

FROM COMPLEXITY

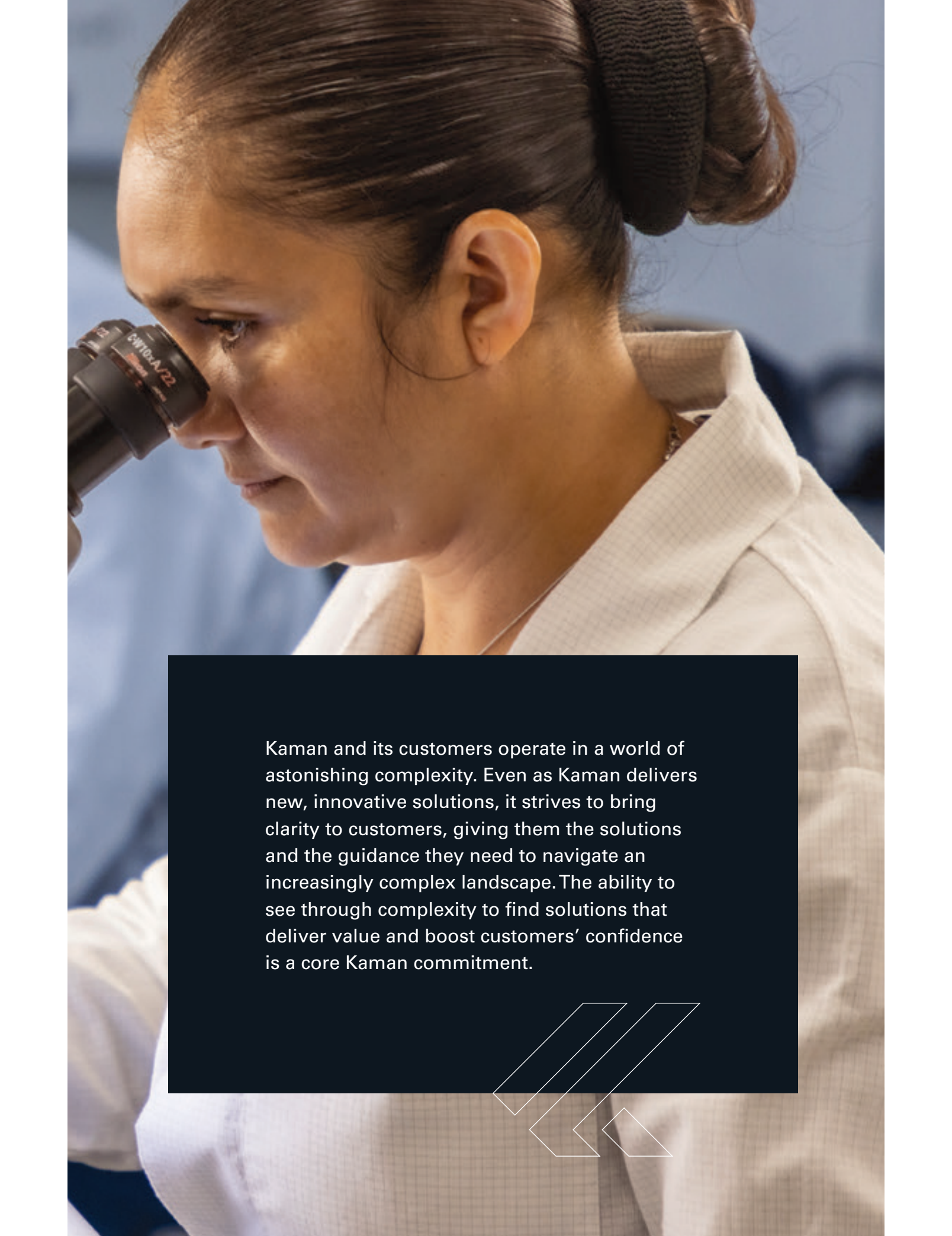


ANNUAL REPORT 2021

TO CLARITY

EXTEND YOUR REACH.

 **KAMAN**

A close-up, profile view of a woman with her hair in a bun, wearing a white lab coat. She is looking through the eyepiece of a microscope. The background is a blurred laboratory setting.

Kaman and its customers operate in a world of astonishing complexity. Even as Kaman delivers new, innovative solutions, it strives to bring clarity to customers, giving them the solutions and the guidance they need to navigate an increasingly complex landscape. The ability to see through complexity to find solutions that deliver value and boost customers' confidence is a core Kaman commitment.



At Kaman, we're innovators. Unconventional thinkers. And extremely versatile. We have a history of helping our customers envision and realize outcomes they couldn't reach on their own, looking at challenges from new directions and in new ways, and making the complex feel effortless.



ENGINEERED PRODUCTS



PRECISION PRODUCTS



STRUCTURES

COMPLEXITY

For decades, Aerospace manufacturers have strived to reduce weight and increase efficiency. As the industry evolves towards electric and hybrid-electric vertical takeoff and landing aircraft, or eVTOLs, these manufacturers are seeking ways to continue to push the boundaries to increase the range of their aircraft. To achieve this potential, many customers would like to use titanium as an opportunity to reduce weight for high-load or high-wear applications. However, when compared to steel, titanium has a relatively low hardness level and does not have comparable performance while sliding or under high loads.

CONQUERED

Kaman's proprietary Titanium Diffusion Hardening (TDH) process overcomes this critical challenge by providing the lightweight and high-strength benefits of titanium alloys while improving surface hardness, durability, and wear characteristics. Developed by our Kamatics subsidiary, this groundbreaking process is advancing views on how and when titanium can be used in applications where lightweight, highly durable solutions are needed. An initial order from a leading eVTOL manufacturer for components manufactured using TDH represents powerful validation of the potential of TDH, the most recent breakthrough in Kaman's 75-year record of innovation in aviation.

COMPLEXITY

As defense forces increasingly operate with smaller units and distributed teams operating across vast distances, the need for resilient, distributed logistics is expanding exponentially. Our warfighters' paramount need is to have equipment with the ability to operate in challenging and austere environments, while maintaining reliability, affordability, and easy maintenance, all with the added advantage of compact transportability and deployment.

CONQUERED

Building on the success of our unmanned K-MAX[®] helicopter, Kaman is developing *KARGO UAV*. Reliable, affordable, and maintainable, *KARGO UAV* self-deploys beyond 500 nautical miles and carries up to 800 pounds of payload. With built-in autonomy, *KARGO UAV* will be unconstrained by no-go terrain, will sense and avoid obstacles en-route, and deliver payloads with pinpoint accuracy.

KARGO UAV exemplifies Kaman's commitment to deploying advanced technology to anticipate the needs of the customers we serve. Having progressed from the initial concept for *KARGO UAV* to a full-scale model in just nine months, we anticipate testing a full-scale flying prototype in 2022.

COMPLEXITY

Aerospace companies are under intense pressure to meet their commitments to build and deliver products with superior quality and reliability. However, the complexity of global supply chains, and the mandate to maximize efficiency, pose a significant challenge to fulfilling this commitment.

CONQUERED

For decades, Kaman Aerospace Jacksonville has been a close supply chain partner to several of the world's largest aerospace companies, which rely on us to manufacture, assemble, and deliver products at a very high level of quality. Many of these customers find that partnering with Kaman for engineering and manufacturing expertise relieves the pressure on their own resources and delivers both a cost and a quality advantage. Partnering with Kaman also enables these companies to focus on proprietary applications where they can realize the most value.

This spirit of partnership is why one of the world's largest, most admired helicopter manufacturers, an 18-year customer of Kaman's Jacksonville facility, signed a follow-on contract in 2021 that extends this close, productive relationship through 2027.

DEAR SHAREHOLDERS,



The year 2021 continued to present significant challenges to our economy, our country, and our world. At Kaman, it was a year focused on building a new foundation, with new leadership who together have set forth a solid strategy for growth through innovation, implementation of a new operations excellence model, and continued portfolio reshaping. Despite the challenges that the ongoing pandemic presented, we forged ahead and made significant progress in advancing our strategic priorities. This progress is a strong testament to our 75 year legacy and the resilience, agility, and ingenuity of Kaman's employees.

In 2021, we launched new vision and mission statements. It was important to understand not only where we are but where we are going, and how we need to get there. Kaman has always been an innovation catalyst, helping our customers envision and realize outcomes they could not reach on their own. We work hand in hand with our customers every day to solve their toughest problems by striving to look at challenges from new directions and in new ways. With that in mind, our new vision and mission statements are as follows:

Our Vision

To propel our customers forward by imagining and delivering highly-engineered solutions.

Our Mission

To be the innovative force—in how we approach challenges, in how we deliver solutions, and in the products we create—that brings out the very best in everyone we work with, enabling our customers to achieve greater.

Helping our customers achieve greater will always be our core focus as an organization. Businesses demand versatility from their partners like never before, and that's the strength of our team. Kaman is an experienced, trusted, end-to-end solutions provider, and the connections Kaman can make from its diverse customer mix helps us drive innovations that other, more narrowly focused companies simply cannot match.

As part of our transformational journey, Kaman recently changed the presentation of its financial results to report three segments. The new segments are Engineered Products, Precision Products, and Structures. This segmentation aligns with the company's overarching strategy to provide better visibility to the performance of Kaman's portfolio in support of our capital allocation plans, portfolio management, and profitable growth. The new reporting segments will better align our strong brands and product capabilities across our businesses and provide more transparency to our investors and shareholders as well as highlight their respective paths to top quartile performance. Before I update you on each of these segments, let's review our 2021 financial results.

A LOOK AT 2021 RESULTS



\$709 Million

NET SALES

33.4%

GROSS MARGIN

\$48.7 Million

NET CASH FROM OPERATING
ACTIVITIES

11.0%

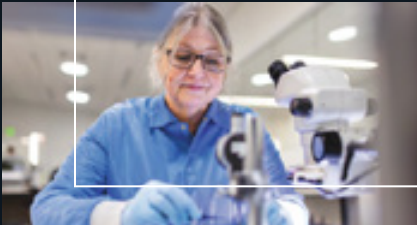
BACKLOG INCREASE

In 2021, Kaman delivered higher earnings from continuing operations despite lower sales contributing to our improved financial performance and cash flow generation. These results also underscore the benefits we receive from the diversity and mix of our product offerings, as well as the continued deployment of our operations excellence model into the DNA of all our businesses. We are focused on net working capital improvements, improving leadership, and teamwork, while providing a sustainable foundation to achieve our financial targets.

Sales from continuing operations decreased 9.6% in 2021, from \$784.5 million in 2020 to \$709.0 million. This

was due in large part to the sale of our UK operations early in 2021, and lower defense sales, which included the record Joint Programmable Fuze (JPF) sales volume recorded in the third quarter of 2020. The dip in revenue also reflects lower sales volume for certain aerospace structure programs. We had earnings from continuing operations of \$43.7 million in 2021 compared to a loss of \$70.4 million in 2020. Net cash provided by operating activities more than doubled year over year to \$48.7 million leading to total adjusted free cash flow generation of \$56.3 million in 2021. Importantly, we maintained our quarterly dividends, making 2021 the 52nd year of consecutive dividend payments.

REVIEW OF OPERATIONS



ENGINEERED PRODUCTS

Our Engineered Products segment serves the Aerospace & Defense, Industrial, and Medical markets providing sophisticated, proprietary aircraft bearings and components; super precision, miniature ball bearings; and proprietary spring energized seals, springs and contacts. We saw growth in a majority of the portfolio despite continued pressure in the commercial aerospace end market due to COVID-19. Demand continues to improve as commercial airline traffic rebounds and we ended the year with increasing order rates. We saw high demand for our springs, seals, and contacts in the medical and industrial end markets, which appear to be fully recovered and even outpacing pre-pandemic levels.

A particularly promising development in 2021 was an initial order from a leading electric

vertical takeoff and landing manufacturer for components manufactured using our proprietary Titanium Diffusion Hardening process. Our TDH process opens up new engineered applications by providing the lightweight and high strength benefits of titanium alloys while improving surface hardness, durability, and wear characteristics. In July 2021, the TDH process was utilized in a successful human space travel mission. The success of these efforts reflects our long-standing heritage of pushing the boundaries in material science and application engineering. We see significant opportunities to expand our product offering utilizing our TDH process across a broad range of end markets, including eVTOL, space, aerospace and defense, medical, and industrial.

PRECISION PRODUCTS

Our Precision Products segment serves the Aerospace and Defense markets, providing precision safe and arming solutions for missile and bomb systems for the U.S. and allied militaries; subcontract helicopter work; restoration, modification and support of our SH-2G Super Seasprite maritime helicopters; manufacture and support of our heavy lift K-MAX[®] manned helicopter, the *K-MAX TITAN* UAV aerial system unmanned helicopter and our

new *KARGO UAV* unmanned aerial system, a purpose-built autonomous medium lift logistics vehicle; and memory and measurement instruments for aerospace & defense and industrial applications.

In 2021, we successfully tested our new FireBurst[™] enhanced fusing capability, a height of burst sensor for laser guided bombs. The systems functioned as expected, detonating

at the programmed height above the target. We also delivered 29,080 Joint Programmable Fuzes (JPFs) and received an order under Option 16 of our JPF contract with the U.S. Air Force (USAF). This order has an expected value of approximately \$43 million for the procurement of JPFs for foreign militaries. Deliveries under Option 16 are expected to begin in 2022. We continue to attract and pursue other direct commercial sales for this product.

We made further progress on our K-MAX® programs in 2021 as well, delivering three heavy lift K-MAX® manned helicopters in the year and completing the first test flight of our new fully autonomous and optionally piloted system in April 2021. In October, we successfully demonstrated the capabilities of our unmanned helicopter *K-MAX TITAN UAV* aerial system integrated onto our K-MAX® aircraft, including autonomy and obstacle avoidance technology for the United States Marine Corps.

STRUCTURES

Our Structures segment serves the Aerospace & Defense and Medical end markets providing sophisticated complex metallic and composite aerostructures for commercial, military, general aviation fixed and rotary wing aircraft, and medical imaging solutions.

In 2021, this segment's focus on operational excellence and customer needs was recognized with two significant awards. Kaman Aerospace Jacksonville was awarded a follow on contract from Sikorsky valued at \$175.7 million over five years and was named Manufacturer of the Year by First Coast Manufacturing, based on criteria that included environmental, health and safety, continuous improvement, workforce and community engagement, and talent management. In addition, in 2021, Kineco Kaman Composites India Private Limited, our joint venture, was named a Gold Supplier of BAE

In September, the *KARGO UAV* unmanned aerial system was unveiled at an event on our Bloomfield campus with great success. With a clean sheet, built-in autonomy, *KARGO UAV* unmanned aerial system will be unconstrained by no-go terrain, will sense and avoid obstacles enroute, and deliver payloads with pinpoint accuracy. It is also designed for easy transport and deployment, fitting in a standard cargo container, and with only two personnel it can transition from full-stow to flight-ready in just minutes. *KARGO UAV* unmanned aerial system is a true game changing technology for our military customers who are trying to solve distributed logistics support across anticipated expeditionary advanced based operations as well as limitless commercial applications for logistics and cargo transport companies. We are already seeing interest for *KARGO UAV* unmanned aerial system from overseas customers and we recently achieved a Phase II award with the USAF Agility Prime program.

Systems and received the BAE Systems Partner 2 Win Supplier of the Year Award for Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance Systems. This award was granted for exceptional performance and contributions to supply chain success in the Electronic Systems sector for its efforts during 2020.

Our Structures segment continues to support defense programs for major OEMs. In August 2021, it delivered its 1500th inlet for the CH-47 Boeing Program. Also in 2021, we were awarded a contract by Boeing to manufacture the refueling boom assembly for the MH-47 program, an inflight refuelable version of the CH-47 Chinook helicopter. These milestones underscore the dedication of our highly experienced workforce, including many professionals who have been with Kaman for more than thirty years.

STRATEGIC PRIORITIES



2021 was not only a transformational year for Kaman but also for the industries we serve. Private companies are sending rockets into space with diverse advanced satellite payloads. Urban mobility and eVTOL OEMs continue to advance their platforms. Autonomous flight for military and commercial applications represent a fast growing need to lower costs, improve logistics services and more. Kaman is at the leading edge of this transformative moment, often in partnership with our customers, pushing the boundaries of what technology can do to deliver breakthrough solutions for

THE EXTRAORDINARY PROMISE OF THIS MOMENT IS REFLECTED IN OUR NEW TAGLINE, "EXTEND YOUR REACH," WHICH REFLECTS OUR UNCEASING EFFORTS TO INNOVATE AND IMPROVE SO OUR CUSTOMERS CAN SOLVE THEIR TOUGHEST CHALLENGES.

our customers. The extraordinary promise of these market advancements is reflected in our new tagline, "Extend Your Reach." This tagline embodies both Kaman's core values and our spirit of discovery, abundance of ideas, and the final innovative push our customers need to achieve and exceed their goals.

We are focusing on three strategic priorities to capitalize on this latest chapter in Kaman's remarkable history. First, we will grow our business through innovation. This means we will accelerate investments in our products, facilities, and people that allow us to achieve top quartile performance in the markets we serve. Our next-generation family of

autonomous aircraft systems, our Titanium Diffusion Hardening process for bearings, our micro-spring contact technology for seals, and our advancements in fuzing, sensors, and memory and measurement equipment are just a few examples of how Kaman is deploying innovative technology to deliver new and differentiated solutions.

Our second strategic priority is focused on disciplined M&A and capital allocation. We will expand our capabilities through accretive M&A while maintaining a disciplined approach to returning value to shareholders. In evaluating a potential acquisition, we look for technical leadership; exposure to high-growth end markets with global macro tailwinds; strong margins and cash flows from highly engineered proprietary products; potential synergies and an overall attractive financial profile in the markets we serve.

Our capital allocation framework is based on the following core principles: prioritizing value-creating, high-return investments and, as noted, strategic acquisitions; focusing on ROIC and total shareholder return.

Finally, our third strategic priority is operational excellence to drive significant improvement in our operating and financial performance. Three metrics will measure the impact of our operational excellence model: EBITDA margin, free cash flow conversion, and return on invested capital.

Underpinning these strategic priorities is our highly diversified portfolio of solutions serving growing end-markets. Individually, our defense markets, commercial, business and general aviation markets, medical markets, and industrial markets offer very attractive opportunities for investment. Together, they offer stability across all economic cycles.

AS WE MOVE INTO 2022,



As we move into 2022, I am confident Kaman is well-positioned to take full advantage of the opportunities that lie ahead. We are in the right markets with the right solutions at the right time. The strategic priorities I described above all build on—and expand upon—Kaman’s long-standing strengths: our spirit of innovation and growth, our focus on capital strength and strategic acquisitions, and our never-ending commitment to operational excellence.

What most encourages me every day as I look ahead are the more than 2,800 employees at Kaman’s 14 global locations, many of whom I have come to know since joining the company in 2020. You won’t find a more talented, dedicated, and resourceful team in our industry—in any industry, for that matter. I look forward to leading, working with, and supporting each and every one of them in 2022 and beyond to build an even stronger, more innovative Kaman for our customers, our shareholders, and our world.

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K**

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2021



Commission File No. 001-35419

KAMAN CORPORATION

(Exact name of registrant as specified in its charter)

Connecticut 06-0613548
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

1332 Blue Hills Avenue, Bloomfield, Connecticut 06002
(Address of principal executive offices) (Zip Code)

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock (\$1 par value)	KAMN	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 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

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

Yes No

Indicate by checkmark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

Yes No

The aggregate market value on July 2, 2021, (the last business day of the Company's most recently completed second quarter) of the voting and non-voting common stock held by non-affiliates of the registrant, computed by reference to the closing price of the stock, was approximately \$1,376,988,159 .

At January 28, 2022, there were 27,875,575 shares of Common Stock outstanding.

Documents Incorporated Herein By Reference

Portions of our definitive proxy statement for our 2021 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. As used in this annual report, "the Company", "we", "us", "our" refer to the registrant and its consolidated subsidiaries. We are a diversified company that conducts business in the aerospace and defense, medical and industrial markets. In the fourth quarter of 2021, our Chief Operating Decision Maker ("CODM") established a new structure for the Company to better align our products and brands to support capital allocation plans, portfolio management and growth, which resulted in the introduction of three reportable segments: Engineered Products, Precision Products and Structures. The CODM reviews operating results for the purposes of allocating resources and assessing performance based on these three segments.

