

KAMAN Corp  
Form 10-K  
February 23, 2015

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, 2014

Commission File No. 001-35419

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 27, 2014, (the last business day of the Company's most recently completed second quarter) of the voting common stock held by non-affiliates of the registrant, computed by reference to the closing

price of the stock, was approximately \$1,134,777,043.

At January 30, 2015, there were 27,140,073 shares of Common Stock outstanding.

Documents Incorporated Herein By Reference

Portions of our definitive proxy statement for our 2015 Annual Meeting of Shareholders are incorporated by reference into Part III of this Report.

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Kaman Corporation  
Index to Form 10-K

Part I

Item 1	<u>Business</u>	<u>3</u>
Item 1A	<u>Risk Factors</u>	<u>10</u>
Item 1B	<u>Unresolved Staff Comments</u>	<u>19</u>
Item 2	<u>Properties</u>	<u>20</u>
Item 3	<u>Legal Proceedings</u>	<u>21</u>
Item 4	<u>Mine Safety Disclosures</u>	<u>22</u>

Part II

Item 5	<u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>23</u>
Item 6	<u>Selected Financial Data</u>	<u>25</u>
Item 7	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>27</u>
Item 7A	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>57</u>
Item 8	<u>Financial Statements and Supplementary Data</u>	<u>58</u>
Item 9	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>107</u>
Item 9A	<u>Controls and Procedures</u>	<u>107</u>
Item 9B	<u>Other Information</u>	<u>107</u>

Part III

Item 10	<u>Directors, Executive Officers and Corporate Governance</u>	<u>108</u>
Item 11	<u>Executive Compensation</u>	<u>108</u>
Item 12	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>108</u>
Item 13	<u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>108</u>
Item 14	<u>Principal Accounting Fees and Services</u>	<u>108</u>

Part IV

Item 15	<u>Exhibits, Financial Statement Schedules</u>	<u>109</u>
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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 2014 developments is included in Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations, in this Form 10-K.

#### Distribution Segment

The Distribution segment brings our commitment to technological leadership and value-added services to the distribution business. The Distribution segment is a leading power transmission, motion control, electrical and automation, and fluid power industrial distributor with operations throughout the United States. We provide products including bearings, mechanical and electrical power transmission, fluid power, motion control, automation, material handling components, electrical control and power distribution, and MRO supplies to a broad spectrum of industrial markets throughout the United States. Locations consist of over 240 branches, distribution centers and call centers across the United States (including Puerto Rico). We offer approximately four million items, as well as value-added services, to over 65,000 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. Additionally, the Company maintains an investment in a joint venture in India.

#### FINANCIAL INFORMATION ABOUT OUR SEGMENTS

Financial information about our segments is included in Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations, and Note 19, Segment and Geographic Information, of the Notes to Consolidated Financial Statements, included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.

#### WORKING CAPITAL

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

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

Our Aerospace segment's working capital requirements are dependent on the nature and life cycles of the programs for which work is performed. New programs may initially require higher working capital to complete nonrecurring start-up activities and fund the purchase of inventory and equipment necessary to perform the work. Non-recurring start-up costs on large and complex programs often take longer to recover, negatively impacting working capital in the short-term and producing a corresponding benefit in future periods. As these programs mature and efficiencies are gained in the production process, working capital requirements generally decrease.

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

## PRINCIPAL PRODUCTS AND SERVICES

The following 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,				
	2014		2013		2012
Distribution	64.7	%	62.9	%	62.9 %
Aerospace	35.3	%	37.1	%	37.1 %
Total	100.0	%	100.0	%	100.0 %

