost or market adjustment.

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

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

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

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

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

The aerospace markets in which we participate are highly competitive, and we often compete for work not only with large Original Equipment Manufacturers (“OEMs”) but also sometimes with our own customers and suppliers. Many of

our large customers may choose not to outsource production due to, among other things, their own direct labor and overhead considerations and capacity utilization at their own facilities. This could result in these customers supplying their own products or services and competing directly with us for sales of these products or services, all of which could significantly reduce our revenues.

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

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

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

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

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

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

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

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

Estimated costs are based primarily on anticipated purchase contract terms, historical performance trends, business base and other economic projections. The complexity of certain programs as well as technical risks and the availability of materials and labor resources could affect the Company's ability to 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;
- Transition of work from the customer or other vendors;
- Claims or unapproved change orders;
- Product warranty issues;

Delayed completion of certain programs for which inventory has been built up;
Our ability to estimate or control scrap level;
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. We perform quarterly reviews of our long-term contracts to address and lessen the effects of these risks.

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 the 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.

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 or security breaches resulting in unauthorized access, 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 revenues, operating results 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 control over financial reporting.

We are currently implementing new ERP systems. ERP implementations are complex and very 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 financial reporting systems, our ability to produce financial reports, and/or the effectiveness of internal control over financial reporting.

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

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

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

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

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

When we acquire a business, we record goodwill equal to the excess of the amount we pay for the business, including liabilities assumed, over the fair value of the tangible and intangible assets of the business we acquire. Goodwill and other intangible assets that have indefinite useful lives must be 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 in the period such impairment is identified and a corresponding reduction in our net asset value.

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. There can be no assurance that we will continue to be successful in attracting and retaining the personnel we require to develop new and enhanced products and to continue to grow and operate profitably. We continually strive to recruit and train required personnel as well as retain key employees.

We are subject to litigation, 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. We or one of our business units could be charged with wrongdoing in connection with any of these kinds of matters and, if convicted or found liable, 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 materials costs.

Our financial results may be affected by the outcome of pending legal proceedings and other contingencies that cannot be predicted. In accordance with generally accepted accounting principles, if a liability is deemed probable and reasonably estimable in light of the facts and circumstances known to us at a particular point in time, we will make an estimate of material loss contingencies and establish reserves based on our assessment. Subsequent developments in legal proceedings may affect our assessment. The accrual of a loss contingency adversely affects our results of operations in the period in which a liability is recognized. This could also have an adverse impact on our cash flows in the period during which damages are paid.

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.

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

We are exposed to liabilities that are unique to the products and services we provide. While we believe that we maintain adequate insurance for certain risks, insurance cannot be obtained to protect against all risks and liabilities. It is therefore possible that 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 its phased-in nature of implementation and lack of interpretive guidance, it is difficult for the Company to predict the overall effects it will have on our business over the coming years. To date, the Company has not experienced significant costs related to the health care reform legislation, however it is possible that our operating results could be adversely affected in the future 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 future sales and financial condition or increase our costs and expenses.

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

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

- Difficulties with our technical programs;
- Changes in demand for our products;
- Introduction, enhancement or announcement of products by us or our competitors;
- Market acceptance of our new products;
- The growth rates of certain market segments in which we compete;
- Size, timing and shipment terms of significant orders;
- Budgeting cycles of customers;
- Mix of distribution channels;
- Mix of products and services sold;
- Mix of domestic and international revenues;
- Fluctuations in currency exchange rates;
- Changes in the level of operating expenses;
- Changes in our sales incentive plans;
- 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 by us; 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 the anticipated rate of growth, could have a material adverse effect on our profitability. If our operating results do not meet the expectations of investors, our stock price may decline.

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," "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, 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 under the Budget Control Act of 2011, as modified by the enactment of the Taxpayer Relief Act of 2012); (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 and thereafter contract negotiations with government authorities, both foreign and domestic; (v) the existence of standard government contract provisions permitting renegotiation of terms and termination for the convenience of the government; (vi) the satisfactory conclusion to government inquiries or investigations regarding government programs, including the satisfactory resolution of the Wichita subpoena matter; (vii) risks and uncertainties associated with the successful implementation and ramp up of significant new programs; (viii) potential difficulties associated with variable acceptance test results, given sensitive production materials and extreme test parameters; (ix) the successful resale of the SH-2G(I) aircraft, equipment and spare parts; (x) the receipt and successful execution of production orders for the JPF U.S. government contract, including the exercise of all contract options and receipt of orders from allied militaries, as all have been assumed in connection with goodwill impairment evaluations; (xi) the continued support of the existing K-MAX® helicopter fleet, including sale of existing K-MAX® spare parts inventory; (xii) the accuracy of current cost estimates associated with environmental remediation activities at the Bloomfield, Moosup and New Hartford, CT facilities and our U.K. facilities; (xiii) the profitable integration of acquired businesses into the company's operations; (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; (xvii) future levels of indebtedness and capital expenditures; (xviii) the future availability of credit, the ability of the company to maintain its current credit rating and the impact on the company's funding costs and competitive position if it is unable to do so; (xix) the continued availability of raw materials and other commodities in adequate supplies and the effect of increased costs for such items; (xx) the effects of currency exchange rates and foreign competition on future operations; (xxi) changes in laws and regulations, taxes, interest rates, inflation rates and general business conditions; (xxii) future repurchases and/or issuances of common stock 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.