The Company's principal customers include the U.S. military, foreign allied militaries, Sikorsky Aircraft Corporation, The Boeing Company, Airbus, Lockheed Martin, Rolls-Royce, Raytheon and Bell Helicopter. The SH-2G aircraft is currently in service with the Egyptian Air Force and the New Zealand, Peruvian and Polish navies. Operations are conducted throughout the United States, as well as in manufacturing facilities located in Germany, the Czech Republic, Mexico and Singapore. Additionally, the Company maintains an investment in a joint venture in India. In the year ended December 31, 2021, two individual customers, the U.S. Government ("USG") and a Joint Programmable Fuze ("JPF") direct commercial sales ("DCS") customer, accounted for more than 10% of consolidated net sales. Sales to the U.S. Government were primarily made by the Engineered Products and Precision Products segments and sales to the JPF DCS customer were made by the Precision Products segment.

Engineered Products Segment

The Engineered Products segment serves the aerospace and defense, industrial and medical markets providing sophisticated, proprietary aircraft bearings and components; super precision, miniature ball bearings; and proprietary spring energized seals, springs and contacts.

Precision Products Segment

The Precision Products segment serves the aerospace and defense markets providing precision safe and arming solutions for missile and bomb systems for the U.S. and allied militaries; subcontract helicopter work; restoration, modification and support of our SH-2G Super Seasprite maritime helicopters; manufacture and support of our heavy lift K-MAX® manned helicopter, the *K-MAX TITAN* unmanned aerial system and the *KARGO UAV* unmanned aerial system, a purpose built autonomous medium lift logistics vehicle.

Structures Segment

The Structures segment serves the aerospace and defense and medical end markets providing sophisticated complex metallic and composite aerostructures for commercial, military and general aviation fixed and rotary wing aircraft, and medical imaging solutions.

A discussion of 2021 developments is included in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in this 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 working capital requirements are dependent on the nature and life cycles of the programs for which work is performed. New programs may initially require higher working capital to complete nonrecurring start-up activities and fund the purchase of inventory and equipment necessary to perform the work. Nonrecurring start-up costs on large and complex programs often take longer to recover, negatively impacting working capital in the short-term and producing a corresponding benefit in future periods. As these programs mature and efficiencies are gained in the production process, working capital requirements generally decrease.

Our credit agreement is 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 14, *Debt*, of the Notes to Consolidated Financial Statements, included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.

PRINCIPAL PRODUCTS AND SERVICES

The following table sets forth the percentage contribution of each major product line to consolidated net sales for each of the three most recently completed years:

	Years Ended December 31,		
	2021	2020	2019
<i>Sales</i>			
Defense	23.8 %	23.0 %	23.4 %
Safe and Arm Devices	27.0 %	31.7 %	29.9 %
Commercial, Business, & General Aviation	26.1 %	28.1 %	36.9 %
Medical	12.2 %	8.9 %	3.8 %
Industrial & Other	10.9 %	8.3 %	6.0 %
Total	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>

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 products are aluminum (sheet, plate, forgings and extrusions), titanium, nickel, steel, copper, composites and adhesives. 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. The current economy has put pressure on the supply chain and we have experienced some shortages in raw materials which have impacted our near term results; however, we do not foresee any near term unavailability of materials, components or supplies that would have a material adverse effect on our business. 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.

CLIMATE CHANGE

There have been no, and we do not expect there to be in the near term, material impacts on our business, financial condition or results of operations as a result of compliance with legislation or regulatory rules regarding climate change, from the known physical effects of climate change or as a result of supporting our Environmental, Social and Governance ("ESG") initiatives. For further information on our ESG initiatives, refer to Information about the Board of Directors and Corporate Governance section of the Proxy Statement. Increased regulation and other climate change concerns, however, could subject us to additional costs and restrictions, and we are not able to predict how such regulations or concerns would affect our business, operations or financial results.

INTELLECTUAL PROPERTY

We use patented and unpatented proprietary information, know-how and trade secrets to develop, maintain and enhance our competitive position, but we believe our continued success depends more on the knowledge, ability, experience and technological expertise of our employees than the legal protection that our patents and other proprietary rights may afford. Moreover, while we rely on a combination of patents, trademarks, copyrights, trade secrets, nondisclosure agreements, physical and information technology security systems, internal controls and compliance systems and other measures to protect our intellectual property, data and technology rights and that of third parties with which we are entrusted, our ability to protect and enforce our intellectual property, data and technology rights may be limited by a variety of factors and may be even more limited in certain countries outside the U.S., as may be our ability to prevent theft or compromise of our intellectual property, data and technology by competitors or third parties.

As of December 31, 2021, we held a total of 404 patents, 117 of which were U.S. patents and 287 of which were foreign patents. In addition, we have numerous U.S. and foreign patents pending. The Company believes the duration of its patents is adequate relative to the expected lives of its products.

Trademarks are also an important aspect of our business. The availability and duration of trademark registrations vary by country; however, trademarks are generally valid and may be renewed indefinitely as long as they are in use and registrations are maintained. We sell products under a number of registered trademarks that we own. Registered trademarks of the Company include KAflex®, KAron®, and K-MAX®. In all, we maintain 99 U.S. and foreign trademarks as of December 31, 2021.

BACKLOG

We anticipate that approximately 58% of our backlog at the end of 2021 will be performed in 2022. Approximately 57.8% of our backlog at the end of 2021 is related to USG contracts or subcontracts.

Total backlog at December 31, 2021, 2020 and 2019, and the portion of the backlog we expect to complete in 2022, is as follows:

	Total Backlog at December 31, 2021	2021 Backlog to be completed in 2022	Total Backlog at December 31, 2020	Total Backlog at December 31, 2019
<i>In thousands</i>				
Engineered Products	\$ 169,144	\$ 150,647	\$ 134,257	\$ 134,532
Precision Products	180,082	138,382	293,261	439,336
Structures	351,697	120,304	203,718	233,002
Total	<u>\$ 700,923</u>	<u>\$ 409,333</u>	<u>\$ 631,236</u>	<u>\$ 806,870</u>

Backlog related to uncompleted contracts for which we have recorded a provision for estimated losses was \$1.2 million as of December 31, 2021. At December 31, 2021, there was no backlog related to firm but not yet funded orders. See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Note 1, *Summary of Significant Accounting Policies*, of the Notes to Consolidated Financial Statements, included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K, for further discussion.

REGULATORY MATTERS

Government Contracts

The 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 2021, approximately 94.7% of the work performed by the Company directly or indirectly for the USG was performed on a fixed-price basis and the balance was performed on a cost-reimbursement basis. Under a fixed-price contract, the price paid to the contractor is negotiated at the outset of the contract and is not generally subject to adjustment to reflect the actual costs incurred by the contractor in the performance of the contract. Cost reimbursement contracts provide for the reimbursement of allowable costs and an additional negotiated fee.

Compliance with Environmental Protection Laws

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

Operating and maintenance costs associated with environmental compliance and management of sites are a normal, recurring part of our operations. These costs often are generally 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 Note 19, *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 Operations

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

COMPETITION

The Company operates in a highly competitive environment with many other organizations, some of which are substantially larger than us and have greater financial strength and more extensive resources. We compete for composite and metallic aerostructures subcontracts, and helicopter sales and structures, bearings, springs, seals and contacts and components business on the basis of price and/or 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 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 and, in certain situations, the relationships of those foreign customers with the USG, the USG's perceptions of those foreign customers, such as our Middle Eastern customers, and the ability to obtain necessary export approvals, licenses or authorizations from the USG.

HUMAN CAPITAL

The Company employs a global workforce focused on serving its customers and creating solutions to meet their needs. We consider our employees to be the most valuable resource for current and future success and we seek to provide a work environment that fosters growth, encourages self-development and provides meaningful work. How we manage our human capital is critical to how we deliver on our strategy and create sustained growth and value for our shareholders. Kaman Corporation is a place where people who want to make a difference come to work.

Employee Demographics

As of December 31, 2021, we employed 2,846 individuals. Of these employees, approximately 75% are employed in the United States and 25% are employed internationally. Within the United States, 64% of the employees are non-exempt and 36% are exempt.

The Company's average age of U.S. employees is 49. U.S. headcount by generation at December 31, 2021 is as follows:

Generation Z (1995-2010)	145
Millennials (1981-1994)	503
Generation X (1965-1980)	807
Baby Boomers (1946-1964)	664
Traditionalist (before 1946)	8

Values

The Company's core values are Respect, Excellence, Accountability, Creativity and Honor ("REACH"):

- Respect - Employees value people, their skills and their perspectives.
- Excellence - Employees do their best, giving full attention to the quality of every job, outcome and relationship. The highest level of customer service is provided to customers, both externally and internally.
- Accountability - Employees accept responsibility for their actions and work to achieve desired results.
- Creativity - Employees take on every challenge with a spirit of discovery and ingenuity, offering new ideas and resources.
- Honor - Employees behave with integrity.

Our employees are committed to these values, which define how employees behave, treat others and operate.

Business Ethics

The Company's Code of Conduct ("Code") is a statement of the principles and standards that the Company expects the Kaman community to follow. Each officer, director and employee is required to use good ethical judgement when conducting business and comply with applicable laws, rules and regulations. The Code describes what is appropriate behavior and guides ethical business decisions that maintain a commitment to integrity. Failure to comply with the Code and applicable laws can have severe consequences for both individuals involved and the Company, including disciplinary action, civil penalties or criminal prosecution under certain circumstances.

The Company has designated Compliance Officers who are responsible for the following:

- Distributing of the Code to the Kaman community;
- Educating and training personnel on the Code;
- Obtaining written acknowledgments from employees, officers, directors, agents, contractors, suppliers and customers that they have read, understand and will comply with the Code as a condition of their association with the Company;
- Investigating reported Code violations and implementing remedial actions when a violation has been confirmed; and
- Reporting Code submissions to the Company's Chief Compliance Officers.

Talent Acquisition

An important component of the Company's Human Capital strategy is acquiring new talent. The Company strives to attract top talent with diverse backgrounds and experiences who align with the commitment of driving a culture of innovation.

The foundation of the talent acquisition strategy is the commitment to being an Equal Opportunity Employer. Qualified applicants receive consideration for employment without regard for race, color, religion, sex, sexual orientation, gender identity, national origin, disability, protected veteran status or any other protected class. The Company provides reasonable accommodations for qualified individuals with disabilities and disabled veterans in job application procedures and processes. The Company fully provides equal opportunity for all.

The Company uses a number of programs to ensure it attracts and hires top talent to develop as future leaders of the organization. The Kaman Internship Program is designed to provide meaningful work experiences and professional development for students. The goal of this program is to ensure a mutual benefit to both the students engaging in the internship

and the Company with a pipeline of future employees. The Kaman Early Career Rotational Program is designed to provide prospective Leadership Development Candidates, if selected, with the opportunity to develop leadership skills and learn key organizational processes across multiple business functions. The Early Career Rotational Program is 18 to 24 months in duration and consists of rotations through Operations, Program Management, Engineering, Quality and Supply Chain Management. The Campus Champions Program is designed to engage universities and military organizations through hands-on involvement in a variety of interactive activities including participation in recruitment drives and meeting with faculty, alumni, students, student organizations and veterans' organizations. This program allows the Company to explore opportunities to strengthen its relationships and develop mutually beneficial partnerships with these institutions.

Talent Development

In addition to acquiring new talent, the Company focuses on growing and developing its existing talent. The Company makes significant investments in enhancing its employees' skill levels and providing professional opportunities for career development and advancement. The Company's leadership team utilizes a robust succession planning program for identifying the next generation of leaders to ensure that the organization is prepared to fill critical roles with employees who are prepared to support the strategy of the business and respond to the needs of key stakeholders.

Training and employee learning opportunities are offered to employees, which allow the Company to efficiently develop its staff and meet legal and compliance training requirements. Over seven thousand webinar courses were completed in 2021, along with hundreds of health, wellness and leadership training sessions delivered to the employee population.

The Company uses several mechanisms to support the development of current employees for future leadership roles. First, the company has evolved its coaching strategy to adjust to the effects of the COVID-19 pandemic by creating a model that embraces virtual employee coaching. Second, the Women in Leadership Program develops capabilities of female leaders through a process of learning and personal discovery so they can make stronger contributions within their careers and the organizations in which they work. With the use of a leadership assessment tool, management discovers the strengths and opportunities for its participants and creates actions plans to help improve their performance. Professional networking and mentoring helps prepare the female leaders for larger roles in the organization. As of December 31, 2021, 76% and 24% of the Company's management positions were held by men and women, respectively. This compares to the Company's overall U.S. population comprised of 69% males and 31% females.

The Company executed an All-Employee Engagement Survey in 2021. The survey was an opportunity for employees to offer open, honest and confidential feedback as it was administered by a third-party organization. It was launched to support continuous improvement and help shape and strengthen the Company's culture, teamwork and overall work environment. The survey is used as a tool to measure and improve engagement and satisfaction while helping us discover areas and topics where we may need more dialogue and conversation. Action plans have been implemented to address the focus areas of training and development, inclusive culture and belonging and communication.

The Company also conducts annual performance appraisals with all employees. Feedback is used to support continuous improvement. Individual, annual goal setting activities align to the overall company and business unit strategies and objectives.

Diversity & Inclusion

The Company views diversity as a competitive advantage and integral to future success. Diversity helps create an innovative workforce, while inclusion ensures the Company has the right culture, processes, policies, and practices to ensure employees feel valued and included.

Women Advocating Leadership at Kaman ("WALK") is a program that is designed to support the advancement of Kaman's strategic diversity goals by implementing specific business initiatives that increase the global representation of women in leadership roles. WALK's long-term objectives include hiring; retaining and promoting more women; supporting the change in Kaman's culture of being more accepting of women in leadership roles; providing women with equal access to development opportunities; and creating a life balance and family-friendly culture.

The Company also seeks opportunities to recruit and hire skilled veterans as well as engage in partnerships and support programs that allow the Company to give back to the veteran community. The Company has a multitude of recognition programs to show its appreciation for their service to the United States. An employee resource group is dedicated to veteran employees which supports community engagement as well as professional development activities.

Total Rewards

The Company focuses on paying its employees fairly and competitively. The Company strives to provide competitive pay opportunities which reward its employees for achieving and exceeding objectives that create long-term value for shareholders. Management aims to have all compensation programs, processes and decisions be transparent and easy to understand. Providing equitable and competitive pay enhances the Company's ability to attract and retain strong, innovative talent.

Providing comprehensive, competitive and affordable benefits is important to the Company's attraction and retention strategy. The Company offers the following:

Health Benefits

The Company offers various medical plan options and provides employees with a cost comparison tool to assist employees with their decision. The options for pharmacy, dental and vision care coverage are also provided for employees. In addition to insurance benefits, Kaman's Chronic Condition Management programs provides valuable resources to support employees and their family members dealing with a chronic condition, such as diabetes or cancer.

Wealth Benefits

The Kaman Corporation 401(k) Plan provides employees with a tax advantageous way to save for retirement. Contributions up to the first 5% in pre-tax and/or Roth accounts are matched, and matching contributions vest after three years of service. Additionally, the Company offers an Employee Stock Purchase Plan, Health Savings Accounts for those in a high deductible health plan, Flexible Spending Accounts for both health care and dependent care, life and accidental death and dismemberment insurance, disability benefits and voluntary accident and critical illness insurance.

Wellness Benefits

The *Fit for Life* Wellness program provides all employees with opportunities to participate in company-wide events, webinars and local wellness challenges focused on living a healthy lifestyle. Kaman Work-Life Solutions is available to all employees and their household members who need help dealing with issues affecting their personal or professional lives. This resource connects employees with individuals who can help them with an array of issues such as locating child care programs and individual counseling.

The Company recognizes the need to support its employees' work-life balance. The Paid Parental Leaves of Absence better enables employees to care for and bond with a newborn, newly adopted, or newly placed foster child during the six-month period immediately following the event. Eligible employees receive three weeks of parental leave at 100% of base pay, inclusive of shift premiums, if applicable. This benefit is offered in addition to short-term disability benefits already provided for pregnancy and childbirth to women at the organization.

The Company's approach to remote work aligns with its wellness and retention strategies as well as its response to the COVID-19 pandemic. The Company has implemented a Work from Home policy recognizing it as a strategic imperative to attract and retain employees as well as address how both current and potential employees view work in light of the global pandemic.

Health & Safety

The Company continues to diligently monitor and respond to the challenges faced by the Company and its employees navigating through the COVID-19 pandemic. The Company's employees have worked to keep the Company operational and meet customer requirements throughout the pandemic, while respecting the recommendations of local governments and regulatory agencies.

The Company's first priority continues to be the health and safety of employees and their families. As the COVID-19 global pandemic evolved, the Company enforced practical precautions, including global travel restrictions and enforcing quarantine periods as appropriate. A number of initiatives were implemented across the Company to ensure employees are safe, including an increase in communications and outreach to the workforce. Additionally, best practices for hygiene and preventing the spread of germs continue. The increased frequency of cleaning and disinfecting common areas has been maintained and our leadership teams have responded to local business needs and priorities to ensure safe operations and minimal business disruptions.

At the onset of the pandemic, a remote work strategy was implemented where appropriate, which the Company has evolved into a formal Work from Home policy. For those employees returning to work in the Company's offices, a formal Return to Office process was implemented to ensure those returning were trained on the Company's enhanced health and safety protocols. In addition, the process focuses on employee re-acclimation. Enhanced resources have been provided to help all employees manage the stress and anxiety of the current situation.

Corporate Responsibility

The Company is a strong supporter of education, including meritorious children of its employees, students pursuing engineering degrees, museums with educational programs and various local education programs across the country. The Company also financially supports charitable and civic organizations such as art councils, boy and girl scouts, food pantries, health organizations and veterans' organizations. Additionally, employees volunteer their time to give back to the communities in which they live and work.

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.

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

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, Compensation and Finance). These documents are posted on our website at www.kaman.com — select the "Investors" link, then the "Corporate Governance" link and then view under "Documents and Downloads".

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.

INFORMATION ABOUT OUR EXECUTIVE OFFICERS

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

Name	Age	Position	Prior Experience
Ian K. Walsh	55	Chairman, President, Chief Executive Officer and Director	Mr. Walsh was appointed President and Chief Executive Officer as well as elected as a Director of the Company effective September 8, 2020. Effective April 14, 2021, Mr. Walsh was appointed Chairman of the Board. Prior to joining the Company, Mr. Walsh served as Chief Operating Officer at REV Group, Inc., a leading designer, manufacturer, and distributor of specialty vehicles and related aftermarket parts and services. Prior to that, he progressed through leadership roles of increasing responsibility at Textron Inc., where he most recently served as President and Chief Executive Officer of TRU Simulation and Training. Prior to joining Textron, he served as an officer and naval aviator in the U.S. Marine Corps. Mr. Walsh is a certified Six Sigma Black Belt.
Russell J. Bartlett	60	Senior Vice President and Chief Operating Officer	Mr. Bartlett was named segment lead of both the Engineered Products segment and Structures segment, effective December 31, 2021, and has served as Senior Vice President and Chief Operating Officer since January 4, 2021. Prior to joining Kaman, Mr. Bartlett served as President and Chief Executive Officer of Textron Airborne Solutions, and held increasing positions of responsibility at Beechcraft Corporation ending his time as President of Beechcraft Defense Company. Mr. Bartlett held a distinguished military career retiring from the U.S. Navy in 2008 as a Captain.
James G. Coogan	41	Senior Vice President and Chief Financial Officer	Mr. Coogan was appointed Senior Vice President and Chief Financial Officer, effective July 8, 2021. Mr. Coogan has served in various roles since joining the Company in 2008, most recently as Vice President, Investor Relations & Business Development from January 2020 through July 2021 and prior to that Vice President, Investor Relations from April 2017 through December 2019. Previous Kaman positions include: Assistant Vice President, SEC Compliance and External Reporting, Director, External Reporting and SEC Compliance, and Manager, External Reporting and SEC Compliance. Prior to joining the company, Mr. Coogan held positions at Ann Taylor Stores Corporation, Mohegan Tribal Gaming Authority and PricewaterhouseCoopers.
Shawn G. Lisle	55	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.