## AVAILABILITY OF RAW MATERIALS

While we believe we have sufficient sources for the materials, components, services and supplies used in our manufacturing activities, we are highly dependent on the availability of essential materials, parts and subassemblies from our suppliers and subcontractors. The most important raw materials required for our aerospace products are aluminum (sheet, plate, forgings and extrusions), titanium, nickel, copper and composites. Many major components and product equipment items are procured from or subcontracted on a sole-source basis with a number of domestic and non-U.S. companies. Although alternative sources generally exist for these raw materials, qualification of the sources could take a year or more. We are dependent upon the ability of a large number of suppliers and subcontractors to meet performance specifications, quality standards and delivery schedules at anticipated costs. While we maintain an extensive qualification system to control risk associated with such reliance on third parties, failure of suppliers or subcontractors to meet commitments could adversely affect production schedules and contract profitability, while jeopardizing our ability to fulfill commitments to our customers. Although 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 the Company include KAflex®, KAron®, and K-MAX®. In all, we maintain 18 U.S. and foreign trademarks.

## BACKLOG

The majority of our backlog is attributable to the Aerospace segment. We anticipate that approximately 79.9% of our backlog at the end of 2014 will be performed in 2015. Approximately 57.5% of the Aerospace segment's backlog at

the end of 2014 is related to U.S. Government contracts or subcontracts.

4

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Total backlog at December 31, 2014, 2013 and 2012, and the portion of the backlog we expect to complete in 2015, is as follows:

	Total Backlog at December 31, 2014	2014 Backlog to be completed in 2015	Total Backlog at December 31, 2013	Total Backlog at December 31, 2012
In thousands				
Aerospace	\$518,025	\$399,916	\$601,954	\$531,923
Distribution	70,154	70,154	50,667	47,607
Total	\$588,179	\$470,070	\$652,621	\$579,530

Backlog related to uncompleted contracts for which we have recorded a provision for estimated losses was \$3.0 million as of December 31, 2014. There was no amount in backlog that was firm but not yet funded at December 31, 2014. See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations for further discussion.

## REGULATORY MATTERS

### Government Contracts

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

During 2014, approximately 98.3% of the work performed by the Company directly or indirectly for the USG was performed on a fixed-price basis and the balance was performed on a cost-reimbursement basis. Under a fixed-price contract, the price paid to the contractor is negotiated at the outset of the contract and is not generally subject to adjustment to reflect the actual costs incurred by the contractor in the performance of the contract. Cost reimbursement contracts provide for the reimbursement of allowable costs and an additional negotiated fee.

### Compliance with Environmental Protection Laws

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

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

See Environmental Matters in Item 3, Legal Proceedings, and Critical Accounting Estimates - Environmental Costs in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Note 16, Commitments and Contingencies, in the Notes to Consolidated Financial Statements, included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K, for further discussion of our environmental matters.



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

## International

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

Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 ("ITRA") added subsection (r) to section 13 of the Securities Exchange Act of 1934, as amended, (the "Exchange Act"), requiring a public reporting issuer to disclose in its annual or quarterly reports whether it or any of its affiliates have knowingly engaged in specified activities or transactions relating to Iran, including activities not prohibited by U.S. law and conducted outside the U.S. by non-U.S. affiliates in compliance with local law. Issuers must also file a notice with the U.S. Securities and Exchange Commission ("SEC") if any disclosable activities under ITRA have been included in the annual or quarterly report. We did not have any disclosable activities for the year ended December 31, 2014.

## COMPETITION

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

The Aerospace segment operates in a highly competitive environment with many other organizations, some of which are substantially larger than us and have greater financial strength and more extensive resources. We compete for composite and metallic aerostructures subcontracts, 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 include small machine shops and offshore manufacturing facilities. We compete for engineering design services business primarily on the basis of technical competence, the reputation of our business, the availability of our personnel and price. We compete for advanced technology fuzing business primarily on the basis of technical competence, product quality and price; and also on the basis of our experience as a developer and manufacturer of fuzes for particular weapon types and the availability of our facilities, equipment and personnel. We are also affected by the political and economic circumstances of our potential foreign customers.