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ITEM 2. PROPERTIES

Our facilities are generally suitable for, and adequate to serve, their intended uses. At December 31, 2012, 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
	Wichita, Kansas	Leased - Manufacturing & Office
	Darwen, Lancashire, United Kingdom	Leased - Manufacturing & Office
	Hyde, Greater Manchester, United Kingdom	Leased - Manufacturing & Office
	Orlando, Florida	Leased - Manufacturing & Office
	Everett, Washington	Leased - Office
	Dachsbach, Germany	Owned - Manufacturing & Office
	Middletown, Connecticut	Owned - Manufacturing & Office
	Bloomfield, Connecticut	Owned - Manufacturing, Office & Service Center
	Bennington, Vermont	Owned - Manufacturing & Office
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
	Glendale, California	Leased - Office
	Gurabo, Puerto Rico	Leased - Distribution Center & Office
	Mexico City, Mexico	Leased - Distribution Center & Office
	Bolingbrook, IL	Leased - Office & Branch
	Rochester, NY	Leased - Office & Branch
Corporate	Bloomfield, Connecticut	Owned - Office & Information Technology
		Back-Up Data Center

	Square Feet
Distribution (2)	2,077,460
Aerospace	1,769,926
Corporate (3, 4)	594,983
Total	4,442,369

(1) Owned facilities are unencumbered.

(2) The Distribution segment also has over 200 branches located across the United States, Puerto Rico and Mexico, 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.

(4) Approximately 500,000 square feet of space included in the corporate square footage is attributable to a facility located in Moosup, Connecticut, that was closed in 2003 and is being held for disposition.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we are subject to various claims and suits arising out of the ordinary course of business, including commercial, employment and environmental matters. We do not expect that the resolution of these matters would have a material adverse effect on our consolidated financial position, results of operation or cash flows. Although not required to be disclosed in response to this Item, certain legal proceedings are discussed in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and 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.

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 MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND
5. 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 25, 2013, there were 3,652 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 (1)			Dividend Declared
	High	Low	Close	
2012				
First quarter	\$35.86	\$26.10	\$33.95	\$0.16
Second quarter	35.55	27.96	30.94	0.16
Third quarter	37.17	30.26	35.86	0.16
Fourth quarter	37.54	31.82	36.80	0.16
2011				
First quarter	\$35.57	\$27.00	\$35.22	\$0.14
Second quarter	38.40	31.97	36.36	0.14
Third quarter	37.70	26.17	27.85	0.16
Fourth quarter	35.05	25.73	27.32	0.16

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

ISSUER PURCHASES OF EQUITY SECURITIES

The following table provides information about purchases of Common Stock by the Company during the three months ended December 31, 2012:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan (a)	Maximum Number of Shares That May Yet Be Purchased Under the Plan
September 29, 2012 – October 26, 2012	—	\$—	—	964,757
October 27, 2012 – November 23, 2012	—	—	—	964,757
November 24, 2011 – December 31, 2012	—	—	—	964,757
Total	—	—	—	

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

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table provides information as of December 31, 2012 concerning Common Stock issuable under the company's equity compensation plans.

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted- average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders:			
2003 Stock Incentive Plan	921,040	\$26.21	510,403
Employees Stock Purchase Plan	—	—	551,139
Equity compensation plans not approved by security holders	—	—	—
Total	921,040	\$26.21	1,061,542

PERFORMANCE GRAPH

Following is a comparison of our total shareholder return for the period 2007 – 2012 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 generally similar market capitalizations to that of the company.

	2007	2008	2009	2010	2011	2012
Kaman Corporation	100.00	50.46	66.36	85.40	81.76	112.19
S&P Small Cap 600	100.00	68.93	86.54	109.31	110.42	125.97
Russell 2000	100.00	66.20	84.18	106.80	102.33	119.04

ITEM 6. SELECTED FINANCIAL DATA

FIVE-YEAR SELECTED FINANCIAL DATA

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

	2012 ^{1,5}	2011 ^{2,5}	2010 ^{3,5}	2009 ⁵	2008 ^{4, 5}
OPERATIONS					
Net sales from continuing operations	\$1,592,828	\$1,477,534	\$1,299,932	\$1,130,268	\$1,230,849
Operating income from continuing operations	92,838	87,581	58,195	42,254	70,132
Earnings before income taxes from continuing operations	80,828	76,274	55,867	35,383	64,176
Income tax expense	26,900	26,346	20,386	9,670	25,786
Earnings from continuing operations	53,928	49,928	35,481	25,713	38,390
Earnings (loss) from discontinued operations, net of taxes	(226)	1,214	130	(718)	(465)
Gain on disposal of discontinued operations, net of taxes	1,323	—	—	—	492
Net earnings	\$55,025	\$51,142	\$35,611	\$24,995	\$38,417
FINANCIAL POSITION					
Current assets	\$618,045	\$600,102	\$584,953	\$482,603	\$486,516
Current liabilities	223,952	218,698	221,845	154,070	179,177
Working capital	394,093	381,404	363,108	328,533	307,339
Property, plant and equipment, net	128,669	111,895	89,719	81,322	79,476
Total assets	1,096,993	996,398	895,757	773,067	762,613
Long-term debt, excluding current portion	249,585	198,522	140,443	56,800	87,924
Shareholders' equity	420,193	373,071	362,670	312,900	274,271
PER SHARE AMOUNTS					
Basic earnings per share from continuing operations	\$2.04	\$1.90	\$1.37	\$1.00	\$1.52
Basic earnings per share from discontinued operations	(0.01)	0.05	—	(0.03)	(0.02)
Basic earnings per share from disposal of discontinued operations	0.05	—	—	—	0.02
Basic earnings per share	\$2.08	\$1.95	\$1.37	\$0.97	\$1.52
Diluted earnings per share from continuing operations	2.03	1.88	1.36	1.00	1.51
Diluted earnings per share from discontinued operations	(0.01)	0.05	—	(0.03)	(0.02)
Diluted earnings per share from disposal of discontinued operations	0.05	—	—	—	0.02
Diluted earnings per share	\$2.07	\$1.93	\$1.36	\$0.97	\$1.51
Dividends declared	\$0.64	\$0.60	\$0.56	\$0.56	\$0.56
Shareholders' equity	15.79	14.22	13.93	12.14	10.77
Market price range – High	37.54	38.40	30.00	24.86	38.56
Market price range – Low	26.10	25.73	20.97	9.33	16.48
AVERAGE SHARES OUTSTANDING					
Basic	26,425	26,246	25,928	25,648	25,357
Diluted	26,622	26,500	26,104	25,779	25,512
GENERAL STATISTICS					
Registered shareholders	3,685	3,813	3,879	4,064	4,107
Employees	5,007	4,614	4,269	4,032	4,294

(See Footnotes below)

(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 as well as within Management's Discussion and Analysis of Financial Condition and Results of Operations and the Notes to Consolidated Financial Statements.