Name	Age	Position	Prior Experience
Rafael Z. Cohen	64	Vice President and Chief Information Officer	Mr. Cohen was appointed Vice President and Chief Information Officer, effective February 2022. Mr. Cohen joined the Company in 2017, previously serving as Vice President, Information Technology and Cybersecurity and the Senior Director of Kaman Distribution Group SDG. Before joining the Company, Mr. Cohen held positions at Babcock Power, Gerber Scientific, Blum Shapiro, PerkinElmer, The Stanley Works and Accenture.
Megan A. Morgan	45	Vice President, Human Resources and Chief Human Resources Officer	Ms. Morgan was appointed Vice President, Human Resources and Chief Human Resources Officer, effective February 1, 2021. Ms. Morgan has served in various roles since joining the company in 2018, most recently as Vice President of Human Resources, Kaman Aerospace Group. Prior to joining the company, Ms. Morgan held positions at Legrand Electrical Wiring Systems, Barnes Group Inc., and PricewaterhouseCoopers.
Kristen M. Samson	48	Vice President and Chief Marketing and Communications Officer	Ms. Samson joined Kaman in 2021 and was appointed Vice President and Chief Marketing and Communications Officer effective January 18, 2021. Prior to joining Kaman, Ms. Samson served in various leadership roles, including Vice President, Marketing and Communications for Textron Systems; Vice President, Marketing and Communications for TRU Simulation + Training; and Vice President of Marketing, Communications and Product Management at Lycoming Engines. Prior to this, Ms. Samson held positions at Comcast Sportsnet and Time Warner Cable. She is a certified Six Sigma Green Belt.
Darlene R. Smith	61	President, Kaman Air Vehicles and Kaman Precision Products	Ms. Smith was appointed segment lead of Precision Products effective December 31, 2021 and has served as President, Kaman Air Vehicles and Kaman Precision Products since January 2021. Ms. Smith has served in various roles since joining the Company in 2001, most recently as Vice President and General Manager of Air Vehicles from April 2018 through December 2020. Previous Kaman positions include: Assistant Vice President, Business Systems, Senior Site Director and Director, Materials Management. Prior to joining the company, Ms. Smith held positions of increasing responsibility at Pratt & Whitney.

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.

RISKS RELATED TO OUR BUSINESS, THE INDUSTRIES IN WHICH WE OPERATE, OUR PROGRAMS AND OUR CONTRACTS

Our business, results of operations, financial condition and cash flows have been and are expected to continue to be adversely impacted by the ongoing COVID-19 pandemic.

Economic and health conditions in the United States and across most of the world have changed dramatically since COVID-19 was first discovered in late 2019. The public health issues resulting from COVID-19 and the precautionary measures instituted by governments and businesses to mitigate its spread, such as quarantines, travel restrictions, business curtailments and school closures, have resulted in business and manufacturing disruptions, plant closures, inventory shortages, delivery delays, supply chain disruptions, and order reductions, cancellations and deferrals, all of which have adversely affected our business, results of operations, financial condition and cash flows. Although we continue to meet the demands of our customers, we have seen some disruptions in our supply chain, such as delays in materials and components used in our manufacturing process, and we continue to operate below pre-pandemic levels for our commercial aerospace products. We anticipate recoveries in 2022; however, the extent to which COVID-19 may adversely impact our business depends on future developments, which are highly uncertain and unpredictable, the severity and duration of the pandemic and the effectiveness of actions taken globally to contain or mitigate its effects. Even after the COVID-19 pandemic has subsided, we may experience adverse impacts to our business due to any resulting economic recession or depression. Additionally, concerns over the economic impact of COVID-19 have caused extreme volatility in financial and other capital markets which has, and may continue to, adversely impact our stock price and our ability to access capital markets. To the extent the COVID-19 pandemic adversely affects our business and financial results, it may also have the effect of heightening many of the other risks described in this report, such as those relating to our products and financial performance.

Our concentration of sales to a few major direct commercial sales customers under the JPF program puts us at financial risk.

We sell the JPF to foreign militaries through direct commercial sales, with reliance on two Middle Eastern customers. During 2021, sales to these customers accounted for approximately 15% of consolidated sales. In addition to being impacted by the cadence of these customers' operations, sales to these customers require export approvals, licenses and other authorizations from the USG. There can be no assurance that we will be able to obtain the necessary approvals, licenses and authorizations. In the event that we are unable to obtain the regulatory approvals, licenses or other authorizations needed to effectuate sales to these Middle Eastern customers, our financial position, results of operations, and cash flows would be adversely impacted.

JPF orders can be quite large, frequently exceeding \$50.0 million or more, resulting in significant variations in our cash flows and outstanding accounts receivable. If we are unable to collect the full amount of these, and other JPF receivables, our business, financial condition, results of operations and cash flows would be adversely impacted.

A direct commercial sales contract with a Middle Eastern customer is secured by unconditional letters of credit aggregating \$86.3 million, which may be drawn upon unilaterally by the customer in the event of a disagreement or alleged failure to perform. Any such draw down, whether warranted or not, would adversely impact our business, financial condition, results of operation and cash flows.

The U.S. Navy contract award for the FMU-139 D/B bomb fuze could jeopardize the continued viability, profitability and cash flows of the Company's FMU-152 A/B bomb fuze program.

Our JPF program continues to move through its product lifecycle, reflecting the previously announced decision of the United States Air Force ("USAF") to move to the FMU-139 D/B (which we do not produce) as its primary fuze system. During the first quarter of 2021, we completed our delivery requirements under Option 14 of our USG contract and we began to satisfy the requirements under Option 15, which relates solely to the procurement of fuzes by 25 foreign militaries and has an expected value of approximately \$57.3 million. In the third quarter of 2021, we received an award under Option 16 with an expected total value of approximately \$43.0 million. Similar to Option 15, this order relates solely to the procurement of fuzes by or in support of foreign militaries and does not include any sales to the USAF. Option 16 extends FMU-152 A/B production into 2023. We have been advised by our customer that Option 16 will be the last order under our JPF contract with the USG. We do not expect the close-out of our JPF contract with the USG will adversely impact our ability to continue to market the FMU-152 A/B

directly to foreign militaries in direct commercial sales transactions, and we are currently in discussions with two Middle Eastern customers for one or more follow-on orders aggregating a minimum of \$45.0 million. The final value of these orders will be dependent on volume and pricing agreed upon in the completed contracts. If received, these orders would continue to extend the life of the program. As discussed above, these orders would be subject to export approvals, licenses and other authorizations necessary to effectuate the sales, which are subject to political and geopolitical conditions. In the event that foreign militaries move to the FMU-139 D/B and we are unable to successfully market the FMU-152 A/B in direct commercial sales transactions, or are unable to convert our marketing efforts to firm transactions, our business, financial condition, results of operations and cash flows would be materially adversely impacted.

We are subject to a number of risks and uncertainties related to the timing and conditions surrounding the production of the 737 MAX.

On March 13, 2019, the Federal Aviation Administration ("FAA") issued an order to suspend operations of all 737 MAX aircraft in the U.S. and by U.S. aircraft operators following two fatal 737 MAX accidents. Non-U.S. civil aviation authorities issued directives to the same effect. Boeing suspended deliveries until the FAA and other civil aviation authorities worldwide grant the clearance to return the aircraft to service and suspended production of the 737 MAX in January 2020 as a result of the ongoing evaluation. In November 2020, the FAA lifted the orders to suspend operations of the Boeing 737 MAX and in early 2021, airlines around the globe began to clear the Boeing 737 MAX for flying. Although production rates increased in 2021 and higher output rates are expected in 2022, there can be no assurance that the production rate will return to the production rate prior to the grounding of the 737 MAX fleet. We have recognized \$4.0 million, \$5.6 million and \$19.9 million in revenue associated with the sale of our products that are utilized on the 737 MAX aircraft fleet in the years ended December 31, 2021, 2020 and 2019, respectively. Any future reductions to the production rate or lower than anticipated production levels than previously anticipated could have an adverse effect on our financial position, results of operations, and/or cash flows.

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

The financial performance of our business is directly tied to economic conditions in the commercial aviation and defense industries. The commercial aviation industry tends to be cyclical, and capital spending by airlines and aircraft manufacturers may be influenced by a variety of global factors including current and future traffic levels, aircraft fuel pricing, labor issues, competition, the retirement of older aircraft, regulatory changes, terrorism and related safety concerns, general economic conditions, worldwide airline profits and backlog levels. The defense industry may be influenced by a changing global political environment, changes in U.S. and global defense spending, U.S. foreign policy and the activity level of military flight operations. Changes to the aerospace and defense industries and any reductions in U.S. defense spending could have a material impact on our current and proposed aerospace programs, which could adversely affect our operating results and future prospects. In addition, changes in economic conditions may cause customers to request that firm orders be rescheduled or canceled, which could put a portion of our backlog at risk.

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

Our USG programs are subject to unique risks.

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

- The USG may modify, curtail or terminate its contracts and subcontracts at its convenience without prior notice, upon payment for work done and commitments made at the time of termination. As discussed above, the Company has been advised by our customer that Option 16, received in the third quarter of 2021, will be the last order under our JPF contract with the USG. Modification, curtailment or termination of our major programs or contracts could have a material adverse effect on our business, financial condition, results of operations and cash flows.
- Our USG business is subject to specific procurement regulations and other requirements. These requirements, although customary in USG contracts, increase our performance and compliance costs. These costs might increase in the future, reducing our margins, which could have a negative effect on our financial condition. Although we have procedures designed to assure compliance with these regulations and requirements, failure to do so under certain circumstances could lead to suspension or debarment, for cause, from USG contracting or subcontracting for a period of time and

could have a material adverse effect on our business, financial condition, results of operations and cash flows and could adversely impact our reputation and our ability to receive other USG contract awards in the future.

- The costs we incur on our USG contracts, including allocated indirect costs, may be audited by USG representatives. Any costs found to be improperly allocated to a specific contract would not be reimbursed, and such costs already reimbursed would have to be refunded, which could have a material adverse effect on our business, financial condition, results of operations and cash flows. Moreover, if any audit were to reveal the existence of improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines and suspension or prohibition from doing business with the USG.
- We are from time to time subject to governmental inquiries and investigations of our business practices due to our participation in domestic and foreign government contracts and programs and our transaction of business domestically and internationally. Adverse findings associated with any such inquiry or investigation could also result in civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines and suspension or prohibition from doing business with domestic and foreign governments.
- The costs to implement and comply with the Cybersecurity Maturity Model Certification ("CMMC") as initiated by the U.S. Department of Defense in order to measure their defense contractors' capabilities, readiness, and sophistication in the area of cybersecurity.

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

Because a significant percentage of our revenue is derived either directly or indirectly from contracts with the USG, changes in federal government budgetary priorities could directly affect our financial performance. A significant decline in government expenditures, a shift of expenditures away from programs that we support or a change in federal government contracting policies could cause federal government agencies to reduce their purchases under contracts, to exercise their right to terminate contracts at any time without penalty or not to exercise options to renew contracts.

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

We generally recognize sales and gross margin on long-term contracts based on the over time method of accounting. This method allows for revenue recognition as our work progresses on a contract and requires that we estimate future revenues and costs over the life of a contract. Revenues are estimated based upon the negotiated contract price, with consideration being given to exercised contract options, change orders and, in some cases, projected customer requirements. Contract costs may be incurred over a period of several years, and the estimation of these costs requires significant judgment based upon the acquired knowledge and experience of program managers, engineers and financial professionals.

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

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

Because of the significance of the judgments and estimation processes, it is likely that materially different sales and profit amounts could be recorded if we used different assumptions or if the underlying circumstances were to change. Changes in underlying assumptions, circumstances or estimates may adversely affect current and future financial performance. While we perform quarterly reviews of our long-term contracts to address and lessen the effects of these risks, there can be no assurance that we will not make material adjustments to underlying assumptions or estimates relating to one or more long-term contracts that have a material adverse effect on our business, financial condition, results of operations and cash flows.

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

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

We face significant pressure to lower our pricing notwithstanding our own internal costs.

There is substantial and continuing pressure from original equipment manufacturers ("OEMs") in the commercial aerospace industry to reduce the prices they pay to suppliers, such as Kaman. We attempt to manage such downward pricing pressure, while trying to preserve our business relationships with our customers, by seeking to reduce our production and procurement costs through various measures, including implementing cost-effective process improvements and partnering with our own suppliers to reduce our cost of raw materials and components. Our suppliers have periodically resisted, and in the future may resist, pressure to lower their prices and may seek to impose price increases. If we are unable to offset price reductions to our OEM customers, this could have a material adverse effect on our business, financial condition, results of operations and cash flows.

The ability to obtain and retain product approvals issued by the FAA and any intellectual property claims could adversely affect our operating results and profits.

Our business may be impacted by regulations set forth by the FAA to obtain Parts Manufacturer Approvals ("PMAs") to design or produce a modification or replacement aircraft part. The loss or suspension of the Company's product and design approvals could negatively impact our operating results and profits. We believe our current design and production processes that are subject to such regulations by the FAA are in compliance; however, there can be no assurance that we will not lose approvals for our products in the future. Additionally, we may be subject to claims of intellectual property infringement by third parties, including in connection with our PMA business, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

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

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

Our competitors may have more extensive or more specialized engineering, manufacturing and marketing capabilities than we do in some areas, and we may not have the technology, cost structure, or available resources to effectively compete with them. We believe that developing and maintaining a competitive advantage requires continued investment in product development; engineering; supply chain management; production capabilities, including technology, equipment and facilities; and sales and marketing, and we may not have enough resources to make the necessary investments to do so. Further, our significant customers may attempt to use their position to negotiate price or other concessions for a particular product or service without regard to the terms of an existing contract or the underlying cost of production.

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

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

Our credit facility requires us to maintain certain financial ratios and comply with various operational and other covenants. If we were unable to maintain these ratios and comply with such covenants, we would need to seek relief from our lenders in order to avoid, cure or have waived an event of default under the facility. There can be no assurance that we would be able to obtain such relief on commercially reasonable terms or otherwise. If an event of default occurs and is not cured or waived, we

may not be able to make further borrowings under the credit facility and our lenders could, among other things, cause all outstanding indebtedness under the credit facility to be due and payable immediately. There can be no assurance that our assets or cash flows would be sufficient to provide us with sufficient liquidity to fund outstanding commitments or meet other business requirements or to enable us to fully repay those amounts or that we would be able to refinance or restructure the indebtedness. If, as or when required, we are unable to repay, refinance or restructure the indebtedness outstanding under our senior credit facility, or amend the financial ratios and covenants contained therein, the lenders under our credit facility could elect to terminate their commitments thereunder, cease making further loans and institute foreclosure proceedings against our assets. This, in turn, could result in an event of default under one or more of our other financing agreements, including our convertible notes.

In addition, in the ordinary course of business, certain of our customers require us to deliver standby letters of credit to guarantee our performance under our contractual obligations with them, which are currently issued by certain of our lenders pursuant to our credit facility. If we are unable to obtain letters of credit as needed to operate our business as a result of any of the circumstances described above or otherwise, our ability to enter into certain contracts may be adversely affected. Moreover, by their nature, standby letters of credit may be drawn upon by the beneficiaries thereof, which could affect our financial ratios and ability to make additional borrowings. The occurrence of any of these events could have a material adverse effect on our liquidity, financial position or results of operations.

Changes affecting the availability of the London Interbank Offered Rate (“LIBOR”) could affect our financial results.

The LIBOR benchmark has been the subject of national, international and other regulatory guidance and proposals for reform. These reforms may cause LIBOR to perform differently than in the past, and LIBOR may ultimately cease to exist. Alternative benchmark rate(s) may replace LIBOR and could affect the Company's debt securities, derivative instruments, receivables, debt payments and receipts. An alternative rate may create additional basis risk for market participants as an alternative index is utilized alongside LIBOR. Key regulatory authorities have requested that banks cease entering into new contracts that use U.S. dollar (“USD”) LIBOR as a reference rate, and do not permit new or existing non-USD LIBOR borrowings, by no later than December 31, 2021. Additionally, the Alternative Reference Rates Committee has recommended replacing USD LIBOR with the Secured Overnight Financing Rate (“SOFR”), which is calculated by short-term repurchase agreements. There can be no guarantee that SOFR will become widely used, or that any alternatives may or may not be developed.

Interest rates on amounts outstanding under the Credit Agreement are variable based on LIBOR. In the fourth quarter of 2021, the Company amended its Credit Agreement to move its LIBOR benchmark for non-USD borrowings to other non-USD benchmark rates. Future USD borrowings under our current Credit Agreement will continue be based on LIBOR. At this time, it is not possible to predict the effect of any changes to LIBOR, the phase out of LIBOR or any establishment of alternative benchmark rates. Any new benchmark rate will likely not replicate LIBOR exactly, which could impact our contracts that terminate after 2023. There is uncertainty about how applicable law, the courts or the Company will address the replacement of LIBOR with alternative rates on variable rate retail loan contracts and other contracts that do not include alternative rate fallback provisions. In addition, any changes to benchmark rates may have an uncertain impact on our cost of funds and our access to the capital markets, which could impact our liquidity, financial position or results of operations.

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

Our defined benefit pension plan was frozen with respect to future benefit accruals effective December 31, 2015. U.S. Government Cost Accounting Standard 413 (“CAS 413”) requires the Company to determine the USG’s share of any resulting pension curtailment adjustment attributable to pension expense charged to Company contracts with the USG, which could result in an amount due to the USG if the plan is determined to be in a surplus position or an amount due to the Company if the plan is determined to be in a deficit position. During the fourth quarter of 2016, the Company accrued a \$0.3 million liability representing our estimate of the amount due to the USG based on our pension curtailment adjustment calculation, which was submitted to the USG for review in December 2016. The Company has maintained its accrual at \$0.3 million as of December 31, 2021. There can be no assurance that the ultimate resolution of this matter will not have a material adverse effect on our results of operations, financial position and cash flows.

RISKS RELATED TO INFORMATION TECHNOLOGY AND CYBERSECURITY

Cybersecurity requirements, vulnerabilities, threats and more sophisticated and targeted computer crime could pose a risk to our systems, networks, products and data.

Our information technology systems provide critical data connectivity, information and services for internal and external users. These interactions include, but are not limited to, ordering and managing materials from suppliers, inventory management, shipping products to customers, processing transactions, summarizing and reporting results of operations, complying with regulatory, legal or tax requirements and other processes necessary to manage our business. Our computer systems face the threat of unauthorized access, computer hackers, computer viruses, malicious code, organized cyber-attacks and other security problems and system disruptions. We rely heavily on our information technology systems, networks and services, some of which are managed, hosted and provided by third-parties to conduct our business.

Cyber-attacks are evolving and include, but are not limited to, malicious software, destructive malware, attempts to gain unauthorized access to data, manipulation of data, disruption or denial of service attacks and other electronic security breaches that could lead to disruptions in critical systems, unauthorized release of confidential, personal or otherwise protected information, including trade secrets, and corruption of data, networks or systems. We provide products and services to customers who also face cyber threats. Our products and services may be subject to cyber threats and we may not be able to detect or deter such threats, which could result in losses that could adversely affect our customers and our company. For example, in December 2020, Bal Seal identified file encryption activity and ransom notes on systems within its environment indicative of a Doppelpaymer ransomware attack, which disrupted Bal Seal's information technology systems. Although no payments were made to the threat actor, the interruption resulted in a temporary delay of revenue and in the incurrence of incremental costs for the year ended December 31, 2020; however, the incident was not material to the Company's fiscal year 2020 financial results.

We could also be impacted by cyber threats in products that we use in our partners' and customers' systems that are used in connection with our business, including threats directed towards our third-party and cloud service providers. Any such breach could compromise our networks and the information there could be accessed, publicly disclosed, lost or stolen. These events, if not prevented or mitigated, could damage our reputation, require remedial action and lead to loss of business, regulatory actions, potential liability and other financial losses. To address the risks to our information technology systems and data, we manage an information security program, maintain strong incident report capabilities and perform daily off-site backups. Additionally, we have put in place business continuity plans and security precautions for our critical systems, including a back-up data center. Updates on cyber security are provided to the Board of Directors at least annually.

Our information technology systems, processes and sites may suffer interruptions or failures which may affect our ability to conduct our business.

In the event our information technology systems are damaged or cease to function properly due to any number of causes, such as catastrophic events, power outages and security breaches resulting in unauthorized access or cyber-attacks, and our information security program, incident report capabilities, business continuity plans and security precautions do not function effectively on a timely basis, we may suffer interruptions in our operations or the misappropriation of proprietary information, which may adversely impact our business, financial condition, results of operations and cash flows. In December 2020, an unauthorized party disrupted access to Bal Seal's information technology systems. The interruption resulted in a temporary delay of revenue and in the incurrence of incremental costs for the year ended December 31, 2020; however, the incident was not material to the Company's fiscal year 2020 financial results. Bal Seal was able to restore its affected systems and resume business operations in a relatively short period of time.