## RESEARCH AND DEVELOPMENT EXPENDITURES

Government funded research expenditures (which are included in cost of sales) were \$1.6 million in 2014, \$3.3 million in 2013, and \$7.8 million in 2012. Independent research and development expenditures (which are included in selling, general and administrative expenses) were \$6.7 million in 2014, \$7.2 million in 2013, and \$5.5 million in 2012.

## EMPLOYEES

As of December 31, 2014, we employed 4,797 individuals.

## FINANCIAL INFORMATION ABOUT GEOGRAPHIC AREAS

Financial information about geographic areas is included in Note 19, Segment and Geographic Information, of the Notes to Consolidated Financial Statements, included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.

## AVAILABLE INFORMATION

We are subject to the reporting requirements of the Exchange Act and its rules and regulations. The Exchange Act requires us to file reports, proxy statements and other information with the SEC. Copies of these reports, proxy statements and other information can be read and copied at:

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

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

We make available, free of charge on our website, our annual reports on Form 10-K, quarterly reports on Form 10-Q, proxy statements, and current reports on Form 8-K as well as amendments to those reports filed or furnished pursuant to Section 13 or 15(d) of the Exchange Act, together with Section 16 insider beneficial stock ownership reports, as soon as reasonably practicable after we electronically file these documents with, or furnish them to, the SEC. These documents are posted on our website at [www.kaman.com](http://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, our Certificate of Incorporation, By-Laws, Governance Principles and all Board of Directors' standing Committee Charters (Audit, Corporate Governance, Personnel & Compensation and Finance). These documents are posted on our website at [www.kaman.com](http://www.kaman.com) — select the “Investor Relations” link and then the “Corporate Governance” link.

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

## EXECUTIVE OFFICERS OF THE REGISTRANT

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

Name	Age	Position	Prior Experience
Neal J. Keating	59	Chairman, President, Chief Executive Officer and Director	Mr. Keating was appointed President and Chief Operating Officer as well as elected a Director of the company effective September 17, 2007. Effective January 1, 2008, he was appointed to the offices of President and Chief Executive Officer and effective March 1, 2008, he was appointed to the additional position of Chairman. Prior to joining the company, Mr. Keating served as Chief Operating Officer at Hughes Supply, a \$5.4 billion industrial distributor that was acquired by Home Depot in 2006. Prior to that, he held senior positions at GKN Aerospace, an aerospace subsidiary of GKN, plc, and Rockwell Collins Commercial Systems, and served as a board member of GKN plc and Agusta-Westland.
Steven J. Smidler	56	President of Kaman Industrial Technologies and Executive Vice President of Kaman Corporation	Mr. Smidler assumed the role of President of Kaman Industrial Technologies on September 1, 2010, after joining the company in December 2009 as Senior Vice President and Chief Operating Officer of Kaman Industrial Technologies. Effective February 20, 2012, he was appointed Executive Vice President of Kaman Corporation. Mr. Smidler joined the company from Lenze Americas Corporation where he served as Executive Vice President, with responsibility for marketing, sales, finance, business systems and product technology for the Americas. Mr. Smidler was also a member of the management committee of the Lenze Group, Germany, and held the position of President and Treasurer for Lenze Americas and served as Treasurer and a Board member for the Lenze ACTech production company. Prior to that, he served as Vice President, Americas Sales Operations at Eaton Corporation and Vice President, Marketing of the Global Manufacturing Group at Rockwell Automation, Inc.
Gregory L. Steiner	57	President of Kaman Aerospace Group, Inc. and Executive Vice President of Kaman Corporation	Mr. Steiner joined the company as President of Kaman Aerospace Group, Inc., with overall responsibility for the company's Aerospace segment, effective July 7, 2008. Effective February 20, 2012, he was appointed Executive Vice President of Kaman Corporation. From 2005 to 2007, Mr. Steiner was employed at GE Aviation-Systems, serving first as Vice President

and General Manager, Military Mission Systems and then as Vice President, Systems for GE Aviation-Systems. Prior to that, he served as Group Vice President at Curtiss-Wright Controls, Inc., with responsibility for four aerospace and industrial electronics businesses located in the U.S. and U.K. Before Curtiss Wright, he had an 18 year career with Rockwell Collins, Inc., serving in a number of progressively responsible positions, departing as Vice President and General Manager of Passenger Systems.