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.

Results for 2011 include \$6.2 million in expense recognized in the fourth quarter related to the settlement of the FMU-143 matter and the non-recurring benefit of \$2.4 million recognized in the first quarter of 2011 resulting from the death of a former executive.

Results for 2010 include a \$6.4 million non-cash non-tax deductible charge for the impairment of goodwill related to U.K. Composites, \$2.0 million in additional losses related to the finalization of contract price negotiations on the Sikorsky Canadian MH-92 helicopter program, and \$6.6 million of income related to the claim for look-back interest we filed with the Internal Revenue Service in connection with the Australian SH-2G(A) Super Seasprite Helicopter program.

Results for 2008 include a \$7.8 million non-cash non-tax deductible charge for the impairment of goodwill related to Wichita Composites, \$2.5 million related to the write-off of tooling costs at Wichita Composites and \$1.6 million of expense related to the cancellation of foreign currency hedge contracts originally assumed in connection with the acquisition of U.K. Composites. In addition, the Company's sale of Kaman Music Corporation on December 31, 2007, resulted in an additional post-tax gain on disposal of discontinued operations of \$0.5 million in 2008.

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 above.

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 is composed of two business segments:

- Distribution, the third largest power transmission/motion control industrial distributor in North America.

- Aerospace, a manufacturer and subcontractor in the international, commercial and military aerospace and defense markets.

Financial performance

- Net sales from continuing operations increased 7.8% compared to the prior year.

- Earnings from continuing operations increased 8.0% compared to the prior year.

- Diluted earnings per share from continuing operations, when compared to the prior year, increased 8.0% to \$2.03.

- Cash flows provided by operating activities from continuing operations were \$84.6 million for 2012, an increase of \$40.7 million when compared to the prior year.

- Our Distribution segment had record annual sales from continuing operations of \$1.0 billion.

Acquisitions completed during the year

- On August 31, 2012, we acquired substantially all of the assets and certain liabilities of Zeller Corporation ("Zeller") of Rochester, New York.

- On July 2, 2012, we acquired substantially all of the assets of Florida Bearings, Inc. ("FBI") of Miami, Florida.

Management Changes

- During the fourth quarter, Shawn G. Lisle was appointed Senior Vice President and General Counsel following the retirement of Candace A. Clark, the former Senior Vice President, Chief Legal Officer, and Secretary.

- During the fourth quarter, Richard S. Smith, Jr. was named Vice President, Deputy General Counsel and Secretary reporting to Mr. Lisle.

- During the first quarter, Greg T. Troy was appointed Senior Vice President - Human Resources, following the retirement of Lowell J. Hill, the former Senior Vice President - Human Resources.

Key events

- On February 23, 2012, we announced that our Distribution segment formed a strategic alliance with Wajax Industrial Components. We will join forces to compete for business-to-business and supply agreements with customers in multiple jurisdictions, providing an alternative to country-based supply agreements. The alliance will operate under the name Sourcepoint Industrial.

- We sold substantially all of the assets and liabilities of our Distribution segment's Canadian operations on December 31, 2012, and recorded a gain on the sale, net of tax, of \$1.3 million.

- On December 18, 2012, we announced the Distribution segment's national distributor agreement with Schneider Electric ("Schneider"), a global specialist in energy management. The Distribution segment is now a distributor for Schneider's line of industrial automation and control products as well as select power control and protection products commonly used in motor control applications.

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During the fourth quarter, we recorded a net loss of \$3.3 million associated with the resolution of an Aerospace segment program related matter.

In the fourth quarter of 2012, we were awarded a \$35.5 million commercial sales contract for our Joint Programmable Fuze ("JPF") from a foreign military.

We delivered 7,104 fuzes under our JPF program with the U.S. Government during the fourth quarter of 2012, for a total of 27,535 for the year ended December 31, 2012.

On November 20, 2012 we replaced our \$275.0 million revolving credit facility with a \$400.0 million revolving credit facility expiring on July 31, 2017. In addition, we replaced our \$42.5 million four-year term loan with a \$100.0 million term loan commitment expiring on July 31, 2017.

During the third quarter, a definitive agreement was signed by Kaman Aerospace Group and Kineco Private Limited to form a manufacturing joint venture in Goa, India, Kineco Kaman Composites - India, which closed on November 1, 2012. We began limited operations during the fourth quarter. The newly formed company manufactures advanced composite structures for aerospace, medical and other industries.

In July 2012, the U.S. Marine Corp approved the deployment extension of the Unmanned K-MAX®. This extension allows for K-MAX service in Afghanistan for an additional six months through March 2013, and includes an option to extend its time through September 2013.

Through December 31, 2012, we have made cumulative payments of \$33.1 million (AUD) to the Commonwealth of Australia in accordance with our settlement agreement related to the SH-2G(A) Helicopters. Of this amount, \$6.3 million (AUD) was paid in 2012.

In July 2012, we entered into a five-year contract with Aircelle to produce composite structures at our UK Composites facility.

During the second quarter, we signed a long-term agreement ("LTA") for the next multi-year contract on the Sikorsky BLACK HAWK helicopter cockpit program, which will allow us to continue to perform work under this program through 2017.

During the first quarter, we were awarded a \$31.1 million order from the United States Air Force ("USAF") under Option 8 of our JPF program.

On February 7, 2012, our common stock began trading on the New York Stock Exchange.