As we outsource our information technology functions and transition to cloud-based technologies, disruptions or delays at our third-party service providers could impact our operations.

As part of the comprehensive review of our general and administrative functions in order to improve operational efficiency and to align the Company's costs with its revenues, we identified information technology functions to be outsourced. While we believe we conducted appropriate diligence before entering into agreements with our third-party service providers and have the proper controls and oversight over the IT functions performed by our third parties, the failure of one or more of such entities to meet our performance standards and expectations, with respect to data security, compliance with data protection and privacy laws, providing services on a timely basis or providing services at the prices we expect, may have an adverse effect on our results of operations or financial condition. Additionally, we are considering the transition of certain technology to cloud-based infrastructure, which is complex, time consuming, and can involve substantial expenditures. Our utilization of cloud services is critical to developing and providing products and services to our customers, scaling our business for future growth, accurately

maintaining data and otherwise operating our business; any such implementation involves risks inherent in the conversion to a new system, including loss of information and potential disruption to our normal operations. We may discover deficiencies in our design or implementation or maintenance of the new cloud-based systems that could adversely affect our business. Upon implementation of the new cloud-based solutions, failure of cloud infrastructure providers to maintain adequate physical, technical and administrative safeguards to protect the security of our confidential information and data could result in unauthorized access to our systems or a system or network disruption that could lead to improper disclosure of confidential information or data, regulatory penalties and remedial costs. There may also be a discrepancy between the contractual liability profile that the cloud service provider has agreed to and our contractual liability profile with our customers. Any disruption to either the outsourced systems or the communication links between us and the outsourced suppliers could negatively affect our ability to operate our data systems, and could impair our ability to provide services to our customers. As we increase our reliance on these third-party systems, our exposure to damage from service disruptions may increase and we may incur additional costs to remedy the damages caused by these disruptions.

RISKS RELATED TO COMPLIANCE

Exports of certain of our products are subject to various export control regulations and authorizations, and we may not be successful in obtaining the necessary U.S. Government approvals and resultant export licenses for proposed sales to certain foreign customers.

We must comply with numerous laws and regulations relating to the export of our products and technologies, including, among others, the FMU-152A/B JPF, before we are permitted to sell those products and technologies outside of the United States. Compliance often entails the submission and timely receipt of necessary export approvals, licenses or authorizations from the USG and, depending on the size and nature of the proposed transaction, may even require the submission of formal notification to the United States Congress, which then has the ability to pass a joint resolution of disapproval blocking or amending the sale. Over the last several years, the U.S. export licensing environment for munitions, such as the JPF, has been adversely affected by a number of factors, including, but not limited to, the changing geopolitical environment and heightened tensions with other countries (which shift and evolve over time). Accordingly, we can give no assurance that we will be successful in obtaining, in a timely manner or at all, the approvals, licenses or authorizations we need to sell our products and technologies outside the United States, which may result in the cancellation of orders, the incurrence of significant penalties payable by the Company and the return of advance payments to our customers if we do not make deliveries and fulfill our contractual commitments. Any significant delay in, or impairment of, our ability to sell products or technologies outside of the United States could have a material adverse effect on our business, financial condition and results of operations.

Tariffs on certain imports to the United States and other potential changes to U.S. tariff and import/export regulations may have a negative effect on global economic conditions and our business, financial results and financial condition.

In 2018, tariffs were implemented on imports of steel and aluminum into the United States. As the implementation of tariffs is ongoing, more tariffs may be added in the future. While any steel and aluminum we use in our products is produced primarily in North America, the tariffs may provide domestic steel and aluminum producers the flexibility to increase their prices, at least to a level where their products would still be priced below foreign competitors once the tariffs are taken into account. These tariffs could have an adverse impact on our financial results, which include, but are not limited to, products we sell that include steel and aluminum, and if we are unable to pass such price increases through to our customers, it would likely increase our cost of sales and, as a result, decrease our gross margins, operating income and net income. To date, the impact of the tariffs has not been material to the Company. In addition, in response to the tariffs, a number of other countries are threatening to impose tariffs on U.S. imports, which, if implemented, could increase the price of our products in these countries and may result in our customers looking to alternative sources for our products. This would result in decreased sales, which could have a negative impact on our net income and financial condition. Any of these factors could depress economic activity and restrict our access to suppliers or customers and have a material adverse effect on our business, financial condition and results of operations.

We are subject to litigation, tax, environmental, safety and health 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, workplace health and safety, intellectual property rights, taxes, employment, environmental matters and compliance with U.S. and foreign export laws, competition laws, laws governing improper business practices and data privacy laws, including the EU-wide General Data Protection Regulation (the "GDPR") and the California Consumer Privacy Act. In the event that we or one of our business units engage in wrongdoing in connection with any of these kinds of matters, we could be subject to significant fines, penalties, repayments, other damages (in certain cases, treble damages), or suspension or debarment from government contracts.

Moreover, our failure to comply with applicable export and trade practice laws could result in civil or criminal penalties and suspension or termination of export privileges. In the fourth quarter of 2021, the U.S. Occupational Safety and Health Administration ("OSHA") issued citations to one of our business units, which resulted in penalties. Although the penalties were not material to the Company's 2021 financial results, non-compliance, including any future instances of non-compliance with OSHA regulations, could result in substantial costs and liabilities, and could materially adversely affect our business, reputation, financial condition and results of operations.

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

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

For a discussion of these matters, please refer to Note 19, *Commitments and Contingencies*, and Note 13, *Environmental Costs*, in the Notes to Consolidated Financial Statements in this Annual Report on Form 10-K.

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

We are required to comply with a number of United States and international laws and regulations, such as the U.S. Foreign Corrupt Practices Act of 1977 (the "FCPA"), the U.K. Bribery Act of 2010 (the "Bribery Act"), and other similar anticorruption laws and regulations. The FCPA generally prohibits United States companies or their agents and employees from providing anything of value to a foreign official for the purposes of influencing any act or decision of these individuals in their official capacity to help obtain or retain business, direct business to any person or corporate entity or obtain any unfair advantage. Although we have internal controls, procedures and compliance programs to train our employees and agents with respect to compliance with the FCPA and other applicable international laws and regulations, there can be no assurance that our policies, procedures and programs will always protect us from reckless or criminal acts committed by our employees or agents. Allegations of violations of applicable international laws and regulations, including the FCPA and the Bribery Act, may result in internal, independent or government investigations. Violations of the FCPA and other international laws and regulations may lead to severe criminal or civil sanctions and could result in liabilities that have a material adverse effect on our business, financial condition, results of operations and cash flows.

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

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

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

In addition, our contracts with foreign customers may include terms and reflect legal requirements that create additional risks. These include, among others, industrial cooperation agreements requiring specific in-country purchases, investments, manufacturing agreements or other financial obligations, known as offset requirements, and provide for significant penalties if we fail to meet such requirements. Certain of our foreign customers have required us to enter into letters of credit, performance or surety bonds, bank guarantees and/or other financial arrangements to secure our performance obligations. All or any of these factors have the potential to have a material adverse effect on our business, financial condition, results of operations and cash flows.

We design, manufacture, service and sell complex aerospace parts, subassemblies and aircraft that subject us to potential risks and liabilities in the event they do not operate as intended.

The Company designs, manufactures, services and sells complex and sophisticated aerospace parts, subassemblies and aircraft. These products are manufactured according to detailed specifications and are subject to strict approval or certification requirements. From time to time, the Company's products may not operate as intended due to defects or failures. Due to the nature of the Company's business, liability claims may arise from accidents or disasters involving products the Company has manufactured, including claims for serious injury or death. Such accidents may be caused by environmental factors or human error. While management believes that the Company maintains adequate insurance for these risks, insurance cannot be obtained to protect against all risks and liabilities. It is therefore possible that the insurance coverage may not cover all claims or liabilities, and the Company may be forced to bear substantial unanticipated costs. While it is not possible to predict the outcome of investigations or litigation, in the opinion of management, any payments we may be required to make as a result of all such claims in existence at December 31, 2021, are not reasonably likely to have a material adverse effect on our business, financial condition and results of operations or cash flows.

Additional tax exposure and tax law changes could have a material effect on our financial results.

We are subject to income taxes in the United States and certain foreign jurisdictions. The determination of the Company's provision for income taxes and other tax liabilities requires judgment and is based on legislative and regulatory structures that exist in the jurisdictions in which we operate, and we are periodically under audit by various tax authorities. We regularly assess the potential outcomes of examinations by tax authorities in determining the adequacy of our provision for income taxes. We are currently under audit by various foreign and state tax authorities for the years 2016 through 2019. Although we do not believe that any material adjustments will result from these audits, the outcome of tax audits cannot be predicted with certainty. Any final assessment resulting from tax audits may result in material changes to our past or future taxable income, tax payable or deferred tax assets and may require us to pay penalties and interest that could have a material adverse effect on our results of operations.

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

As of December 31, 2021, we had approximately \$9.2 million in net deferred tax assets after valuation allowance. These deferred tax assets can be used to offset taxable income in future periods and reduce income taxes payable in those future periods. Each quarter, we determine the probability of the realization of deferred tax assets, using significant judgments and estimates with respect to, among other things, historical operating results, expectations of future earnings and tax planning strategies. In the event that there is insufficient positive evidence to support the valuation of these assets, we may be required to further adjust the valuation allowance to reduce our deferred tax assets. Such a reduction could result in a material non-cash charge in the period in which the valuation allowance is adjusted and could have a material adverse effect on our results of operations.

RISKS RELATING TO ACQUISITIONS, JOINT VENTURES, DIVESTITURES AND RESTRUCTURING

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

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

- Assimilating operations and products may be unexpectedly difficult;
- Management's attention may be diverted from other business concerns;
- We may enter markets in which we have limited or no direct experience;

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

These factors could have a material adverse effect on our business, financial condition, results of operations and cash flows. In addition, the consideration paid for any future acquisitions could include our stock or require that we incur additional debt and contingent liabilities. As a result, future acquisitions could cause dilution of existing equity interests and earnings per share.

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

The Company has a 49% equity interest in Kineco-Kaman Composites - India Private Limited, a composites manufacturing joint venture located in Goa, India. The Company relies significantly on the services and skills of its joint venture partner to manage and conduct the local business operations of the joint venture and ensure compliance with all applicable laws and regulations. If our joint venture partner fails to perform these functions adequately, it may adversely affect our business, financial condition, results of operations and cash flows. Moreover, if our joint venture partner fails to honor its financial obligations to commit capital, equity or credit support to the joint venture as a result of financial or other difficulties or for any other reason, the joint venture may be unable to perform contracted services or deliver contracted products unless we provide the necessary capital, equity or credit support.

We may be unable to realize expected benefits from our cost reduction and restructuring efforts and our profitability may be hurt or business otherwise might be adversely affected.

In order to operate more efficiently and control costs, from time to time, we announce restructuring plans or other cost savings initiatives, which include workforce reductions as well as facility consolidations and other cost reduction initiatives, such as streamlining our processes. These plans are intended to generate operating expense savings through direct cost and indirect overhead expense reductions, as well as other savings. We may undertake further workforce reductions or restructuring actions in the future. These types of cost reduction and restructuring activities are complex. If we do not successfully manage our current initiatives and restructuring activities or any other similar activities that we may undertake in the future, expected efficiencies and benefits might be delayed or not realized, and our operations and business could be disrupted. Risks associated with these initiatives, actions and other workforce management issues include political responses to such actions, unforeseen delays in the implementation of anticipated workforce reductions, additional unexpected costs, changes in responsibilities, business and information technology systems disruptions, changes in internal controls, potential impacts on financial reporting, adverse effects on employee morale and the failure to meet operational targets, whether due to the loss of employees, work stoppages or otherwise, any of which may impair our ability to achieve anticipated sales or cost reductions and could have a material adverse effect on our business, financial condition, results of operations and cash flows.

GENERAL RISK FACTORS

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

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

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

- The ability of our suppliers to meet our demand requirements, maintain the pricing of their products or continue operations, any of which may require us to find and qualify new suppliers;
- The issuance and timely receipt of necessary export approvals, licenses and authorizations from the U.S. Government, the lack or untimely receipt of which could have a material adverse effect on our business, financial condition and results of operations; and
- The political stability and leadership of countries where our customers reside, including military activity, training and threat levels, any adverse changes in which could negatively impact our financial results.

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.

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

Our business depends on maintaining a sufficient supply of various products to meet our customers' demands. We have long-standing relationships with key suppliers but these relationships generally are non-exclusive and could be terminated by either party. If we were to lose a key supplier, or were unable to obtain the same levels of deliveries from these suppliers and were unable to supplement those purchases with products obtained from other suppliers, it could have a material adverse effect on our business. Additionally, we rely on foreign and domestic suppliers and commodity markets to secure raw materials used in many of the products we manufacture. Suppliers have consolidated and formed alliances to broaden their product and integrated system offerings, and achieve critical mass. Supplier consolidation could cause us to compete against certain competitors with greater financial resources, market penetration and purchasing power. 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 worker resignations, weather conditions or pandemics, such as disruptions we have seen due to the effects of COVID-19, affecting suppliers' production, transportation disruptions or other reasons beyond our control. Even if we continue with our current supplier relationships, high demand for certain products may result in us being unable to meet our customers' demands, which could put us at a competitive disadvantage. Additionally, our key suppliers could also increase the pricing of their products, which would negatively affect our operating results if we were not able to pass these price increases through to our customers. Price increases may intensify or occur more frequently as demand for raw materials and components increase, or as disruptions occur within the supply chain. The prices for our products fluctuate depending on market conditions and global demand, and we may be required to absorb the cost increase. 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 may engage in strategic inventory purchases during the year, negotiate long-term vendor supply agreements, monitor our inventory levels and obtain second sources when applicable to ensure that we have the appropriate inventory on hand to meet our customers' requirements.

We may not realize all of the sales expected from our existing backlog or anticipated orders.

At December 31, 2021, we had \$700.9 million of order backlog. There can be no assurance that the revenues included in our backlog will be realized or, if realized will result in profits. We consider backlog to be firm customer orders. OEM customers may provide projections of components and assemblies that they anticipate purchasing in the future under existing programs. These projections may represent orders that are beyond lead time and are included in backlog when supported by a long term agreement. Our customers have the right under certain circumstances or with certain penalties or consequences to terminate, reduce or defer firm orders that we have in backlog. If our customers terminate, reduce or defer firm orders, we may be protected from certain costs and losses, but our sales would be adversely affected. Although we strive to maintain ongoing relationships with our customers, there is an ongoing risk that orders may be canceled or rescheduled due to fluctuations in our customers' business needs or purchasing budgets.

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

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

- Changes in demand for our products;
- Introduction, enhancement or announcement of products by us or our competitors;
- Market acceptance of our new products;
- The growth rates of certain market segments in which we compete;
- Size, timing and shipment terms of significant orders;

- Difficulties with our technical programs;
- Budgeting cycles of customers;
- Pricing pressures from customers;
- Customer advances;
- Longer payment terms required by our 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 and management incentive plans;
- Changes in tax laws in the jurisdictions in which we conduct business;
- Timing of tax payments, assessments and settlements;
- Inventory obsolescence;
- Accrual of contract losses;
- Fluctuations in oil and utility costs;
- Health care reform;
- Completion or announcement of acquisitions or divestitures
- Timing of recovery from the COVID-19 pandemic; and
- General economic conditions in regions in which we conduct business.

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

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

When we acquire a business, we record goodwill equal to the excess of the amount we pay for the business, including liabilities assumed, over the fair value of the tangible and identifiable intangible assets of the business we acquire. Goodwill and other intangible assets that have indefinite useful lives must be evaluated at least annually for impairment. The specific guidance for testing goodwill and other non-amortized intangible assets for impairment requires management to make certain estimates and assumptions when allocating goodwill to reporting units and determining the fair value of reporting unit net assets and liabilities, including, among other things, an assessment of market conditions, projected cash flows, investment rates, cost of capital and growth rates, which could significantly impact the reported value of goodwill and other intangible assets. Changes in our estimates and assumptions could adversely impact projected cash flows and the fair value of reporting units. Fair value is generally determined using a combination of the discounted cash flow, market multiple and market capitalization valuation approaches. Absent any impairment indicators, we generally perform our evaluations annually in the fourth quarter, using available forecast information. If at any time we determine an impairment has occurred, we are required to reflect the reduction in value as an expense within operating income, resulting in a reduction of earnings and a corresponding reduction in our net asset value in the period such impairment is identified. We did not identify any indications of impairment in our 2021 evaluation.

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

The time required and costs incurred to ramp up a new program can be significant and include nonrecurring costs for tooling, first article testing, finalizing drawings and engineering specifications and hiring new employees able to perform the technical work required. New programs can typically involve a greater volume of scrap, higher costs due to inefficiencies, delays in production and learning curves that are often more extended than anticipated, all of which could have a material effect on our business, financial condition, results of operations and cash flows.

We also seek to achieve growth through the design, development, production, sale and support of innovative products that incorporate advanced technologies. The product, program and service needs of our customers change and evolve regularly and we invest in research and development efforts to pursue advances in technologies, products and services. We are currently developing the next generation *TITAN UAV* aerial system that will allow K-MAX® aircraft operators to have the ability to fly either manned or unmanned missions. We are on contract for five orders as of December 31, 2021, which allow for a short time frame to develop and manufacture the unmanned aircraft systems. If any of our development and/or production efforts are delayed, if suppliers cannot deliver timely or perform to our standards and/or if we identify or experience any other issues, we

may not meet delivery schedules agreed upon with our customers, which could result in material additional costs, including liquidated damages or other liabilities that could be assessed.

Our ability to realize the anticipated benefits of our technological advancements depends on a variety of factors, including meeting development, production, certification and regulatory approval schedules; execution of internal and external performance plans; availability of supplier and internal facility capacity to perform maintenance, repair, and overhaul services on our products; hiring and training of qualified personnel; achieving cost and production efficiencies, identification of emerging technological trends in our target end markets; validation of innovative technologies; the level of customer interest in new technologies and products; and customer acceptance of products we manufacture. Development efforts divert resources from potential resources in our businesses, and these efforts may not lead to the development of new technologies on a timely basis or meet the needs of our customers as fully as competitive offerings. Additionally, the markets for our products or products that incorporate our technologies may not develop or grow as we anticipate. We may encounter difficulties in developing and/or producing new products or services and may not realize the degree or timing of benefits initially anticipated or may otherwise suffer significant adverse financial consequences. Due to the design complexity of our products, we may experience delays in completing the development and introduction of new products. Delays could result in increased development costs or deflect resources from other projects. Furthermore, our competitors or customers may develop competing technologies which gain market acceptance in advance or instead of our products. Additionally, our competitors may develop new technologies or offerings that may cause our existing technologies or offerings to become obsolete. These risks associated with efforts to start up new programs and introduce new products and technologies could have a material adverse effect on our business, financial condition, results of operations and cash flows.

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 industries in which we operate. We try to ensure that we offer competitive compensation and benefits as well as opportunities for continued development, and we continually strive to recruit and train qualified personnel and retain key employees. We may be impacted by higher labor costs and/or labor shortages due to wage and salary inflationary pressures in the economy, a tightening labor market and increased rates of employee resignations generally throughout the U.S. economy. As part of our effort to retain personnel, the Company initiated an All-Employee Engagement Survey in 2021. The survey was used as a tool to measure and improve engagement and satisfaction while helping management discover areas and topics where more dialogue and conversation may be needed. Despite our efforts, 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 depend on our intellectual property, and have access to certain intellectual property and information of our customers and suppliers and any infringement or failure to protect such intellectual property could have a material adverse effect on our business, financial condition results of operations and cash flows.

We rely on a combination of patents, trademarks, copyrights, trade secrets, nondisclosure agreements, physical and information technology security systems, internal controls and compliance systems and other measures to protect our intellectual property, data, and technology rights, both domestically and internationally, as well as the intellectual property, data and technology rights of our customers and suppliers that we have in our possession or to which we have access. Our efforts to protect such intellectual property, data and technology rights may not be sufficient. There can be no assurance that our pending patent applications will result in the issuance of patents to us, that patents issued to or licensed by us in the past or in the future will not be challenged or circumvented by competitors, or that these patents will be found to be valid or sufficiently broad to preclude our competitors from introducing technologies similar to those covered by our patents and patent applications. Our ability to protect and enforce our intellectual property, data and technology rights may be limited in certain countries outside the U.S. as may be our ability to prevent theft or compromise of our intellectual property, data and technology rights by competitors, state actors or third parties. In addition, we may be the target of competitor or other third-party patent enforcement actions seeking substantial monetary damages or seeking to prevent our sale and marketing of certain of our products or services. Our competitive position also may be adversely impacted by limitations on our ability to obtain possession of, and ownership or necessary licenses concerning, data important to the development or provision of our products or service offerings, or by limitations on our ability to restrict the use by others of data related to our products or services. Any of these events or factors could have a material adverse effect on our competitive position, subject us to judgments, penalties and significant litigation costs or temporarily or permanently disrupt our sales and marketing of the affected products or services. Any of the foregoing could have a material adverse effect on our competitive position, results of operations, cash flows or financial condition.