Mr. Galla has been Senior Vice President and Chief Information Officer since 1995. Mr. Galla has been responsible for the Company's management information systems since 1984. Mr. Goodrich, joined the company in 2009 as Vice President - Corporate Development and was named Senior Vice President - Corporate Development in February 2012. He was previously Senior Vice President, Corporate Development with Barnes Group, Inc., Bristol, Connecticut. Mr. Goodrich held similar positions with Ametek, Inc., Paoli, Pennsylvania; and General Signal Corporation, Stamford, Connecticut.

Ronald M. Galla 63 Senior Vice President and Chief Information Officer

Phillip A. Goodrich 58 Senior Vice President - Corporate Development

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Name	Age	Position	Prior Experience
Shawn G. Lisle	48	Senior Vice President and General Counsel	Mr. Lisle joined the company in 2011 and was appointed Senior Vice President and General Counsel effective December 1, 2012. Prior to joining the company, Mr. Lisle served as Senior Counsel for International Paper Company in Memphis, Tennessee. Prior to that, he served as legal counsel for Dana Corporation in Toledo, Ohio, and as an attorney at Porter Wright Morris & Arthur LLP in Columbus, Ohio. He also previously worked as a trial attorney at the U.S. Department of Justice, Tax Division in Washington, D.C. and was a Judge Advocate in the U.S. Navy.
Robert D. Starr	47	Senior Vice President and Chief Financial Officer	Mr. Starr was appointed Senior Vice President and Chief Financial Officer effective July 1, 2013. Mr. Starr joined the company in 2009 as Vice President - Treasurer. Prior to joining Kaman, Mr. Starr served as Assistant Treasurer at Crane Co. of Stamford, Connecticut, a \$2.6 billion diversified manufacturer of highly engineered industrial products. He also previously served as Managing Director, Corporate Finance at Aetna, Inc. of Hartford, Connecticut and as Director, Capital Markets and Risk Management at Fisher Scientific International, Inc. of Hampton, New Hampshire. Mr. Starr was also an associate at both Salomon Smith Barney in New York and Chase Securities, Inc. in New York and Singapore.
Gregory T. Troy	59	Senior Vice President – Human Resources and Chief Human Resources Officer	Mr. Troy joined the company as Senior Vice President – Human Resources in March 2012. On February 19, 2013, he was appointed to the position of Chief Human Resources Officer. Prior to joining the company, Mr. Troy served as Chief Human Resources Officer of Force Protection, Inc. from April 2011 to March 2012, where he was a member of the Executive Committee. Prior to joining Force Protection, Mr. Troy served as Vice President and Chief Human Resources Officer at Modine Manufacturing Company from February 2006 to April 2011, providing global human resources leadership in the Americas, Europe and Asia. Mr. Troy also previously worked in OMNOVA Solutions Inc., Bosch Corporation, and Mobil Corporation, after serving as a Transportation Officer in the United States Army. From April 2006 to April 2007, Mr. Tedone served as Vice President, Internal Audit and prior to that as Assistant Vice President, Internal Audit.
John J. Tedone	50	Vice President, Finance and Chief Accounting Officer	

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



## ITEM 1A. RISK FACTORS

Our business, financial condition, operating results and cash flows can be impacted by the factors set forth below, any one of which could cause our actual results to vary materially from recent results or from our anticipated future results.

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

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

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

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

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

The results of our Aerospace segment, which generated approximately 35.3% of our 2014 consolidated net sales, and approximately 65.7% of our 2014 operating income from continuing operations before corporate expenses, are directly tied to economic conditions in the commercial aviation and defense industries. 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 activity level of 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.