Outlook

As we look at 2013, we anticipate another year of progress toward our long-term goals, with growth in both our operating segments. We recognize that 2013 will present challenges for our business and anticipate that both reduced Department of Defense spending and declining industrial production will pose modest near term headwinds. We are closely monitoring the impact these matters could have on our results and believe we are prepared to manage through these issues. Our 2013 outlook is as follows:

Distribution:

Sales of \$1,080 million to \$1,115 million, up 6.7% to 10.2% over 2012 (sales from continuing operations)

Operating margins of 5.2% to 5.6%

Aerospace:

Sales of \$620 million to \$635 million, up 6.7% to 9.3% over 2012

Operating margins of 16.0% to 16.5%

Interest expense of approximately \$13.0 million

Corporate expenses of approximately \$50 million

Estimated annualized tax rate of approximately 35%

Capital expenditures of \$40 million to \$45 million

Free cash flow of \$35 million to \$40 million

RESULTS OF CONTINUING OPERATIONS

Consolidated Results

Net Sales from Continuing Operations

	2012	2011	2010
In thousands			
Distribution	\$1,012,059	\$930,131	\$813,416
Aerospace	580,769	547,403	486,516

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Total	\$1,592,828	\$1,477,534	\$1,299,932
\$ change	\$115,294	\$177,602	\$169,664
% change	7.8	% 13.7	% 15.0

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The increase in net sales from continuing operations for 2012 as compared to 2011 was attributable to an increase in organic sales at our Aerospace segment and the contribution of \$106.5 million in sales from the acquisitions completed in 2012 and 2011, partially offset by lower organic sales at our Distribution segment. Foreign currency exchange rates had a \$4.2 million unfavorable impact on sales from continuing operations during 2012.

The increase in net sales from continuing operations for 2011 as compared to 2010 was attributable to an increase in organic sales at both our segments and the contribution of \$87.5 million in sales from the acquisitions completed in 2011 and 2010. Foreign currency exchange rates had a \$2.6 million favorable impact on sales during 2011.

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

Gross Profit from Continuing Operations

	2012	2011	2010	
In thousands				
Gross profit	\$441,973	\$412,572	\$353,137	
\$ change	29,401	59,435	50,949	
% change	7.1	% 16.8	% 16.9	%
% of net sales	27.7	% 27.9	% 27.2	%

Gross profit from continuing operations increased in 2012 primarily due to the contribution of gross profit from our 2011 and 2012 acquisitions. The Distribution segment's organic gross profit slightly improved, despite the lower base sales. This was primarily due to increases in primary metal and fabricated metal manufacturing, nonmetallic mineral manufacturing and merchant wholesalers and durable goods, offset by declines in the food and beverage manufacturing industries, and the mining industry. The Aerospace segment had a slight decrease in gross profit due to the absence of commercial sales to foreign militaries of the JPF, lower shipments under our Sikorsky BLACK HAWK helicopter cockpit program due to lower customer requirements, a lower volume of work on our unmanned K-MAX aircraft system and \$3.3 million in net loss resulting from the resolution of an Aerospace segment program related matter and lower sales volume for our legacy fuze programs. These decreases were mostly offset by higher sales volume related to our bearing product lines in the commercial and regional / business jet markets and increased sales volume of the JPF to the USG.

Gross profit from continuing operations increased in 2011 primarily due to organic increases in gross profit at both our segments and the contribution of gross profit from our 2010 and 2011 acquisitions. The organic increase in gross profit in our Distribution segment was primarily a result of higher sales volume compared to the prior year and higher gross margin rates despite increased competitive price pressures. The organic increase in gross profit in our Aerospace segment was due to increased sales volume related to our bearing product lines for the commercial and regional / business jet markets, commercial sales to foreign militaries of the JPF, the contribution of gross profit from the K-MAX® unmanned aircraft systems and the absence of program related losses recorded in 2010. These increases were partially offset by decreased gross profit resulting from fewer shipments under our JPF program to the USG, lower volume in our helicopter aftermarket programs and a reduction in C-17 program volume.

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

	2012	2011	2010	
In thousands				
S,G&A	\$349,030	\$324,722	\$289,019	
\$ change	24,308	35,703	29,087	
% change	7.5	% 12.4	% 11.2	%
% of net sales	21.9	% 22.0	% 22.2	%

S,G&A expenses from continuing operations increased for 2012 as compared to 2011 due to \$23.3 million of expenses related to our 2012 and 2011 acquisitions, an increase in organic expense at our Distribution segment and higher corporate expenses. The increase in expense at our Distribution segment was attributable to an increase in employee related costs including group health insurance, and an increase in expense associated with the implementation of the new ERP system. Corporate expense increased \$7.3 million for 2012 as compared to 2011, with increases in our incentive compensation expense due to an increase in the number of participants, higher acquisition related costs, and the absence of the nonrecurring benefit of \$2.4 million associated with the death of a former executive received in 2011. Partially offsetting these increases is an organic decrease in expense at our Aerospace segment. The lower expense at our Aerospace segment was primarily due to the absence of a \$4.75 million expense associated with the settlement of the FMU-143 matter in 2011.

S,G&A increased for 2011 as compared to 2010 due to increased expenses in both of our segments, including \$15.9 million of expenses related to our 2010 and 2011 acquisitions. The higher expense at our Distribution segment was attributable to acquisitions and an increase in variable costs such as sales commissions and other employee related costs resulting from the higher sales volume. The increase in expense at our Aerospace segment was primarily due to the additional expenses resulting from the 2010 acquisition of Global Aerosystems, our 2011 acquisition of Vermont Composites, \$4.75 million in expense associated with the settlement of the FMU-143 matter and higher employee related costs. Corporate expense was relatively flat for 2011 as compared to 2010, with increases in our incentive compensation expense and group health insurance expense virtually offset by lower acquisition related costs, lower pension expense and a nonrecurring benefit of \$2.4 million associated with the death of a former executive.