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

Our business may be impacted by disruptions including, but not limited to, threats to physical security, information technology attacks or failures, damaging weather or other acts of nature and pandemics or other public health crises. Any of these disruptions could affect our internal operations or services provided to customers, and could impact our sales, increase our expenses or adversely affect our reputation or our stock price. We have developed and are implementing business continuity plans for each of our businesses, in order to mitigate the effects disruptions may have on our financial results.

A failure to maintain effective internal controls could adversely affect our ability to accurately report our financial results or prevent fraud.

Our ability to provide assurance with respect to our financial reports and to effectively prevent fraud depends on effective internal controls. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements; therefore, even effective controls can only provide reasonable assurance with respect to the preparation and fair presentation of financial statements. If our internal controls were to be compromised, our financial statements could become materially misleading, which could adversely affect the trading price of our common stock. Any material weakness could adversely impact investor confidence in the accuracy of our financial statements, affecting our ability to obtain additional financing. This would likely have an adverse effect on our business, financial condition and the market value of our stock. Additionally, we would be required to incur costs to make the necessary improvements to our internal control systems.

Although management has assessed our internal control over financial reporting as effective based on criteria set forth by the Committee of Sponsoring Organizations - Integrated Framework, we can give no assurance that material weaknesses will not occur in the future nor that existing controls will continue to be adequate to prevent or identify irregularities or ensure fair presentation of our financial statements in the future.

The adoption of new accounting guidance or changes in the interpretations of existing guidance could affect our financial results.

We prepare our financial statements in conformity with accounting principles generally accepted in the United States. These accounting principles are subject to interpretation by the Financial Accounting Standards Board ("FASB") and the Securities and Exchange Commission ("SEC"). A change in these principles or interpretations could have a significant effect on our reported financial results, may retroactively affect previously reported results, could cause unexpected financial reporting fluctuations and may require us to make costly changes to our operational processes and accounting systems.

Our business could be impacted as a result of actions by activist shareholders or others.

We may be subject, from time to time, to legal and business challenges in the operation of our company due to actions instituted by activist shareholders or others. Responding to such actions could be costly and time-consuming, may not align with our business strategies and could divert the attention of our Board of Directors and senior management from the pursuit of our business strategies. Perceived uncertainties as to our future direction as a result of shareholder activism may lead to the perception of a change in the direction of the business or other instability and may make it more difficult to attract and retain qualified personnel and business partners and may affect our relationships with vendors, customers and other third parties.

FORWARD-LOOKING STATEMENTS

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

Because forward-looking statements relate to the future, they are subject to inherent risks, uncertainties and other factors that may cause the Company's actual results and financial condition to differ materially from those expressed or implied in the forward-looking statements. Such risks, uncertainties and other factors include, among others: (i) changes in domestic and foreign economic and competitive conditions in markets served by the Company, particularly the defense, commercial aviation

and industrial production markets; (ii) changes in government and customer priorities and requirements (including cost-cutting initiatives, government and customer shut-downs, the potential deferral of awards, terminations or reductions of expenditures to respond to the priorities of Congress and the Administration, or budgetary cuts resulting from Congressional actions or automatic sequestration); (iii) the global economic impact of the COVID-19 pandemic; (iv) changes in geopolitical conditions in countries where the Company does or intends to do business; (v) the successful conclusion of competitions for government programs (including new, follow-on and successor programs) and thereafter successful contract negotiations with government authorities (both foreign and domestic) for the terms and conditions of the programs; (vi) the timely receipt of any necessary export approvals and/or other licenses or authorizations from the USG; (vii) timely satisfaction or fulfillment of material contractual conditions precedents in customer purchase orders, contracts, or similar arrangements; (viii) the existence of standard government contract provisions permitting renegotiation of terms and termination for the convenience of the government; (ix) the successful resolution of government inquiries or investigations relating to our businesses and programs; (x) risks and uncertainties associated with the successful implementation and ramp up of significant new programs, including the ability to manufacture the products to the detailed specifications required and recover start-up costs and other investments in the programs; (xi) potential difficulties associated with variable acceptance test results, given sensitive production materials and extreme test parameters; (xii) the receipt and successful execution of production orders under the Company's existing USG JPF contract, including the exercise of all contract options and receipt of orders from allied militaries, but excluding any next generation programmable fuze programs, as all have been assumed in connection with goodwill impairment evaluations; (xiii) the continued support of the existing K-MAX® helicopter fleet, including sale of existing K-MAX® spare parts inventory and the receipt of orders for new aircraft sufficient to recover our investments in the K-MAX® production line; (xiv) the accuracy of current cost estimates associated with environmental remediation activities; (xv) the profitable integration of acquired businesses into the Company's operations; (xvi) the ability to recover from cyber-based or other security attacks, information technology failures or other disruptions; (xvii) changes in supplier sales or vendor incentive policies; (xviii) the ability of our suppliers to satisfy their performance obligations, including any supply chain disruptions; (xix) the effects of price increases or decreases; (xx) the effects of pension regulations, pension plan assumptions, pension plan asset performance, future contributions and the pension freeze, including the ultimate determination of the USG's share of any pension curtailment adjustment calculated in accordance with CAS 413; (xxi) future levels of indebtedness and capital expenditures; (xxii) the continued availability of raw materials and other commodities in adequate supplies and the effect of increased costs for such items; (xxiii) the effects of currency exchange rates and foreign competition on future operations; (xxiv) changes in laws and regulations, taxes, interest rates, inflation rates and general business conditions; (xxv) future repurchases and/or issuances of common stock; (xxvi) the occurrence of unanticipated restructuring costs or the failure to realize anticipated savings or benefits from past or future expense reduction actions; (xxvii) the ability to recruit and retain skilled employees; and (xxviii) other risks and uncertainties set forth herein.

Any forward-looking information provided in this report should be considered with these factors in mind. We assume no obligation to update any forward-looking statements contained in this report.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our facilities are generally suitable for, and adequate to serve, their intended uses. At December 31, 2021, we occupied major facilities at the following principal locations:

Segment	Location	Property Type ⁽¹⁾
Engineered Products	Bloomfield, Connecticut	Owned - Manufacturing & Office
	Rimpar, Germany	Owned - Manufacturing & Office
	Prachatice, Czech Republic	Owned - Assembly & Office
	Höchstadt, Germany	Owned - Manufacturing & Office
	Foothills Ranch, California	Owned - Manufacturing & Office
	Colorado Springs, Colorado	Owned - Manufacturing & Office
	Gilbert, Arizona	Leased - Office & Service Center
Precision Products	Orlando, Florida	Owned - Manufacturing & Office
	Middletown, Connecticut	Owned - Manufacturing & Office
	Bloomfield, Connecticut	Owned - Manufacturing, Office & Service Center
Structures	Jacksonville, Florida	Leased - Manufacturing & Office
	Chihuahua, Mexico	Leased - Manufacturing & Office
	Wichita, Kansas	Leased - Manufacturing & Office
	Bennington, Vermont	Owned - Manufacturing & Office
Corporate	Bloomfield, Connecticut	Owned - Office & Information Technology Back-Up Data Center
	Orlando, Florida	Leased - Office
		Square Feet
Engineered Products		961,066
Precision Products		606,611
Structures		587,172
Corporate ⁽²⁾		126,941
Total		<u>2,281,790</u>

(1) Owned facilities are unencumbered.

(2) 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. We lease a 5,000 square foot accounts receivable and accounts payable processing center in Orlando, Florida.

ITEM 3. LEGAL PROCEEDINGS

General

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

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

While it is not possible to predict the outcome of these matters with certainty, based upon available information, management believes that all settlements, arbitration awards and final judgments, if any, which are considered probable of being rendered against us in legal proceedings and that can be reasonably estimated are accrued for at December 31, 2021. Despite this analysis, there can be no assurance that the final outcome of these matters will not have a material adverse effect on our business, financial condition, results of operations or cash flows.

Except as set forth below, as of December 31, 2021, neither the Company nor any of its subsidiaries is a party, nor is any of its or their property subject, to any material pending legal proceedings, other than ordinary routine litigation incidental to the business of the Company and its subsidiaries. Additional information relating to certain of these matters is set forth in Note 19, *Commitments and Contingencies*, and Note 13, *Environmental Costs*, of the Notes to Consolidated Financial Statements, included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.

Environmental Matters

The Company and its subsidiaries are subject to numerous U.S. Federal, state and international environmental laws and regulatory requirements and are involved from time to time in investigations or litigation of various potential environmental issues concerning activities at our facilities or former facilities or remediation as a result of past activities (including past activities of companies we have acquired). From time to time, we receive notices from the U.S. Environmental Protection Agency or equivalent state or international environmental agencies that we are a potentially responsible party under the Comprehensive Environmental Response, Compensation and Liability Act (commonly known as the "Superfund Act") and/or equivalent laws. Such notices assert potential liability for cleanup costs at various sites, which may include sites owned by us, sites we previously owned and treatment or disposal sites not owned by us, allegedly containing hazardous substances attributable to us from past operations. While it is not possible to predict the outcome of these proceedings, in the opinion of management, any payments we may be required to make as a result of all such claims in existence at December 31, 2021, will not have a material adverse effect on our business, financial condition and results of operations or cash flows. Additional information relating to certain of these matters is set forth in Note 19, *Commitments and Contingencies*, and Note 13, *Environmental Costs*, 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

Not applicable.

PART II

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

MARKET, DIVIDEND AND SHAREHOLDER INFORMATION

Our Common Stock is traded on the New York Stock Exchange under the symbol "KAMN". As of January 28, 2022, there were 3,411 registered holders of our Common Stock. Holders of the Company's Common Stock are eligible to participate in the Computershare CIP program, which offers a variety of services including dividend reinvestment and direct stock purchase. The plan brochure describing the program may be obtained by contacting Computershare at (800) 227-0291 or via the web at www.computershare.com/investor.

ISSUER PURCHASES OF EQUITY SECURITIES

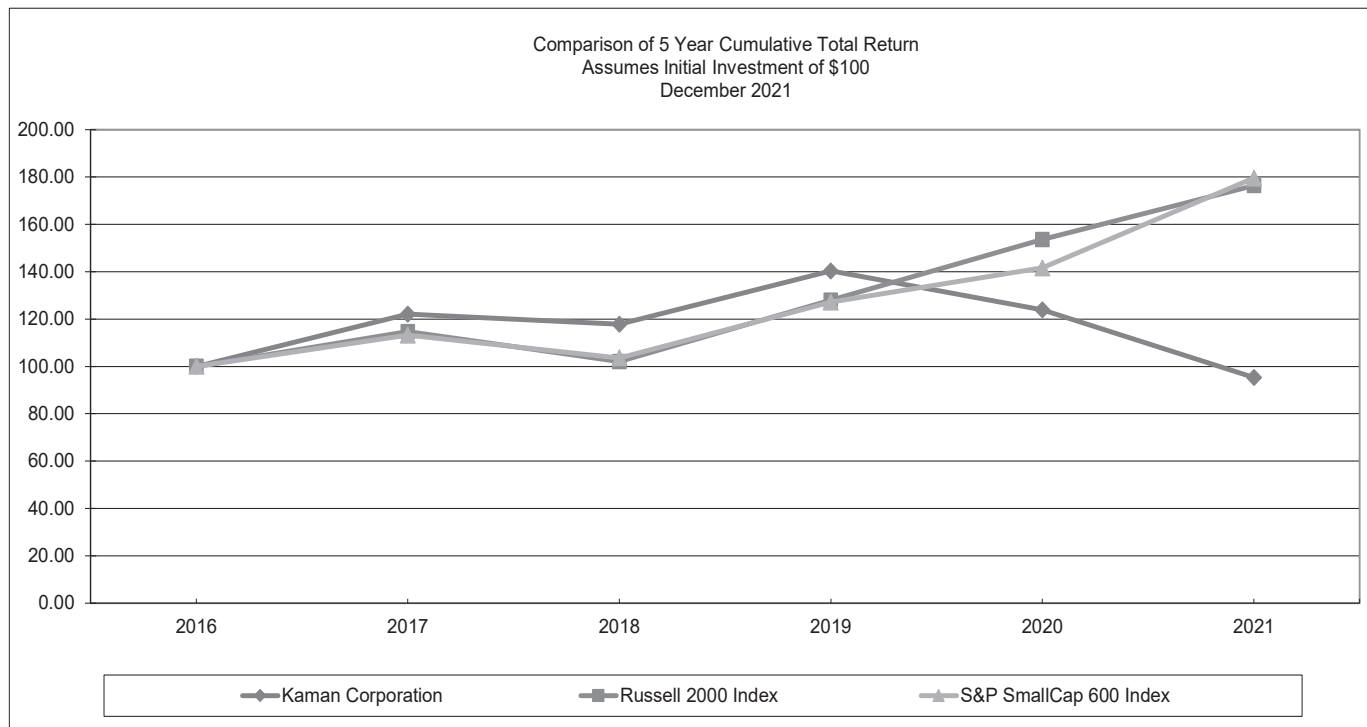
The following table provides information about purchases of Common Stock by the Company during the three months ended December 31, 2021:

Period	Total Number of Shares Purchased (a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plan (in thousands)
October 2, 2021 – October 29, 2021	—	\$ —	—	\$ 2,168
October 30, 2021 – November 26, 2021	1,668	\$ 39.37	—	\$ 2,168
November 27, 2021 – December 31, 2021	—	\$ —	—	\$ 2,168
Total	<u>1,668</u>		<u>—</u>	

(a) During the quarter the Company purchased 1,668 shares in connection with employee tax withholding obligations as permitted by our equity compensation plans; these purchases were made in compliance with SEC Rule 16b-3. These are not purchases under our publicly announced program.

PERFORMANCE GRAPH

Following is a comparison of our total shareholder return for the period 2016 – 2021 compared to the S&P 600 Small Cap Index and the Russell 2000 Small Cap Index. The performance graph does not include a published industry or line-of-business index or peer group of similar issuers because during the performance period the Company was conducting operations in diverse lines of business and we do not believe a meaningful industry index or peer group can be reasonably identified. Accordingly, as permitted by regulation, the graph includes the S&P 600 Small Cap Index and the Russell 2000 Small Cap Index, both of which are comprised of issuers with market capitalizations generally similar to that of the Company.



	2016	2017	2018	2019	2020⁽¹⁾	2021⁽¹⁾
Kaman Corporation	100.00	122.11	117.89	140.36	123.95	95.34
S&P Small Cap 600	100.00	113.23	103.63	127.24	141.60	179.58
Russell 2000	100.00	114.65	102.02	128.06	153.62	176.39

⁽¹⁾ The Company's 2021 and 2020 results were impacted by the effects of the COVID-19 pandemic on the commercial aerospace end market, which represented approximately 26% and 28%, respectively, of net sales.

ITEM 6. [RESERVED]

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 ("the Company") conducts business through three business segments:

- The Engineered Products segment serves the aerospace and defense, industrial and medical markets providing sophisticated, proprietary aircraft bearings and components; super precision, miniature ball bearings; and proprietary spring energized seals, springs and contacts.
- The Precision Products segment serves the aerospace and defense markets providing precision safe and arming solutions for missile and bomb systems for the U.S. and allied militaries; subcontract helicopter work; restoration, modification and support of our SH-2G Super Seasprite maritime helicopters; manufacture and support of our heavy lift K-MAX® manned helicopter, the *TITAN* UAV aerial system and the *KARGO UAV* unmanned aerial system, a purpose built autonomous medium lift logistics vehicle.
- The Structures segment serves the aerospace and defense and medical end markets providing sophisticated complex metallic and composite aerostructures for commercial, military and general aviation fixed and rotary wing aircraft, and medical imaging solutions.

Executive Summary

In the year ended December 31, 2021, consolidated net sales from continuing operations decreased by 9.6% to \$709.0 million due to a 7.3% decrease in organic sales and \$19.8 million in lower sales due to the sale of our UK Composites business in early 2021. Gross margin was 33.4% compared to 31.3% in the prior year period. This performance was driven by improved performance on our seals, springs and contacts and the absence of losses from the UK Composites business. Selling, general and administrative expenses ("S,G&A") decreased by 10.0%, primarily driven by lower employee-related costs and the absence of \$8.5 million in acquisition costs incurred in the prior year for the purchase of Bal Seal. GAAP earnings per share from continuing operations improved to \$1.57 compared to a loss per share from continuing operations in the prior year, primarily due to the absence of the impairment charges incurred in 2020.

Other financial highlights

- Earnings from continuing operations, net of tax was \$43.7 million, a 162.0% increase compared to the prior year. This increase reflects the absence of the goodwill impairment charge and loss on the anticipated sale of our UK Composites business realized in 2020.
- Cash flows provided by operating activities of continuing operations were \$48.7 million for 2021, an increase of \$32.2 million, compared to the prior year. This change was largely driven by the collection of payments on outstanding receivables related to the Joint Programmable Fuze ("JPF") direct commercial sales ("DCS") program.
- Total unfulfilled performance obligations ("backlog") increased 11.0% to \$700.9 million, mostly driven by the award of a follow-on multi-year contract for the BLACK HAWK program and strong order intake at our Engineered Products segment.

Acquisitions and divestitures

- In February 2021, we completed the sale of our UK Composites business.

Awards and recognition

- In October 2021, our Jacksonville division was named Manufacturer of the Year by First Coast Manufacturing Association. Key considerations of the award include environmental, health and safety, continuous improvement, workforce and community engagement and talent management process.

- In April 2021, Kineco Kaman Composites India Private Limited, our joint venture, was named a Gold Supplier of BAE Systems and received the BAE Systems Partner 2 Win Supplier of the Year Award for Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance Systems ("C4ISR") for exceptional performance and contributions to supply chain success in the Electronic Systems sector in 2020.

Management changes

- In December 2021, Russell J. Bartlett was named segment lead of the Engineered Products segment and Structures segment and Darlene R. Smith was named segment lead of the Precision Products segment.
- In July 2021, James G. Coogan was appointed Senior Vice President and Chief Financial Officer, effective July 8, 2021. Mr. Coogan succeeded Robert D. Starr.
- In April 2021, Ian K. Walsh, President and CEO, was appointed Chairman of the Board of Directors and Jennifer Pollino assumed the role of the Lead Independent Director.

Other key events

- In February 2022, our FAA Part 145 Repair Station in Wichita, Kansas earned FAA approval for two new composite repair capabilities.
- In January 2022, we announced the expansion of our medical imaging program through a partnership with Mirion Technologies ("Mirion"). We will supply surgical C-Arm tabletops to Mirion with deliveries expected to begin in the second quarter of 2022.
- In January 2022, we announced that our Kamatics business will support the new James Webb Telescope with its Karon® high technology, self-lubricating bearings.
- In December 2021, we entered into a follow-on multi-year contract with Sikorsky to manufacture UH-60 BLACK HAWK cockpits for both the "M" and the "Med" models.
- In 2021, we received signed purchase agreements for three K-MAX® medium-to-heavy lift helicopters. One aircraft was delivered in the first quarter of 2021 and two aircraft were delivered in the fourth quarter of 2021.
- In October 2021, we integrated our TITAN UAV aerial system onto our K-MAX® aircraft and successfully completed two demonstrations of its capabilities, including Near Earth autonomy and obstacle avoidance technology.
- In October 2021, we successfully completed the demonstration of two flight tests of FireBurst™ enhanced fuzing capability, a Kaman patented Height of Burst solution that adds additional capabilities to existing and future safe and arm devices.
- In September 2021, we unveiled the KARGO UAV unmanned aerial system, a purpose-built, autonomous system designed to be the new standard for expeditionary logistics.
- In August 2021, Kaman Composites - Wichita celebrated the delivery of the 1,500th inlet unit for the CH-47 Boeing Program.
- In August 2021, the Company was selected by Transcend Air Corporation to participate in the manufacturing of its the Vy 400 High Speed Vertical Takeoff and Landing ("HSVTOL") aircraft.
- In August 2021, we announced that that we received an order under Option 16 of our JPF contract with the USG. This order has an expected value of approximately \$43 million for the procurement of JPFs for foreign militaries.
- In April 2021, we successfully completed the first test flight with the K-MAX TITAN unmanned aerial system.
- In March 2021, we opened our first production cell for highly engineered products utilizing our proprietary Titanium Diffusion Hardening process.
- In March 2021, we were awarded a contract by Boeing to manufacture the refueling boom assembly for the MH-47 program. The program is expected to start in the first half of 2022.
- In January 2021, the Agencia Nacional de Aviação Civil ("ANAC") in Brazil issued the Type Certificate for the Kaman K-1200 K-MAX® helicopter. We have been marketing the K-MAX® helicopter to various Brazilian operators, power line, oil and gas firms, and engineering companies over the past two years, and this certification clears the path for K-MAX® operations in Brazil.