Goodwill Impairment

	2012	2011	2010
In thousands			
Goodwill impairment	\$—	\$—	\$6,371

During the first quarter of 2010, we were informally notified by a customer of its intent to terminate a contract that had been obtained in our acquisition of U.K. Composites. No sales were recognized related to the contract in question during the year ended December 31, 2010. Throughout 2010, management worked with this customer to find an acceptable resolution and maintain the work there under. During the fourth quarter of 2010 we received a contract termination notice and, as a result, removed all future revenue and related profit associated with this contract from the reporting unit's projections when performing our annual test for impairment. This contract loss, in addition to a reduction in revenue for other programs, reduced the revenue and earnings growth forecast to levels below those anticipated at the reporting unit's acquisition in 2008, creating a situation in which Step 1 of the impairment analysis resulted in a fair value for the reporting unit below its carrying value. Upon completion of the Step 2 impairment analysis, we recorded a non-cash non-tax deductible goodwill impairment charge of \$6.4 million (representing 17% of the total goodwill balance for the reporting unit) to reduce the carrying value of goodwill to its implied fair value. This charge was included in the operating results of our Aerospace segment.

Operating Income from Continuing Operations

	2012	2011	2010	
In thousands				
Operating income	\$92,838	\$87,581	\$58,195	
\$ change	5,257	29,386	16,845	
% change	6.0	% 50.5	% 37.7	%
% of net sales	5.8	% 5.9	% 4.5	%

The increase in operating income from continuing operations for 2012 as compared to 2011 was driven by increases at both our segments. The increase in operating income for 2011 as compared to 2010 was primarily driven by a significant increase at our Distribution segment, offset slightly by a decrease at our Aerospace segment. See Segment Results of Operations and Financial Condition below for further discussion of segment operating income.

Interest Expense, Net

	2012	2011	2010
In thousands			
Interest expense, net	\$12,185	\$11,646	\$3,403

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 increase in net interest expense for 2012 as compared to 2011 was primarily due to higher average borrowings under our revolving credit facility and a higher average interest rate for the period, partially offset by lower bank commitment fees and letter of credit fees. At December 31, 2012, the interest rate for outstanding amounts on both the revolving credit facility and term loan agreement was 1.75% compared to 1.68% at December 31, 2011.

The increases in net interest expense for 2011 as compared to 2010 were primarily due to the absence of the \$6.6 million of look-back interest income received in 2010, interest expense on our convertible notes and higher amortization of capitalized fees, partly offset by lower interest rates on our revolving credit facility and lower average bank borrowings during the year.

Effective Income Tax Rate for Continuing Operations

	2012		2011		2010	
Effective income tax rate	33.3	%	34.5	%	36.5	%

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 2012 as compared to 2011 was due principally to the reversal of a liability for unrecognized tax benefits.

The decrease in the effective rate for 2011 as compared to 2010 was due to the non-cash non-tax deductible goodwill impairment charge of \$6.4 million recorded by the Aerospace segment in 2010 and the receipt of non-taxable life insurance proceeds in 2011.

Gain on Disposal of Discontinued Operations, Net of Tax

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 \$1.3 million. See 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 primary strategies for the Distribution segment are to grow and improve margins both organically and through acquisitions, broaden and improve our product offerings in mechanical, electrical and fluid power, expand our geographic footprint in major industrial markets in order to enhance our position in the competition for regional and national accounts, and improve productivity and customer service through investments in technology and the effective

integration of acquisitions.

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Results of Operations

	2012	2011	2010	
In thousands				
Net sales	\$1,012,059	\$930,131	\$813,416	
\$ change	81,928	116,715	183,844	
% change	8.8	% 14.3	% 29.2	%
Operating income	\$50,560	\$46,894	\$30,005	
\$ change	3,666	16,889	18,010	
% change	7.8	% 56.3	% 150.2	%
% of net sales	5.0	% 5.0	% 3.7	%
	2012 vs. 2011	2011 vs. 2010		
Organic Sales Per Sales Day				
Net sales	\$1,012,059	\$930,131	\$930,131	\$813,416
Acquisition sales	85,272	1,626	53,917	—
Organic sales	\$926,787	\$928,505	\$876,214	\$813,416
Sales days	253	253	253	252
Organic sales per sales day ^(a)	\$3,663	\$3,670	\$3,463	\$3,228
% change	(0.2)	% 13.7	% 7.3	% 29.7

(a)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 divided by the number of sales days. An acquisition is included in organic sales beginning with the thirteenth month following the date of acquisition. See Management's Discussion and Analysis of Financial Condition and Results of Operations - Non-GAAP Financial Measures.

Net Sales

Net sales for 2012 increased as compared to 2011 due to the contribution of \$85.3 million in sales for 2012 from our 2012 and 2011 acquisitions. The Distribution segment's organic sales decreased slightly from 2011. As a result of current economic conditions, the industries in which this segment operates experienced slower growth during 2012. Specifically, there were declines in the food and beverage manufacturing industries, mining industry and machinery manufacturing industry, mostly offset by increases in primary metal and fabricated metal manufacturing, nonmetallic mineral manufacturing and merchant wholesalers and durable goods.

Net sales for 2011 increased as compared to 2010 due to a 7.3% increase in organic sales, when measured on a same day sales basis, with our 2011 and 2010 acquisitions contributing \$53.9 million in sales for 2011. The growth in organic sales was due to increases in sales volume to both Original Equipment Manufacturer ("OEM") and Maintenance, Repair and Operations ("MRO") customers and the impact of favorable foreign currency exchange rates for 2011 of \$0.4 million.

Operating Income

Operating income increased during 2012 as compared to 2011 primarily due to the increased sales volume as a result of our 2012 and 2011 acquisitions. The increases were partially offset by an increase in employee related costs, including group health insurance, and an increase in expense associated with the implementation of our new ERP system.