COVID-19 Discussion

We continue to monitor the impact of the coronavirus ("COVID-19") pandemic on all aspects of our business and across the geographies in which we operate and serve customers, as well as the extent to which it has impacted and will continue to impact our customers, suppliers and other business partners. Despite efforts to mitigate the risks associated with COVID-19, the markets we serve and demand for our products were adversely impacted during 2021 and we have seen some disruptions to our supply chain, such as delays in materials and components used in our manufacturing process; however, we continue to meet the demands of our customers. While we did not incur significant disruptions related to the COVID-19 pandemic during 2021, we continue to operate below pre-pandemic levels for our commercial aerospace products. We anticipate recoveries for these

products in 2022; however, the developments related to COVID-19 variants make it difficult to predict the timing and magnitude of the recovery. We saw recoveries in our medical and industrial end markets during 2021. Our defense and safe and arm device end markets have not been impacted by COVID-19 and we do not expect future declines due to COVID-19 on the results of these end markets. In addition to the pressures discussed above, we anticipate inflationary and wage pressures in 2022. The extent to which COVID-19 may adversely impact the Company depends on future developments, which are highly uncertain and unpredictable at this time.

The health and safety of our employees, their families and communities, and our customers are our highest priorities. To maintain employee productivity and minimize the risk of exposure while working, we continue to follow guidance issued by the Centers for Disease Control and state and local governments to allow our employees to work with confidence knowing that their health and safety is a key priority. We have begun to allow visitors and business associates to our facilities, provided they adhere to the Company's guidelines. On September 9, 2021, the Biden Administration issued an executive order requiring all employers with USG contracts to ensure that their U.S.-based employees, contractors, and subcontractors who perform work on or in support of USG contracts, are fully vaccinated by December 8, 2021, which was later delayed to January 4, 2022. President Biden also announced that he directed the Occupational Safety and Health Administration ("OSHA") to create an Emergency Temporary Standard ("ETS"), stating that all employers with 100 or more employees require that all workers be vaccinated or undergo weekly COVID-19 testing. OSHA issued this ETS on November 5, 2021 which echoed the requirements of the executive order discussed above. In January 2022, the Supreme Court blocked the Biden administration from enforcing the executive order discussed above and a U.S. judge blocked the Biden Administration from enforcing the executive order on federal employees. In the event a vaccine mandate is required, it is currently not possible to predict the effect that the executive order or OSHA ETS will have on our workforce. Ensuring compliance with a vaccine mandate or weekly testing requirement may be difficult and costly and it is possible that some employees may choose to leave employment over a vaccine or testing requirement, which would result in attrition, including the attrition of skilled labor, and difficulty finding future workers. Our ability to perform on our contracts is also dependent upon our subcontractors and suppliers. Our subcontractors and suppliers who are subject to the vaccine mandate may be impacted by an inability to comply or loss of personnel, which could disrupt subcontractor or supplier performance or deliveries. There can be no assurance that the compliance with these requirements will not have a material adverse effect on our business, financial condition and results of operations.

Refer to the *Liquidity and Capital Resources* section of Management's Discussion and Analysis for information on the impact of COVID-19 on the liquidity of the Company.

RESULTS FROM CONTINUING OPERATIONS

During the third quarter of 2019, we completed the sale of our Distribution business for total cash consideration of \$700.0 million, excluding certain working capital adjustments. As a result of the sale, the Distribution business results met the criteria for the presentation of discontinued operations. The results presented below represent the results of continuing operations. See Note 2, *Disposals*, in the Notes to Consolidated Financial Statements included in this Form 10-K for further details.

Refer to Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, of the Annual Report on Form 10-K for the year ended December 31, 2020 for a discussion of the change in results of continuing operations from the earliest year presented.

Net Sales from Continuing Operations

	<u>2021</u>	<u>2020</u>	<u>2019</u>
<i>In thousands</i>			
Net sales	\$ 708,993	\$ 784,459	\$ 761,608
\$ change	(75,466)	22,851	25,614
% change	(9.6)%	3.0 %	3.5 %
Sales of disposed businesses that did not qualify for discontinued operations	1,704	21,490	32,049
Organic sales	\$ 707,289	\$ 762,969	\$ 729,559
\$ change	(55,680)	33,410	
% change	(7.3)%	4.6 %	

Net sales for 2021 decreased when compared to 2020, primarily due to a 7.3% decrease in organic sales and \$19.8 million in lower sales due to the sale of our UK Composites business in early 2021. The decrease in organic sales was attributable to \$46.2 million in lower sales in our Precision Products segment and \$12.1 million in lower organic sales at our Structures segment.

These decreases were partially offset by an increase in sales at our Engineered Products segment. Foreign currency exchange rates relative to the U.S. dollar had a favorable impact of \$3.7 million on net sales. See Segment Results of Operations and Financial Condition below for further discussion of segment net sales.

The table below summarizes the changes in organic net sales by product line for the year ended December 31, 2021, compared to the corresponding period in 2020.

Product Line	Increase (Decrease)	\$ (in millions)	%
Defense	↑	\$ 1.1	0.7 %
Safe and Arm Devices	↓	\$ (57.0)	(22.9)%
Commercial, Business and General Aviation	↓	\$ (28.7)	(13.5)%
Medical	↑	\$ 16.7	23.9 %
Industrial	↑	\$ 12.1	18.5 %

Gross Profit from Continuing Operations

	2021	2020	2019
<i>In thousands</i>			
Gross profit	\$ 236,618	\$ 245,582	\$ 240,805
\$ change	(8,964)	4,777	13,488
% change	(3.7)%	2.0 %	5.9 %
% of net sales	33.4 %	31.3 %	31.6 %

Gross profit for 2021 decreased when compared to 2020. This was primarily attributable to lower direct commercial sales of our JPF to foreign militaries and lower sales and associated gross profit on our bearings products and missile fuzing contracts. These decreases, totaling \$35.5 million, were partially offset by the absence of losses associated with our former UK Composites business and higher sales and associated gross profit under our JPF program with the USG, our medical implantable and analytical devices and the SH-2G spares program for New Zealand.

Gross profit as a percentage of sales for 2021 increased when compared to 2020, primarily due to the absence of losses from our former UK Composites business, improved performance on our K-MAX® spares and support and on our seals, springs and contacts. These increases were partially offset by cost growth on our missile fuzing and memory products and on our Boeing Wing-to-Body Fairing program.

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

	2021	2020	2019
<i>In thousands</i>			
S,G&A	\$ 152,474	\$ 169,485	\$ 160,768
\$ change	(17,011)	8,717	4,567
% change	(10.0)%	5.4 %	2.9 %
% of net sales	21.5 %	21.6 %	21.1 %

The decrease in S,G&A expenses for 2021 as compared to 2020 was primarily attributable to a decrease in employee-related costs, including lower salary and wage expenses as a result of the workforce reductions implemented to support our cost savings initiative, the absence of \$8.5 million of Bal Seal acquisition costs and \$2.3 million in third party costs associated with our efforts to reduce general and administrative expenses in the prior year and lower S,G&A of \$4.6 million due to the sale of our UK Composites business in early 2021. These decreases were partially offset by an increase in group health costs.

Costs from Transition Services Agreement

	<u>2021</u>	<u>2020</u>	<u>2019</u>
<i>In thousands</i>			
Costs from transition services agreement	\$ 1,728	\$ 12,515	\$ 4,673

Upon closing the sale of the Distribution business, the Company entered into a transition services agreement ("TSA") with the buyer, pursuant to which the Company agreed to support the information technology, human resources and benefits, tax and treasury functions of the Distribution business for six to twelve months. The buyer had the option to extend the support period for up to an additional year for certain services. The buyer exercised the option to extend the support period for up to a maximum of an additional year for certain information technology services. The buyer had the right to terminate individual services at any point over the renewal term and began to terminate certain services during the third quarter of 2020. During the third quarter of 2021, the TSA expired and all services were completed as of the end of the period. The Company incurred \$1.7 million, \$12.5 million and \$4.7 million in costs associated with the TSA in the years ending December 31, 2021, 2020, and 2019, respectively. These costs were partially offset by \$0.9 million, \$8.4 million, and \$3.7 million in income earned from the TSA included in income from transition services agreement, which is below operating income on the Company's Consolidated Statements of Operations.

Cost of Acquired Retention Plans

	<u>2021</u>	<u>2020</u>	<u>2019</u>
<i>In thousands</i>			
Costs of acquired retention plans	\$ —	\$ 22,814	\$ —

Bal Seal's previous owner implemented employee retention plans prior to our 2020 acquisition of the business. Upon closing, we funded \$24.7 million of the purchase price into escrow accounts associated with these employee retention plans. Eligible participants received an allocation of the escrow balances one year following the acquisition date. Upon acquisition, Bal Seal had \$1.9 million in costs accrued for these employee retention plans; therefore, we incurred \$22.8 million in compensation expense associated with these retention plans in the year ended December 31, 2020. Eligible participants received an allocation of the escrow balance one year following the acquisition date, which is reflected in the Company's cash flows from operating activities for the year ended December 31, 2021.

Goodwill and Other Intangibles Impairment

	<u>2021</u>	<u>2020</u>	<u>2019</u>
<i>In thousands</i>			
Goodwill and other intangibles impairment	\$ —	\$ 50,307	\$ —

During the third quarter of 2020, we identified a triggering event for possible impairment of our Aerosystems reporting unit based on a decline in earnings compared to forecasts used in prior periods and updated forecasts, which indicated the forecasted cash flows for this reporting unit were lower than amounts previously forecasted. The evaluation resulted in a goodwill impairment charge of \$50.3 million for the Aerosystems reporting unit in the year ended December 31, 2020, which represented the entire goodwill balance for this reporting unit.

See Note 12, *Goodwill and Other Intangible Assets, Net*, for further information on the goodwill impairment charge taken in the prior year period.

Impairment of Assets Held for Sale

	<u>2021</u>	<u>2020</u>	<u>2019</u>
<i>In thousands</i>			
Impairment of assets held for sale	\$ —	\$ 36,285	\$ —

In the fourth quarter of 2020, we committed to a plan and received approval from our Board of Directors to sell our UK Composites division. At December 31, 2020, the assets of the UK Composites business were considered impaired as the estimated fair value of the disposal group was lower than the estimated carrying value of the UK Composites business. As a result, \$24.3 million in assets were written off and the remaining loss related to the anticipated sale of the disposal group of \$12.0 million was accrued for in liabilities held for sale, current portion on the Company's Consolidated Balance Sheets, resulting in a total loss of \$36.3 million recorded to impairment on assets held for sale on the Company's Consolidated

Statements of Operations in the year ended December 31, 2020. Of this amount, \$22.9 million related to the cumulative translation adjustment balance for the UK Composites division. In the first quarter of 2021, we closed on a transaction to sell the UK Composites business, which did not qualify for reporting of discontinued operations. We recorded an additional loss of \$0.2 million in the year ended December 31, 2021 associated with the sale which was recorded to loss (gain) on sale of business.

Restructuring and Severance Costs from Continuing Operations

	<u>2021</u>	<u>2020</u>	<u>2019</u>
<i>In thousands</i>			
Restructuring and severance costs	\$ 6,154	\$ 8,359	\$ 1,558

The following table disaggregates the components of restructuring and severance costs:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
<i>In thousands</i>			
Cost reduction initiative	\$ 6,154	\$ 3,970	\$ 927
Integration of Bal Seal acquisition	—	524	—
Workforce reductions in response to COVID-19	—	3,549	—
Composites business restructuring	—	316	631
Total restructuring and severance costs	<u>\$ 6,154</u>	<u>\$ 8,359</u>	<u>\$ 1,558</u>

Cost Reduction Initiative

Since the sale of our former distribution business in 2019, we continued to evaluate our cost structure with the objective of a lean organizational structure that improves operational efficiency and provides a scalable infrastructure which facilitates future growth opportunities. We have identified information technology functions to be outsourced, workforce reductions and other reductions in certain general and administrative expenses to support the cost savings initiative. The actions taken in 2021 are expected to begin generating savings in the first half of 2022, with total annualized cost savings of approximately \$10.3 million being realized by 2024.

Integration of Bal Seal Acquisition

We incurred severance costs as we integrated the acquisition of Bal Seal in year ended December 31, 2020. We are realizing annual cost savings of approximately \$1.2 million as a result of these activities.

Workforce Reductions in Response to COVID-19

During 2020, the Company implemented temporary workforce reductions, including furloughs, and elected to eliminate certain open positions as a response to the unprecedented hardships brought on by COVID-19.

The restructure and severance costs above were included in restructuring and severance costs on the Company's Consolidated Statements of Operations and other unallocated expenses, net within Note 4, *Segment and Geographic Information*.

Loss (Gain) on Sale of Business

	<u>2021</u>	<u>2020</u>	<u>2019</u>
<i>In thousands</i>			
Loss (gain) on sale of business	\$ 234	\$ (493)	\$ 3,739

As discussed above, in the fourth quarter of 2020, we committed to a plan and received approval from our Board of Directors to sell our UK Composites division. At December 31, 2020, the assets of the UK Composites business were considered impaired as the estimated fair value of the disposal group was lower than the estimated carrying value of the UK Composites business resulting in a \$36.3 million impairment charge recorded to impairment on assets held for sale on the Company's Consolidated Statements of Operations in the year ended December 31, 2020. In the year ended December 31, 2021, we recorded an additional loss of \$0.2 million recorded to loss (gain) on sales of business when the sale was finalized.

During 2018, we sold our UK Tooling business. This sale did not qualify for the reporting of discontinued operations within the consolidated financial statements. In the year ended December 31, 2019, the Company incurred a loss of \$3.7 million associated with the write-off of note receivables recorded for the amounts to be collected on the sale of the UK Tooling business as this balance was deemed not likely to be collected. In the year ended December 31, 2020, we collected \$0.5 million of the note receivables written off in 2019.

Operating Income (Loss) from Continuing Operations

	<u>2021</u>	<u>2020</u>	<u>2019</u>
<i>In thousands</i>			
Operating income (loss)	\$ 49,496	\$ (84,311)	\$ 53,411
\$ change	133,807	(137,722)	20,448
% change	158.7 %	(257.9)%	62.0 %
% of net sales	7.0 %	(10.7)%	7.0 %

We had operating income of \$49.5 million in 2021, compared to an operating loss of \$84.3 million in 2020. This change was primarily attributable to the absence of the impairment charges discussed above and the cost of the acquired retention plan recorded in the prior year. Additionally contributing to the increase in operating income were lower costs incurred related to the TSA, a decrease in severance costs, the absence of costs associated with the purchase accounting for the Bal Seal acquisition and higher operating income at the Engineered Products and Structures segments. These changes were partially offset by lower operating income at the Precision Products segment. See Segment Results of Operations and Financial Condition below for further discussion of segment operating income.

Interest Expense, Net from Continuing Operations

	<u>2021</u>	<u>2020</u>	<u>2019</u>
<i>In thousands</i>			
Interest expense, net	\$ 16,290	\$ 19,270	\$ 17,202

Interest expense, net generally consists of interest charged on our Credit Agreement, which includes a revolving credit facility and a term loan under our previously existing credit facility, and our convertible notes and the amortization of debt issuance costs, offset by interest income. The decrease in interest expense, net for 2021 as compared to 2020 was primarily due to lower interest expense on our revolving credit facility due to lower average borrowings, partially offset by lower interest income earned on marketable securities.

Effective Income Tax Rate from Continuing Operations

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Effective income tax rate	27.8 %	9.9 %	(39.1)%

The effective tax rate represents the combined federal, state and foreign tax effects attributable to pretax earnings for the year. See Note 16, *Income Taxes*, in the Notes to Consolidated Financial Statements included in this Form 10-K for further details.

Backlog

	<u>2021</u>	<u>2020</u>	<u>2019</u>
<i>In thousands</i>			
Backlog	\$ 700,923	\$ 631,236	\$ 806,870

Backlog increased from 2020 to 2021, primarily driven by the follow-on multi-year contract for the BLACK HAWK program, the award of Option 16 under our JPF program with the USG and strong order intake in our Engineered Products segment. These increases were partially offset by revenue recognized for deliveries of direct commercial JPF orders.

Other Matters

Information regarding our various environmental remediation activities and associated accruals can be found in Note 19, *Commitments and Contingencies*, and Note 13, *Environmental Costs*, in the Notes to Consolidated Financial Statements included in this Form 10-K.

Long-Term Contracts

For long-term contracts, we generally recognize sales and cost of sales over time because of continuous transfer of control to the customer, which allows for recognition of revenue as work on a contract progresses. For those programs for which there is a continuous transfer of control to the customer, we recognize sales and profit on a cost-to-cost basis, in which case sales and profit are recorded based upon the ratio of costs incurred to date to the total estimated costs to complete the contract. Conversely, revenue on certain programs, such as the K-MAX® program and on direct commercial sales under our JPF program, is recognized at a point in time, with revenue being recognized upon transfer to the end customer. See Note 1, *Summary of Significant Accounting Policies*, in the Notes to the Consolidated Financial Statements included in this Form 10-K for additional information regarding the effects of adjustments in profit estimates on long-term contracts for which revenue is recognized over time.

SEGMENT RESULTS OF OPERATIONS AND FINANCIAL CONDITION

In the fourth quarter of 2021, the Chief Operating Decision Maker ("CODM") established a new structure for the Company to better align our businesses to support capital allocation plans, portfolio management and growth. This new structure resulted in the introduction of three reportable segments: Engineered Products, Precision Products and Structures. Refer to the Overview of Business section of Item 7. Management's Discussion and Analysis included in this Form 10-K for descriptions of each segment.

Engineered Products Segment

Our Strategy

Our Engineered Products strategy is to differentiate ourselves with innovative solutions that drive organic growth and solve our customers problems while focusing on a best in class operations excellence model. Our strong and diversified portfolio of businesses and products allow us to leverage our broad capabilities across multiple industries, including aerospace and defense, medical and industrial. We will leverage our experience and expertise in material science and application engineering to design and develop bearings, seals, springs and contacts in partnership with our customers to push the boundaries on what is possible.

Results of Operations

The following table presents selected financial data for our Engineered Products segment:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
<i>In thousands</i>			
Net sales	\$ 317,683	\$ 315,063	\$ 270,335
\$ change	2,620	44,728	6,416
% change	0.8 %	16.5 %	2.4 %
Operating income	\$ 43,097	\$ 33,561	\$ 64,195
\$ change	9,536	(30,634)	1,181
% change	28.4 %	(47.7)%	1.9 %
% of net sales	13.6 %	10.7 %	23.7 %

Net sales

2021 versus 2020

Net sales for 2021 increased compared to 2020, driven by recoveries in our medical and industrial bearings products and springs, seals and contacts, including products used in medical implantables and analytical devices. These improvements, totaling \$26.1 million, were partially offset by lower sales volume of our commercial bearings products, which continue to be impacted by COVID-19, and to a lesser extent defense bearings products.

2020 versus 2019

Net sales for 2020 increased when compared to 2019, primarily due to the contribution of \$77.0 million of sales from our Bal Seal acquisition and higher sales volume of our defense bearings products. These increases, totaling \$89.1 million, were partially offset by lower sales volume of our commercial bearings products, driven by lower sales to Boeing and Airbus due to the impacts of COVID-19, and a less significant decrease in sales volume of our medical bearings products.

Operating Income

2021 versus 2020

Operating income for 2021 increased when compared to 2020, primarily due to higher sales and associated gross profit on our seals, springs and contacts and \$5.3 million in lower intangible asset amortization expense. These changes were partially offset by lower sales volume of our commercial bearings products, driven by lower sales to Boeing and Airbus due to the impacts of COVID-19.

2020 versus 2019

Operating income for 2020 decreased when compared to 2019, primarily due to lower sales volume of our commercial bearings products, driven by lower sales to Boeing and Airbus due to the impacts of COVID-19. Additionally contributing to the decrease in operating income was \$11.1 million in intangible asset amortization expense associated with the purchase accounting for the Bal Seal acquisition. These changes were partially offset by the contribution of \$29.1 million in gross profit from our Bal Seal acquisition and higher sales and gross profit on our defense bearings.

Major Programs/Product Lines

Defense Bearings

Our bearings products are included on numerous military platforms manufactured in North America, South America, Asia and Europe. These products are used as original equipment and/or specified as replacement parts by the manufacturers. The most significant portion of our military bearings sales is derived from U.S. military platforms, such as the AH-64 helicopter, Virginia Class submarine and Joint Strike Fighter aircraft, and sales in Europe for the Typhoon program. These products are primarily proprietary self-lubricating, ball and roller bearings for aircraft flight controls, turbine engines and landing gear, and helicopter driveline couplings.

Commercial Bearings

Our bearings products are included on commercial airliners and regional/business jets manufactured in North and South America, Europe and Asia and are used as original equipment and/or specified as replacement parts by airlines and aircraft manufacturers. These products are primarily proprietary self-lubricating, ball and roller bearings for aircraft flight controls, turbine engines, landing gear and helicopter driveline couplings. The most significant portion of our commercial sales is derived from Boeing, Airbus and Bombardier platforms, such as the Boeing 737, 747, 777 and 787, the Airbus A320, A330, A350 and A380, and the Bombardier Global 7500. Our commercial bearings products were particularly impacted by the COVID-19 pandemic. We expect recovery in sales related to single-aisle aircraft to occur over the next three years, while the recovery for sales related to twin-aisle aircraft to be more gradual over the next decade.

In the first quarter of 2019, the Federal Aviation Administration ("FAA") issued an order to suspend all 737 MAX aircraft in the U.S. and by U.S. aircraft operators following two fatal 737 MAX accidents. Boeing suspended deliveries until the FAA and other civil aviation authorities worldwide granted the clearance to return the aircraft to service. In November 2020, the FAA lifted the orders to suspend operations of the Boeing 737 MAX and in early 2021, airlines around the globe began to clear the Boeing 737 MAX for flying. Although production rates increased in 2021 and higher output rates are expected in 2022, there can be no assurance that the production rate will return to the production rate prior to the grounding of the 737 MAX fleet. In the years ended December 31, 2021, 2020 and 2019, we recognized \$4.0 million, \$5.6 million and \$19.9 million, respectively, in revenue associated with the sale of our products that are utilized on the 737 MAX aircraft fleet.

Aerospace and Defense Springs, Seals and Contacts

Our precision springs, seals and contacts are used in the aerospace and defense end market to protect critical equipment from potential failure and maintain pressure while excluding debris and moisture. These products provide mechanical latching and electrical conductivity and are also used to shield sensitive electronics used in defense aircraft.

Medical Products

Our super precision miniature ball bearings and precision springs, seals and contacts are utilized in the medical technology end market. These products improve the performance and reliability of components in high cost of failure environments, such as powered surgical tools, orthopedic implants, dental products, pumps, monitors, analytic devices, active implantables and other critical medical equipment.

Industrial Products

Our bearings and precision seals, springs and contacts are used in the industrial end market. Our technology differentiation provides a high power draw and is utilized in applications requiring high performance including radar systems, fuel pumps, hydraulics, navigation systems, motors and robotics.

Other

In 2021, we opened a new production cell for products manufactured using our proprietary Titanium Diffusion Hardening ("TDH") process, which provides the lightweight and high strength benefits of titanium alloys while improving surface hardness, durability and wear characteristics. In July 2021, the TDH process was utilized in a successful human space travel mission and, during the year, we received an initial order from a leading electric vertical takeoff and landing ("eVTOL") manufacturer for components manufactured using our TDH process. We see significant opportunities to expand our product offering utilizing our TDH process across a broad range of end markets, including eVTOL, space, aerospace and defense, medical and industrial.

Precision Products Segment

Our Strategy

The Precision Products strategy is to focus on solving tomorrow's problems through innovation and technology by empowering the strengths of our employees, partners and suppliers. We serve both commercial and defense customers by customizing solutions and technologies for their specific needs. Our strategy is focused on growing an ecosystem of products, including safe and arming solutions for missile and bomb systems, helicopters and aerial systems, which enhances the customer's ability to execute missions flawlessly, with simplistic ease. We have an endless pursuit of operational excellence through the continual training of our employees and successful integration of new talent. We will grow our product offerings by investing in new technologies and identifying new market opportunities.

Results of Operations

The following table presents selected financial data for our Precision Products segment:

	2021	2020	2019
<i>In thousands</i>			
Net sales	\$ 256,329	\$ 302,509	\$ 307,312
\$ change	(46,180)	(4,803)	16,700
% change	(15.3)%	(1.6)%	5.7 %
Operating income	\$ 55,366	\$ 74,033	\$ 59,573
\$ change	(18,667)	14,460	3,151
% change	(25.2)%	24.3 %	5.6 %
% of net sales	21.6 %	24.5 %	19.4 %

Net sales

2021 versus 2020

Net sales for 2021 decreased when compared to 2020, primarily due to lower direct commercial sales of our JPF to foreign militaries and a decrease in sales on our MK54 fuzing program. These decreases, totaling \$69.6 million, were partially offset by higher sales under our JPF program with the USG, revenue related to the development of our *TITAN UAV* unmanned aerial system and higher sales volume of spares on the K-MAX® program and the SH-2G program with New Zealand.

2020 versus 2019

Net sales for 2020 decreased when compared to 2019, primarily due to lower sales under our JPF program with the USG, the K-MAX® program and our measuring programs, the absence of sales under our SH-2G program for Peru, lower sales volume of spares for the SH-2G program with New Zealand and the absence of \$6.1 million of sales associated with composite blade programs which were moved to the Structures segment in 2020. These decreases, totaling \$71.4 million, were partially offset by higher direct commercial sales of our JPF to foreign militaries and an increase in sales on our MK54 fuzing program.

Operating Income

2021 versus 2020

Operating income for 2021 decreased when compared to 2020, primarily attributable to lower direct commercial sales and associated gross profit on our JPF to foreign militaries and a decrease in gross profit on our legacy fuzing programs. These decreases in gross profit, totaling \$26.6 million, were partially offset by higher sales and associated gross profit on our JPF program with the USG and the SH-2G program with New Zealand.

2020 versus 2019

Operating income for 2020 increased when compared to 2019. This increase was primarily attributable to higher direct commercial sales of and associated gross profit on our JPF to foreign militaries and an increase in gross profit on our legacy fuzing programs. These increases in gross profit, totaling \$27.5 million, were partially offset by lower sales and associated gross profit on our JPF program with the USG and lower volume of spares for the SH-2G program with New Zealand.

Major Programs/Product Lines

FMU-152 A/B – 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. Sales of these fuzes can be direct to the USG, Foreign Military Sales ("FMS") through the USG and Direct Commercial Sales ("DCS") to foreign militaries that, although not funded by or sold through the USG, require regulatory approvals from the USG.

A total of 8,790 fuzes were delivered to our customers during the fourth quarter of 2021, bringing the year-to-date total to 29,080 fuzes. We expect to deliver 25,000 to 30,000 fuzes in 2022. Total JPF backlog at December 31, 2021 was \$103.4 million, down from \$214.7 million at December 31, 2020, reflecting the delivery of fuzes during 2021, partially offset by the award of Option 16 discussed below.

Our JPF program continues to move through its product lifecycle, reflecting the previously announced decision of the United States Air Force ("USAF") to move to the FMU-139 D/B (which we do not produce) as its primary fuze system. During 2021, we completed our delivery requirements under Option 14 of our USG contract and we began to satisfy the requirements under Option 15, which relates solely to the procurement of fuzes by 25 foreign militaries and has an expected value of approximately \$57.3 million. In the third quarter of 2021, we received an award under Option 16 with an expected total value of approximately \$43.0 million. Similar to Option 15, this order relates solely to the procurement of fuzes by or in support of foreign militaries and does not include any sales to the USAF. Option 16 extends FMU-152 A/B production into 2023. We have been advised by our customer that Option 16 will be the last order under our JPF contract with the USG. While we do not expect the close-out of our JPF contract with the USG to adversely impact our ability to continue to market the FMU-152 A/B directly to foreign militaries in direct commercial sales transactions, in the event the foreign militaries move to the FMU-139 D/B, our financial condition and results of operations would be materially adversely impacted. We are currently in discussions with two Middle Eastern customers for one or more follow-on orders aggregating a minimum of \$45.0 million. The final value of these orders

will be dependent on volume and pricing agreed upon in the completed contracts. If received, these orders would continue to extend the life of the program. DCS orders are subject to export approvals, licenses, or authorizations. The timing and receipt of any such export approvals, licenses, or authorizations are subject to political and geopolitical conditions that are beyond our control.

K-MAX®

We manufacture the commercial K-MAX® aircraft at our Jacksonville, Florida and Bloomfield, Connecticut facilities. In 2021, three helicopters from the commercial production line were accepted by our customers. During 2019, we announced that we are developing the next generation *TITAN UAV* unmanned aerial system that will allow operators to have the capability to fly either manned or unmanned missions. In October 2021, we integrated our *TITAN UAV* aerial system onto our K-MAX® aircraft and successfully completed two demonstrations of its capabilities, including Near Earth autonomy and obstacle avoidance technology. We expect to offer unmanned system kits for new production and existing aircraft in 2022. As of December 31, 2021 and 2020, our backlog for the K-MAX® program was \$13.8 million and \$20.9 million, respectively.

KARGO

In 2021, we unveiled the *KARGO UAV* unmanned aerial system, a compact purpose-built, autonomous aircraft designed to provide cost-effective cargo hauling up to 800 pounds. The *KARGO UAV* provides multiple payload options with a conformal supply pod and external slingload. The aircraft is expected to serve the defense and commercial markets. In the second half of 2021, we completed a successful demonstration of our half scale model and we are currently in development of the full scale model.

Missile Fuzing

We manufacture missile fuzing systems utilized in safe and arm devices. Our fuzes are qualified for use in missile systems used by the U.S. Armed Forces, and can be found on numerous platforms, including AMRAAM®, ATacMS®, Harpoon, JASSM®, MK-54, SLAM-ER and Tomahawk.

Structures Segment

Our Strategy

The Structures strategy is focused on delivering complex metallic and composites structural components and systems to a broad range of customers in the commercial aerospace, defense and medical end markets. We seek to partner with customers and become an extension of their manufacturing process, providing our ability to strategically source, manufacture, assemble and deliver products to the strict tolerance required by our industries and to the high quality expected by our customers. Looking ahead, we are focused on adding new programs from customers that value our experience and expertise in structural manufacturing, while broadening our end market exposure to emerging growth areas, such as space and eVTOL.

Results of Operations

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

	<u>2021</u>	<u>2020</u>	<u>2019</u>
<i>In thousands</i>			
Net sales	\$ 134,981	\$ 166,887	\$ 183,961
\$ change	(31,906)	(17,074)	2,498
% change	(19.1)%	(9.3)%	1.4 %
Operating (loss) income	\$ (340)	\$ (8,858)	\$ 1,194
\$ change	8,518	(10,052)	12,516
% change	96.2 %	(841.9)%	110.5 %
% of net sales	(0.3)%	(5.3)%	0.6 %

Net sales

2021 versus 2020

Net sales decreased for 2021 when compared to 2020, primarily due to \$19.8 million in lower sales from our former UK Composites business, which was sold in early 2021, and lower sales on the Boeing Wing-to-Body Fairing program, our AH-1Z program, certain composites programs and a metallic structures program with Boeing. These decreases, totaling \$39.0 million, were partially offset by higher sales on our A-10 program.

2020 versus 2019

Net sales decreased for 2020 when compared to 2019, primarily due to \$10.6 million in lower sales volume of composite products from our former UK Composites business and lower sales on our Rolls Royce program, AH-1Z program and a metallic structures program with Boeing. These decreases, totaling \$36.0 million, were partially offset by higher sales on our Boeing Wing-to-Body Fairing program and the Sikorsky Combat Rescue Helicopter program and an increase in sales on composite blade programs which were moved from the Precision Products segment in 2020.

Operating (Loss)/Income

2021 versus 2020

Operating loss decreased for 2021 compared to 2020, primarily due to the absence of losses from our UK Composites business sold in early 2021, higher sales and associated gross profit on the A-10 program and higher gross profit on the AH-1Z program. These changes were partially offset by lower gross profit on our Boeing Wing-to-Body Fairing program and a composites structures program.

2020 versus 2019

We had an operating loss of \$8.9 million compared to operating income of \$1.2 million in 2019. This change was primarily due to lower sales and associated gross margin on our AH-1Z program and a metallic structures program with Boeing. These decreases were partially offset by higher sales and associated gross profit on the Sikorsky Combat Rescue Helicopter program.

Major Programs/Product Lines

A-10

In 2019, the USAF awarded Boeing a contract to provide up to 112 new wing assemblies and up to 15 wing kits through 2030 and we announced that we had been awarded a contract by Boeing to manufacture wing control surfaces and structural assemblies in support of the USAF's A-10 Thunderbolt Advanced Wing Continuation Kitting ("ATTACK") program. At December 31, 2021 and 2020, our program backlog was \$23.3 million and \$35.7 million, respectively.

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. We delivered 65 cockpits in 2021 as compared to the 53 cockpits delivered in 2020. In December 2021, we entered into a follow-on multi-year contract with Sikorsky to manufacture UH-60 BLACK HAWK cockpits for both the "M" and the "Med" models. The term of the agreement is five years, beginning in 2023 and ending in 2027. Included in backlog at December 31, 2021 and 2020, was \$202.0 million and \$47.0 million, respectively, for orders on this program. We anticipate cockpit deliveries to total 65 in 2022.

AH-1Z

We manufacture sheet metal details and subassemblies for the increased capability AH-1Z attack helicopter, which is produced by Bell Helicopter for the U.S. Marine Corps. We are currently on contract through Lot 17. As of December 31, 2021 and 2020, our backlog for this program was \$2.0 million and \$11.2 million, respectively.

In 2019, we signed a multi-year follow-on contract with Boeing for the production of fixed trailing edge ("FTE") assemblies for the Boeing 777 and 767 commercial aircraft. Annual quantities will vary, as they are dependent upon the orders Boeing receives from its customers. To date, Kaman has provided approximately 1,490 FTE kits and assemblies for each of the 777 and 767 programs since 1995 and 1986, respectively. During 2021, on average, we delivered one and one-half shipsets per month on the Boeing 777 platform and three shipsets per month on the Boeing 767 platform, which includes one shipset per month associated with a military tanker derivative of the 767. For 2022, we estimate deliveries on the 777 program to be two shipsets per month and on the 767 program to be three shipsets per month which includes one shipset per month associated with a military tanker derivative of the 767. As of December 31, 2021 and 2020, our backlog for these programs was \$34.1 million and \$28.7 million, respectively.

On February 21, 2021, Boeing recommended grounding active Boeing 777 aircraft equipped with a particular engine model following an engine failure. In December 2021, the FAA proposed a change to the engines. Following the modifications to the engine, the aircraft is expected to return to flight in 2022. In the years ended December 31, 2021 and 2020, revenue associated with the Boeing 777 aircraft was approximately 1% of total sales in both periods.

Composite Platforms

We manufacture composite structures products, which are utilized in the commercial, defense and medical imaging platforms. Our composite offerings are included on programs with major manufacturers including Bell, Boeing, Cessna, Sikorsky and Rolls Royce, among others.

For a discussion of other matters, see Note 19, *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 requirements 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 and its 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.

COVID-19

We anticipate that the disruptions and delays resulting from the spread of COVID-19 and the measures instituted by governments and businesses to mitigate its spread could impact our liquidity in the next twelve months. At December 31, 2021, the Company had \$140.8 million of cash on our Consolidated Balance Sheet. We are closely managing our daily cash flows to optimize our liquidity position. We also continue to closely monitor the collectability of our receivables from commercial aerospace customers as we recognize there may be delays in payments due to the impacts of COVID-19 on our customers. As of the date of this filing, we do not believe there has been any material impact on the collectability of these receivables. In addition to our reviews of collections and payables, management meets with our business units on a regular basis to review liquidity.

As of the date of this filing, we believe we have adequate liquidity due to the cash we have on hand, the bank financing we have available to us and the other actions we have taken to enhance financial flexibility and reduce the potential impact of the pandemic on our operations.

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

<i>(in thousands)</i>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>21 vs. 20</u>	<u>20 vs. 19</u>
Total cash provided by (used in):					
Operating activities.....	\$ 48,698	\$ 16,469	\$ 42,488	\$ 32,229	\$ (26,019)
Investing activities.....	(21,112)	(318,722)	628,316	297,610	(947,038)
Financing activities.....	(22,233)	(33,535)	(152,713)	11,302	119,178
Free Cash Flow ⁽¹⁾ :					
Net cash provided by operating activities.....	\$ 48,698	\$ 16,469	\$ 42,488	\$ 32,229	\$ (26,019)
Expenditures for property, plant and equipment....	(17,530)	(17,783)	(22,447)	253	4,664
Free cash flow.....	<u>\$ 31,168</u>	<u>\$ (1,314)</u>	<u>\$ 20,041</u>	<u>\$ 32,482</u>	<u>\$ (21,355)</u>

⁽¹⁾Free Cash Flow, a non-GAAP financial measure, is defined as net cash provided by operating activities less expenditures for property plant and equipment, both of which are presented in our Consolidated Statements of Cash Flows. See Management's Discussion and Analysis of Financial Condition and Results of Operations-Non-GAAP Financial Measures, in this Form 10-K.

Net cash provided by operating activities was \$48.7 million in 2021, a \$32.2 million improvement over cash provided in 2020, largely driven by the collection of payments on outstanding receivables, more specifically significant receipts on JPF DCS receivables, and higher net earnings. These changes were partially offset by \$25.1 million in nonrecurring payments to eligible participants of Bal Seal's employee retention plans implemented prior to our acquisition in 2020.

Net cash used in investing activities was \$21.1 million in 2021, \$297.6 million less than cash used in 2020. This change was primarily attributable to cash used to acquire Bal Seal in the prior period.

Net cash used in financing activities decreased by \$11.3 million in 2021 compared to 2020, primarily due to lower purchases of treasury shares in the current period.

Refer to Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, of the Annual Report on Form 10-K for the year ended December 31, 2020 for a discussion of the change in cash flows from the earliest year presented.

Material Cash Commitments

The Company considers its material contractual obligations when assessing its liquidity.

Debt and Related Interest Payments

We rely on debt financing as a source of liquidity for our business activities, including both convertible notes and our revolving credit facility. Under the convertible notes, \$199.5 million of principal liability is due in 2024. No amounts were outstanding under the revolving credit agreement at December 31, 2021. The Company is contractually obligated to make interest payments on our debt and is required to pay a quarterly commitment fee on the unused revolving loan commitment amount. The total estimated interest payments over the life of our debt instruments is \$41.4 million as of December 31, 2021. Of this amount, \$13.7 million is estimated be paid within one year. Interest payments on debt are calculated based on the applicable rate and payment dates for each instrument. For variable-rate instruments, interest rates and payment dates are based on management's estimate of the most likely scenarios for each relevant debt instrument. In the event that we borrow under our revolving credit agreement in 2022, we may be impacted by expected increases in interest rates. For further information on debt and the related interest payments, refer to Financing Arrangement discussed below and Note 14, *Debt*, in the Notes to Consolidated Financial Statements included in this Form 10-K.

Leasing

Future rental payments for operating and financing leases total \$12.2 million and \$4.5 million, respectively, as of December 31, 2021. For further information on leasing obligations, including the timing of these payments, refer to Note 20, *Leases*, in the Notes to Consolidated Financial Statements included in this Form 10-K.

Purchase Obligations

The Company has entered into purchase commitments with suppliers for materials and supplies as part of the ordinary course of business, consulting arrangements and support services. Obligations of at least \$50,000 total \$177.4 million as of December 31, 2021, of which \$135.2 million will be paid within one year.

Other

Our other long-term obligations, which include obligations under the Company's long-term incentive plan, deferred compensation plan, environmental liabilities, acquisition holdbacks and unrecognized tax benefits, total \$38.1 million at December 31, 2021, of which \$6.6 million will be paid within one year. For further information on these obligations refer to Note 13, *Environmental Costs*; Note 16, *Income Taxes*; Note 18, *Other Long-Term Liabilities*; and Note 19, *Commitments and Contingencies* in the Notes to Consolidated Financial Statements included in this Form 10-K.