Operating income increased during 2011 as compared to 2010 primarily due to the increased sales volume and the resulting impact on our ability to leverage operating costs, higher gross margin and the contribution of operating income from our 2011 acquisitions. The increases were partially offset by an increase in variable costs such as sales commissions and other employee related costs resulting from the higher sales volume.

Other Matters

Parker

We continue the process of implementing our national reseller agreement with Parker Hannifin Corporation ("Parker") hydraulics, fluid connectors and automation products via their select Tri-Motion distributors. We have made progress toward the conversion of several brands of fluid power products to Parker and will continue training initiatives in the coming quarters as we transition our customers' requirements. Sales of Parker branded products, when measured on a same store basis, were up 19.4% in 2012 as compared to the prior year; however, this growth has been more than offset by declines in the other fluid power brands. We believe our relationship with Parker is an important long-term marketing and strategic growth initiative for our Distribution segment.

Schneider

During the fourth quarter, the Distribution segment entered into a national distributor agreement with Schneider Electric, a global leader in electrical energy management. We will now distribute Schneider's line of industrial automation and control products commonly used in factory automation and motor control applications. As part of the agreement, Schneider will become the segment's primary line of AC drives, sensors, low voltage controls and automation. The deal also authorizes the sale of Schneider Electric Programmable Logic Controllers (PLCs), Human Machine Interfaces (HMIs) and signaling equipment. We expect to begin stocking these products at locations throughout the U.S. in the first quarter of 2013.

Enterprise Resource Planning System

In July 2012, we announced our decision to invest in a new enterprise-wide business system for our Distribution segment. The current anticipated total investment in the new system is approximately \$45 million, which will be spread over a number of years. Of the total investment, approximately 75% will be capitalized. Depreciation and amortization of the capitalized cost is expected to begin in 2013 and increase over the following three to four years. In order to minimize disruptions to our ongoing operations we have developed a project plan that takes a phased approach to implementation and includes appropriate contingencies. During the year ended December 31, 2012, we incurred approximately \$1.3 million of expense associated with the implementation of the new system.

Aerospace Segment

Our Strategy

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

Results of Operations

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

	2012	2011	2010
In thousands			
Net sales	\$580,769	\$547,403	\$486,516
\$ change	33,366	60,887	(14,180)
% change	6.1	% 12.5	% (2.8)%
Operating income	\$89,142	\$80,424	\$67,151
\$ change	8,718	13,273	(7,845)

% change	10.8	% 19.8	% (10.5)%
% of net sales	15.3	% 14.7	% 13.8	%

Net Sales

Net sales increased for 2012 as compared to 2011 due to:

- increased shipments to the USG of the JPF;
- an increase in sales volume of our bearings products;
- the incremental contribution of sales from the acquisition of Vermont Composites in 2011;
- increased deliveries under our Boeing A-10 program;
- an increase in sales volume on our commercial composite programs;
- higher volume of sales on our K-MAX commercial spares and related parts programs;
- higher volume of sales on our Bell blade program;
- increased shipments on the Boeing 777 due to customer requested rate increases; and
- the receipt of \$2.5 million related to the resolution of a program related matter during the fourth quarter.

These increases were partially offset by:

- lower commercial sales of the JPF to foreign militaries;
- lower shipments under our Sikorsky BLACK HAWK helicopter cockpit program due to lower customer requirements;
- a lower volume of work on our unmanned K-MAX aircraft system;
- a decrease in sales volume on our legacy fuze programs;
- a decrease in sales volume on our helicopter aftermarket programs, including the SH-2G(E) upgrade program, SH-2G spare parts to New Zealand and our blade erosion coating program;
- lower volume on our helicopter offload programs, specifically the phase-out of joining and installation work under the Sikorsky offload program;
- a decrease in engineering design services for commercial platforms primarily driven by customer requirements; and
- an unfavorable impact of currency exchange rate changes of \$2.5 million.

Net sales increased for 2011 as compared to 2010 due to:

- an increase in sales volume on bearings products;
- the incremental contribution of sales from the acquisition of Global Aerosystems and Vermont Composites;
- work on the U.S. Naval Air Systems Command contract for K-MAX® unmanned aircraft systems;
- an increase in commercial sales of the JPF fuze to foreign militaries;
- higher volume on the Egypt SH-2G(E) upgrade program;
- an increase in sales volume on our legacy fuze programs; and
- changes in foreign currency exchange rates which favorably impacted sales by \$2.3 million.

These increases were partially offset by:

- reduced shipments to the USG of the JPF fuze resulting from issues encountered during acceptance testing that interrupted production at various times throughout the year;
- reduced requirements under our Sikorsky BLACK HAWK helicopter cockpit program;
- reduced volume on our C-17 program; and
- lower volume on our helicopter after market programs, including blade erosion coating programs.

Operating Income

Operating income increased for 2012 as compared to 2011 due to:

increased gross profit due to higher shipments of the JPF to the USG;
increased gross profit due to higher sales volume on our bearings products primarily in the commercial, business/regional jet, helicopter and military markets;
decreased SG&A costs, including the absence of costs associated with the settlement of the FMU-143 matter in 2011 and related legal fees;
higher gross profit on our K-MAX commercial spares and related parts programs; and
the incremental contribution of operating income from Vermont Composites.

These increases were partially offset by:

- lower commercial sales of the JPF to foreign militaries;
- lower gross profit on our legacy fuze programs;
- lower shipments under our Sikorsky BLACK HAWK programs due to reduced customer requirements;
- lower volume of work on our unmanned K-MAX aircraft system;
- lower volume of work on our helicopter aftermarket programs, including the SH-2G(E) upgrade program and sales of SH-2G spare parts to New Zealand;
- a net loss of \$3.3 million related to the resolution of a program related matter; and
- additional losses recorded on the Sikorsky Canadian MH-92 helicopter program.

Operating income increased for 2011 as compared to 2010 due to:

- higher gross profit generated by our bearings products resulting from the increased sales volume noted above;
- contribution of gross profit from the K-MAX® unmanned aircraft systems;
- the absence of program related losses experienced in 2010 on the Sikorsky Canadian MH-92 program and on one of our fuze programs; and
- operating income contributed by Global Aerosystems and to a lesser extent Vermont Composites.

These increases were partially offset by \$6.2 million in expense associated with the settlement of the FMU-143 matter and decreased gross profit on our helicopter aftermarket programs due to decreased volume and a decrease in gross profit on our JPF program as a result of the suspension of deliveries due to production issues encountered in the second half of 2011.

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

Revenue and cost estimates for all significant long-term contracts for which revenue is recognized using the percentage-of-completion method of accounting are reviewed and reassessed quarterly. Based upon these reviews, 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. The net decrease in our operating income from changes in contract estimates totaled \$4.7 million for the year ended December 31, 2012, \$2.7 million for the year ended December 31, 2011, and \$8.9 million for the year ended December 31, 2010. These decreases were primarily driven by cost growth on aerostructure assemblies and additional cost for our JPF program.

Backlog

	2012	2011	2010
In thousands			
Backlog	\$531,923	\$531,920	\$532,630

The backlog balance remained consistent from 2011 to 2012; however, the composition of backlog changed. Backlog related to our JPF program decreased by \$59.4 million, which was primarily offset by a \$31.3 million increase in our UH-60 backlog and a \$14.8 million increase in backlog for our commercial composites programs.

The backlog balance decreased slightly from 2010 to 2011. Vermont Composites, acquired in the fourth quarter of 2011, added \$18.9 million to our December 31, 2011 backlog. This increase was offset by a \$47.5 million reduction in the UH-60 backlog.

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 U.S. Air Force'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 U.S. Air Force. Initial deliveries under this program began in the third quarter of 2010; however, our customer's scheduling changed and the timing of deliveries shifted. Full rate production for this program began during the fourth quarter of 2012. Approximately 24 ship sets were delivered in 2012.

Bearings

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

BLACK HAWK

The Sikorsky BLACK HAWK helicopter cockpit program involves the manufacture of cockpits including the installation of all wiring harnesses, hydraulic assemblies, control pedals and sticks, seat tracks, pneumatic lines, and the composite structure that holds the windscreen for most models of the BLACK HAWK helicopter. During the year-ended December 31, 2012, we delivered 124 cockpits compared to 163 cockpits for the same period in 2011. The decline is due to a reduction in the requirements of our customer. On May 30, 2012, we signed a long-term agreement ("LTA") for the next multi-year contract for this program, which will allow us to continue to perform work under this program through 2017. Orders placed to date for the program will allow us to continue deliveries through 2013. Included in backlog at December 31, 2012 is \$88.7 million for orders under this program.

The segment also performs additional subcontract work involving blade erosion coating on this aircraft. During the fourth quarter, this program was put on stop work by the customer, due to a supplier related matter.

AH-1Z

The segment manufactures cabins for the increased capability AH-1Z attack helicopter, which is produced by Bell Helicopter ("Bell") for the U.S. Marine Corps. The cabin is the largest and most complex airframe structure utilized in the final assembly of the AH-1Z helicopter and has not been manufactured new since 1995. We currently have \$32.9 million in backlog for orders under this program; with potential follow-on options the program value could exceed \$200.0 million. This program has experienced delays due to the complexity of the assembly. We have worked with our customer to resolve these issues and expect the first cabin delivery in the first half of 2013.

C-17

The segment continues production of structural wing subassemblies for the Boeing C-17. We have received orders under this program that will extend our work through the third quarter of 2013. During 2012, we delivered 11.5 ship sets. We expect to ship 10 ship sets in 2013.

Egypt SH-2G(E)

The segment continues work under a program for depot level maintenance and upgrades for nine Kaman SH-2G(E) helicopters originally delivered to the Egyptian government during the 1990s. This program has a total contract value of approximately \$81.0 million. As of December 31, 2012, \$7.0 million remains in backlog for this program.

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

We manufacture the JPF, an electro-mechanical bomb safe and arming device, which allows the settings of a weapon to be programmed in flight. During 2009, we entered into a contract modification with the USAF for the award of Options 6, 7 and 8 under our multi-option JPF contract. Under Option 8, we were awarded a total of \$79.2 million in JPF orders from the USAF for fuzes to be delivered in 2012 and 2013. Additionally, during the fourth quarter of 2012 we were awarded a \$35.5 million commercial sales contract for JPF from a foreign military. Total JPF backlog at December 31, 2012, is \$65.6 million.

A total of 7,104 fuzes passed acceptance testing and were delivered to our customer during the fourth quarter, for a total of 27,535 fuzes delivered in 2012. The product line continues to perform above contract requirements for lot acceptance and operational reliability has been in excess of 99%. 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 systematic ones. As a result, identifying a root cause can take longer and result in less smooth delivery performance from quarter to quarter. Test failures did occur during 2012 and we worked closely with our customer to review our findings and ensure appropriate corrective actions were taken. We continue to perform lot acceptance testing on fuze components and we expect to deliver approximately 17,000 to 22,000 fuzes in 2013.

MH-92

The Sikorsky Canadian MH-92 helicopter program includes the manufacture and assembly of composite tail rotor pylons. This program has undergone numerous customer directed design changes that caused costs on this program to exceed the originally proposed price for the contract. During 2010, we finalized contract price negotiations for this program increasing the contract value from \$6.0 million to approximately \$11.0 million. Although we received additional consideration for this contract we were not able to recover all the anticipated cost growth and because the price was less than anticipated we recorded a \$2.0 million contract loss during the third quarter of 2010. To date, we have recorded \$8.0 million in contract losses, \$1.2 million of which was recorded in 2012. As of December 31, 2012, we have nine units left to ship under this program.

Commercial Markets

777 / 767

In late 2007, we signed a seven-year follow-on contract with Boeing for the production of fixed wing trailing edge assemblies for the Boeing 777 and 767 aircraft. During 2012, on average we delivered 7 ship sets per month on the Boeing 777 platform and 2 ship sets per month on the Boeing 767. For 2013, we currently estimate deliveries on the 777 program to slightly increase while deliveries on the 767 will decline to approximately 1.5 ship sets per month. This multi-year contract has a potential value in excess of \$100 million; however, annual quantities will vary, as they are dependent upon the orders Boeing receives from its customers.

Airbus

Our U.K. Composites operations provide composite components for many Airbus platforms. The most significant of these are the A320, A330, A340 and A350. Orders for all of these platforms are dependent on the customer's build rate. During 2012 we entered into a contract with Aircelle to produce composite structures for the A330 platform at our U.K. Composites facility. Additionally, we received an award letter in the fourth quarter for work on the A320neo platform. Final contract negotiations are in process.

Bearings

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

Bell Helicopter

In September 2009, we were awarded a five-year contract with a potential value of \$53.0 million to build composite helicopter blade skins and skin core assemblies for Bell Helicopter. Under the terms of the contract, we are providing 18 different assemblies for H1, 406, 407, 412, 427, 429, 430 and BA609 aircraft. All work is being performed at our full-service aerospace innovation and manufacturing support center in Bloomfield, Connecticut. First article deliveries to Bell's Hurst, Texas facility began in late 2009, with full production starting in the first quarter of 2010. Included in backlog at December 31, 2012 is \$17.2 million for orders under this program. Annual quantities for this program will vary, as they are dependent upon the orders Bell receives from its customers.

Other Matters

SH-2G(I)

Negotiations regarding a potential sale of SH-2G(I) Super Seasprite Helicopters to the Government of New Zealand are in process. No investment decisions have been made by New Zealand at this time and we continue to market the eleven SH-2G(I) aircraft, spare parts and equipment to other potential customers.

Sequestration

The BCA enacted 10-year discretionary spending caps which are expected to generate over \$1 trillion in savings for the U.S. Government, a substantial portion of which comes from DoD baseline spending reductions. On January 2, 2013, the ATRA was signed into law, which among other things effectively delayed the implementation of the automatic sequestration process by approximately two months and reduced the spending cuts that were scheduled to occur during 2013 in proportion to the delay. Although we cannot predict where these cuts will be made, we believe our portfolio of programs and product offerings are well positioned and will not be materially impacted by such proposed DoD budget cuts. We conducted a program by program review of our Aerospace segment to better assess the potential impact that sequestration may have on us, and our initial analysis, conducted during the fourth quarter of 2012, indicates that approximately \$20 million to \$25 million of revenue is at risk for 2013. While significant, this is less than one and a half percent of our anticipated consolidated revenue, and any decline is expected to be more than offset by increased sales on our commercial programs due to production rate increases at Boeing and Airbus, as well as increased revenues on the AH-1Z and A-10 programs.

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 \$40.0 to \$45.0 million in 2013, 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 revenue sharing arrangement with the Commonwealth of Australia; and
- the cost of existing environmental remediation matters;
- Required pension and Supplemental Employees' Retirement Plan ("SERP") contributions; or
- The extension of payment terms by our customers.

However, we do not believe any of these matters will lead to a shortage of capital resources or liquidity that would prevent us from continuing with our business operations as expected.

We regularly monitor credit market conditions to identify potential issues that may adversely affect, or provide opportunities for, the securing and/or pricing of additional financing, if any, that may be necessary to continue with our growth strategy and finance working capital requirements. This is evidenced by our new Credit Agreement entered into during the fourth quarter of 2012 and our \$115.0 million issuance of convertible notes in November 2010.

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

Pursuant to the terms of the revenue sharing agreement with the Commonwealth of Australia, we will share all proceeds from the resale of the SH-2G(I), formerly SH-2G(A), aircraft, spare parts, and equipment with the Commonwealth on a predetermined basis. Minimum payments of at least \$39.5 million (AUD) must be made to the Commonwealth regardless of sales. Cumulative payments of \$33.1 million (AUD) have been made through December 31, 2012. An additional payment of \$6.4 million (AUD) must be paid on March 14, 2013, to the extent that cumulative payments have not yet reached \$39.5 million (AUD) as of that date.

To secure these payments, we have provided the Commonwealth with an unconditional letter of credit, which is being reduced as such payments are made. As of December 31, 2012, the U.S. dollar value of the remaining \$6.4 million (AUD) required payment was \$6.7 million. See Note 6, Derivative Financial Instruments, in the Notes to Consolidated Financial Statements included in this Form 10-K, for further information.

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

	2012	2011	2010	12 vs. 11	11 vs. 10
	(in thousands)				
Total cash provided by (used in):					
Operating activities	\$84,580	\$43,861	\$36,763	\$40,719	\$7,098
Investing activities	(117,856)	(106,116)	(86,896)	(11,740)	(19,220)
Financing activities	39,640	45,473	65,389	(5,833)	(19,916)
Free Cash Flow ^(a) :					
Net cash provided by (used in) operating activities	\$84,580	\$43,861	\$36,763	\$40,719	\$7,098
Expenditures for property, plant and equipment	(32,569)	(28,816)	(21,472)	(3,753)	(7,344)
Free cash flow	\$52,011	\$15,045	\$15,291	\$36,966	\$(246)

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

2012 vs. 2011

Net cash provided by operating activities of continuing operations increased \$40.7 million in 2012 compared to 2011, primarily due to the following:

- increased net earnings, driven by increased operating income at both our segments.
- decreased contributions to the qualified pension plan; and
- decreases in our accounts receivable balances due to improved collections.

Net cash used in investing activities of continuing operations increased \$11.7 million due to an increases in cash used for acquisitions and the purchase of property, plant and equipment, including the new ERP system at our Distribution segment. T