Off-Balance Sheet Arrangements

During 2020, the Company and the USG entered into a Guaranty Agreement, pursuant to which the Company agreed to guarantee the full, complete and satisfactory performance of its subsidiary, Kaman Precision Products, Inc. ("KPPI") under all current and future contracts with the USG. As of the date of this filing, the only contract in place between KPPI and the USG relates to the production and sale of the JPF. KPPI is currently fulfilling the requirements of Option 15 and has been awarded Option 16. The guarantee was provided in lieu of a periodic financial capability review by the Financial Capacity Team ("FCT") of the Defense Contract Management Agency ("DCMA"). The Company is unable to estimate the maximum potential amount of future payments under the guarantee as it is dependent on costs incurred by the USG in the event of default. Although the Company believes the risk of default is low given the maturity and operational performance of the JPF program, there can be no assurance that the guarantee will not have a material adverse effect on the Company's results of operations, financial position and cash flows.

As of December 31, 2021, we had no significant off-balance sheet arrangements other than purchase obligations, the guarantee discussed above and \$92.6 million of outstanding standby letters of credit, all of which were under the revolving credit facility. Of this amount, \$86.3 million letters of credit relate to a JPF DCS contract.

In addition to the impacts of COVID-19, our working capital requirements and the material cash commitments discussed above, one or more of the following items could have an impact on our liquidity during the next 12 months:

- the matters described in Note 19, *Commitments and Contingencies*, in the Notes to Consolidated Financial Statements, including the cost of existing environmental remediation matters discussed in Note 13, *Environmental Costs*;
- contributions to our qualified pension plan and Supplemental Employees' Retirement Plan ("SERP");
- deferred compensation payments to officers;
- income tax payments;
- costs associated with acquisitions and corporate development activities;
- capital expenditures;
- research and development expenditures;
- repurchase of common stock under share repurchase programs;
- payment of dividends;
- costs associated with the start-up of new programs; and
- the timing of payments and extension of payment terms by our customers.

Financing Arrangements

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 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. Refer to Note 14, *Debt*, in the Notes to the Consolidated Financial Statements, included in Item 8, Financial Statements and Supplementary Data, of this Form 10-K for further information on our Financing Arrangements.

Convertible Notes

2024 Notes

During May 2017, we issued \$200.0 million aggregate principal amount of convertible senior unsecured notes due May 2024 (the "2024 Notes") pursuant to an indenture (the "Indenture"), dated May 12, 2017, between the Company and U.S. Bank National Association, as trustee. In connection therewith, we entered into certain capped call transactions that cover, collectively, the number of shares of the Company's common stock underlying the 2024 Notes. The 2024 Notes bear 3.25% interest per annum on the principal amount, payable semiannually in arrears on May 1 and November 1 of each year, beginning on November 1, 2017. The 2024 Notes will mature on May 1, 2024, unless earlier repurchased by the Company or converted. We will settle any conversions of the 2024 Notes in cash, shares of the Company's common stock or a combination of cash and shares of common stock, at the Company's election.

The sale of the Distribution business in the third quarter of 2019 was deemed to be a "Fundamental Change" and a "Make-Whole Fundamental Change" pursuant to the terms and conditions of the indenture governing the 2024 Notes. As a result, the sale triggered the right of the holders of our 2024 Notes to require us to repurchase all of the 2024 Notes, or any portion thereof that is a multiple of \$1,000 principal amount on September 27, 2019. The aggregate principal amount of the 2024 Notes validly tendered and not validly withdrawn was \$0.5 million, representing 0.25% of all outstanding notes. Holders of such notes receive the purchase price equal to 100% of the principal amount of the 2024 Notes being purchased, plus accrued and unpaid interest.

The following table illustrates the dilutive effect of securities issued under the 2024 Notes at various theoretical average share prices for our stock as of December 31, 2021:

	Theoretical Average Share Price of Kaman Stock				
	\$65.26	\$70.00	\$75.00	\$80.00	\$84.84
<i>Dilutive Shares associated with:</i>					
Convertible Debt	—	206,879	396,879	563,129	705,394

Credit Agreement

On December 13, 2019, the Company closed an amended and restated \$800.0 million Credit Agreement (the "Credit Agreement") with JPMorgan Chase Bank, N.A., as Administrative Agent and as Collateral Agent. The Credit Agreement amends and restates the Company's previously existing credit facility in its entirety to, among other things: (i) extend the maturity date to December 13, 2024; (ii) increase the aggregate amount of revolving commitments from \$600.0 million to \$800.0 million; (iii) remove the existing term loan credit facility; (iv) modify the affirmative and negative covenants set forth in the facility; and (v) effectuate a number of additional modifications to the terms and provision of the facility, including its pricing. Capitalized terms used but not defined within this discussion of the Credit Agreement have the meanings ascribed thereto in the Credit Agreement. This agreement was further amended on December 8, 2021 to move its LIBOR benchmark for non-U.S. dollar ("USD") borrowings to other non-USD benchmark rates.

The LIBOR benchmark has been the subject of national, international, and other regulatory guidance and proposals for reform. These reforms may cause LIBOR to perform differently than in the past, and LIBOR may ultimately cease to exist. Alternative benchmark rate(s) may replace LIBOR and could affect the Company's debt securities, derivative instruments, receivables, debt payments and receipts. An alternative rate may create additional basis risk for market participants as an alternative index is utilized alongside LIBOR. Key regulatory authorities have requested that banks cease entering into new contracts that use USD LIBOR as a reference rate, and do not permit new or existing non-USD LIBOR borrowings, by no later than December 31, 2021. Additionally, the Alternative Reference Rates Committee has recommended replacing USD LIBOR with the Secured Overnight Financing Rate ("SOFR"), which is calculated by short-term repurchase agreements. There can be no guarantee that SOFR will become widely used, or that any alternatives may or may not be developed.

Interest rates on amounts outstanding under the Credit Agreement are variable based on LIBOR. As discussed above, the Company amended its Credit Agreement to move its LIBOR benchmark for non-USD borrowings to other non-USD benchmark rates. Future USD borrowings under our current Credit Agreement will continue be based on LIBOR. At this time, it is not possible to predict the effect of any changes to LIBOR, the phase out of LIBOR or any establishment of alternative benchmark rates. Any new benchmark rate will likely not replicate LIBOR exactly, which could impact our contracts that terminate after 2023. There is uncertainty about how applicable law, the courts or the Company will address the replacement of

LIBOR with alternative rates on variable rate retail loan contracts and other contracts that do not include alternative rate fallback provisions.

At December 31, 2021, there were no outstanding amounts on the Credit Agreement. We are required to pay a quarterly commitment fee on the unused revolving loan commitment amount at a rate ranging from 0.150% to 0.250% per annum, based on the Senior Secured Net Leverage Ratio. Fees for outstanding letters of credit range from 1.125% to 1.625%, based on the Senior Secured Net Leverage Ratio. There were no bank borrowings under our revolving credit facility during the year ended December 31, 2021, compared to total average bank borrowings of \$111.9 million for the year ended December 31, 2020.

The following table shows the amounts available for borrowing under the Company's revolving credit facility:

<i>In thousands</i>	December 31, 2021	December 31, 2020
Total facility	\$ 800,000	\$ 800,000
Amounts outstanding, excluding letters of credit	—	—
Amounts available for borrowing, excluding letters of credit	800,000	800,000
Letters of credit under the credit facility ⁽¹⁾⁽²⁾	92,646	165,373
Amounts available for borrowing	\$ 707,354	\$ 634,627
Amounts available for borrowing subject to EBITDA, as defined by the Credit Agreement ⁽³⁾	\$ 409,914	\$ 363,997

⁽¹⁾ The Company has entered into standby letters of credit issued on the Company's behalf by financial institutions, and directly issued guarantees to third parties primarily related to advances received from customers and the guarantee of future performance on certain contracts. Letters of credit generally are available for draw down in the event the Company does not perform its obligations.

⁽²⁾ Of these amounts, \$86.3 million and \$146.2 million letters of credit relate to a certain JPF DCS contract in both periods.

⁽³⁾ Amounts available for borrowing subject to EBITDA reflect the minimum borrowing capacity under EBITDA, subject to adjustments.

Other Sources/Uses of Capital

Letters of Credit

We have \$86.3 million in letters of credit outstanding for a JPF DCS contract, including the offset agreement. In the event that we default on the contract and we are unable to fulfill our contractual commitments, our customer has the ability to draw on the letters of credit.

Pension

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

We contributed \$10.0 million to the qualified pension plan during both 2021 and 2020. In 2022, we do not expect to make a pension contribution to the qualified pension plan. We paid \$2.7 million and \$0.5 million in SERP benefits in 2021 and 2020, respectively. We expect to pay \$0.5 million in SERP benefits in 2022.

Effective December 31, 2015, the qualified pension plan was frozen with respect to future benefit accruals. Under U.S. Government Cost Accounting Standard ("CAS") 413 we must calculate the USG's share of any pension curtailment adjustment resulting from the freeze. Such adjustments can result in an amount due to the USG for pension plans that are in a surplus position or an amount due to the contractor for plans that are in a deficit position. During the fourth quarter of 2016, we accrued a \$0.3 million liability representing our estimate of the amount due to the USG based on our pension curtailment adjustment calculation that was submitted to the USG for review in December 2016. We have maintained our accrual at \$0.3 million as of December 31, 2021. There can be no assurance that the ultimate resolution of this matter will not have a material adverse effect on our results of operations, financial position and cash flows.

For more information refer to Note 17, *Pension Plans*, in the Notes to Consolidated Financial Statements included in this Form 10-K.

Acquisitions

On January 3, 2020, the Company completed the acquisition of Bal Seal, at a purchase price of approximately \$317.5 million. We continue to identify and evaluate potential acquisition candidates, the purchase of which may require the use of additional capital. No acquisitions were completed in 2021 or 2019. For a discussion of the Bal Seal acquisition, see Note 3, *Business Combinations*, in the Notes to Consolidated Financial Statements included in this Form 10-K.

Share-based Arrangements

In 2021, the Company modified its long-term incentive program to increase the emphasis on equity. The long-term incentive awards granted to our Named Executive Officers ("NEOs") in February 2021 consist of a combination of service-based restricted shares ("RSAs") and performance share units settled in shares ("PSUs"), as opposed to the cash-based awards that had been utilized before. These awards are expected to increase the alignment of interests between our NEOs and shareholders, and help build stock ownership by new executives, supporting both executive retention and the Company's long-term financial performance. RSAs will vest over a three-year period on each of the first three anniversaries of the date of grant. The number of PSUs that will vest will be determined based on total shareholder return ("TSR") and return on total invested capital ("ROIC") over a three-year performance period, each of which will remain equally weighted in determining payouts. The achievement level for both factors may range from zero to 200%. As of December 31, 2021, future compensation costs related to non-vested stock options, performance shares and restricted stock grants was \$7.7 million. The Company anticipates that this cost will be recognized over a weighted-average period of 2.1 years.

NON-GAAP FINANCIAL MEASURES

Management believes that the non-GAAP measures used in this Annual Report on Form 10-K provide investors with important perspectives into our ongoing business performance. We do not intend for the information to be considered in isolation or as a substitute for the related GAAP measures. Other companies may define the measures differently. We define the non-GAAP measures used in this report and other disclosures as follows:

Organic Sales

Organic Sales is defined as "Net Sales" less sales derived from acquisitions completed or businesses disposed of that did not qualify for accounting as a discontinued operation during the previous twelve months. We believe that this measure provides management and investors with a more complete understanding of underlying operating results and trends of established, ongoing operations by excluding the effect of acquisitions, which can obscure underlying trends. We also believe that presenting Organic Sales separately provides management and investors with useful information about the trends impacting our operations and enables a more direct comparison to other businesses and companies in similar industries. Management recognizes that the term "Organic Sales" may be interpreted differently by other companies and under different circumstances.

Organic Sales (in thousands)

	2021	2020	2019
Net sales	\$ 708,993	\$ 784,459	\$ 761,608
Acquisition Sales	—	—	—
Sales of disposed businesses that did not qualify for discontinued operations	1,704	21,490	32,049
Organic Sales	<u>\$ 707,289</u>	<u>\$ 762,969</u>	<u>\$ 729,559</u>

Free Cash Flow

Free cash flow is defined as GAAP “Net cash provided by (used in) operating activities” in a period less “Expenditures for property, plant & equipment” in the same period. Management believes Free Cash Flow provides an important perspective on our ability to generate cash from our business operations and, as such, that it is an important financial measure for use in evaluating the Company's financial performance. Free Cash Flow should not be viewed as representing the residual cash flow available for discretionary expenditures such as dividends to shareholders or acquisitions, as it may exclude certain mandatory expenditures such as repayment of maturing debt and other contractual obligations. Management uses Free Cash Flow internally to assess overall liquidity. Refer to the Discussion and Analysis of Cash Flows in Liquidity and Capital Resources included in this Form 10-K for the calculation of Free Cash Flow.

CRITICAL ACCOUNTING ESTIMATES

Our significant accounting policies are outlined in Note 1, *Summary of Significant Accounting Policies*, to the Consolidated Financial Statements included in this Form 10-K. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures based upon historical experience, current trends and other factors that management believes to be relevant. We are also responsible for evaluating the propriety of our estimates, judgments and accounting methods as new events occur. Actual results could differ from those estimates. Management periodically reviews the Company's critical accounting policies, estimates and judgments with the Audit Committee of our Board of Directors. The most significant areas currently involving management judgments and estimates are described below.

Revenue from Contracts with Customers

Methodology

We recognize sales and profit based upon either (1) the over time method, in which sales and profit are recorded based upon the ratio of costs incurred to date to estimated total costs to complete the performance obligation, or (2) the point-in-time method, in which sales are recognized at the time control is transferred to the customer. For long-term contracts, we generally recognize sales and income over time because of continuous transfer of control to the customer. Revenue is generally recognized using the cost-to-cost method based on the extent of progress towards completion of the performance obligation, which allows for recognition of revenue as work on a contract progresses.

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

Judgment and Uncertainties

The over time revenue recognition model requires that we estimate future revenues and costs over the life of a contract. Revenues are estimated based upon the original contract price, with consideration being given to exercised contract options, change orders and, in some cases, projected customer requirements. Contract costs may be incurred over a period of several years, and the estimation of these costs requires significant judgment based upon the acquired knowledge and experience of program managers, engineers and financial professionals. Estimated costs are based primarily on anticipated purchase contract terms, historical performance trends, business base and other economic projections. The complexity of certain programs as well as technical risks and uncertainty as to the future availability of materials and labor resources could affect the Company's ability to accurately estimate future contract costs. The amount of revenue recognized at a point-in time is approximately 60% compared to approximately 40% of consolidated revenue recognized over time.

Effect if Actual Results Differ From Assumptions

While we do not believe there is a reasonable likelihood there will be a material change in estimates or assumptions used to calculate our long-term revenues and costs, estimating the percentage of work complete on certain programs is a complex task. As a result, changes to these estimates could have a significant impact on our results of operations. These programs include the Sikorsky BLACK HAWK program, the JPF program with the USG, the Boeing A-10 program, the AH-1Z program, our other Bell Helicopter programs and several other programs. Estimating the ultimate total cost of these programs is challenging due to the complexity of the programs, unanticipated increases in production requirements, the nature of the materials needed to complete these programs, change orders related to the programs and the need to manage our customers' expectations. These programs are an important element in our continuing strategy to increase operating efficiencies and profitability as well as

broaden our business base. Management continues to monitor and update program cost estimates quarterly for these contracts. A significant change in an estimate on one or more of these programs could have a material effect on our financial position and results of operations. The company recognized a reduction in revenue of \$2.6 million, \$7.0 million, and \$4.6 million for the years ended December 31, 2021, 2020, and 2019, respectively, due to changes in profit estimates.

Allowance for Doubtful Accounts

Methodology

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

Judgment and Uncertainties

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

Effect if Actual Results Differ From Assumptions

As of December 31, 2021 and 2020, our allowance for doubtful accounts was \$1.5 million and \$2.0 million, respectively. Receivables written off, net of recoveries, in 2021 and 2020 were \$0.6 million and \$1.4 million, respectively.

Currently we do not believe that we have a significant amount of risk relative to the allowance for doubtful accounts. A 10% change in the allowance would have a \$0.2 million effect on pre-tax earnings.

Inventory Valuation

Methodology

We have four types of inventory (a) raw materials, (b) contracts in process, (c) other work in process and (d) finished goods. Raw material includes certain general stock materials but primarily relates to purchases that were made in anticipation of specific programs that have not been started as of the balance sheet date. Raw materials are stated at the lower of the cost of the inventory or its fair market value. Contracts in process, other work in process and finished goods are valued at production cost comprised of material, labor and overhead. Contracts in process, other work in process and finished goods are reported at the lower of cost or net realizable value.

Judgment and Uncertainties

The process for evaluating inventory obsolescence or market value often requires the Company to make subjective judgments and estimates concerning future sales levels, quantities and prices at which such inventory will be sold in the normal course of business. We adjust our inventory by the difference between the estimated market value and the actual cost of our inventory to arrive at net realizable value. Changes in estimates of future sales volume may necessitate future write-downs of inventory value. At December 31, 2021, \$69.2 million of K-MAX® inventory was included in contracts and other work in process and finished goods, of which management believes that approximately \$36.2 million will be sold after December 31, 2022, based upon the anticipation of additional aircraft manufacturing and supporting the fleet for the foreseeable future. We believe the inventory is stated at net realizable value, although lack of demand for aircraft or spare parts in the future could result in additional write-downs of the inventory value. Overall, management believes that our inventory is appropriately valued and not subject to further obsolescence in the near term.

At December 31, 2021, \$6.0 million of SH-2G(I) inventory was included in contracts and other work in process inventory on the Company's Consolidated Balance Sheets. Management believes \$4.7 million of the SH-2G(I) inventory will be sold after December 31, 2022. This balance represents spares requirements and inventory to be used in SH-2G programs.

Effect if Actual Results Differ From Assumptions

Management reviews the K-MAX® inventory balance on an annual basis to determine whether any additional write-downs are necessary. We believe this inventory is stated at net realizable value, although lack of demand for aircraft or spare parts in the future could result in additional write-downs of the inventory value. Overall, management believes that our inventory is appropriately valued and not subject to further obsolescence in the near term. If such a write-down were to occur, this could have a significant impact on our operating results. A 10% write-down of the December 31, 2021 K-MAX® inventory balance would have affected pre-tax earnings by approximately \$6.9 million in 2021.

The balance of SH-2G(I) inventory projected to be sold after December 31, 2021, represents spares requirements and inventory to be used to support the SH-2G programs in future periods and as such is appropriately valued as of December 31, 2021.

Goodwill and Other Intangible Assets

Methodology

Goodwill and certain intangible assets that have indefinite lives are evaluated at least annually for impairment. The annual evaluation is generally performed during the fourth quarter, using forecast information. All intangible assets are also reviewed for possible impairment whenever changes in conditions indicate that their carrying value may not be recoverable. For reporting units that qualify for a qualitative assessment, management will perform the quantitative impairment test after a period of three years has elapsed since the test was last performed.

In accordance with generally accepted accounting principles, we test goodwill for impairment at the reporting unit level and other long-lived intangible assets (excluding goodwill) for impairment at the lowest level for which identifiable cash flows are available. The identification and measurement of goodwill impairment involves the estimation of fair value of the reporting unit as compared to its carrying value. The identification and measurement of other long-lived intangible asset impairment involves the estimation of future cash flows of the business unit as compared to its carrying value. Goodwill is tested one level below the segment level, and components are not aggregated for purposes of goodwill testing.

At December 31, 2021, the carrying value of goodwill was \$199.3 million and \$41.4 million for the Engineered Products and Precision Products segments, respectively. There is no goodwill related to the Structures segment. The specific Engineered Products reporting units contributing to the total goodwill balance were Specialty Bearings and Engineered Products, \$104.2 million and Bal Seal, \$95.1 million. The Precision Products segment has one reporting unit contributing to the total balance, Precision Products Orlando ("KPP-Orlando"), \$41.4 million. During 2020, we identified a triggering event for possible impairment of our Aerosystems reporting unit based on a decline in earnings compared to forecasts used in prior periods and updated forecasts which indicated the forecasted cash flows for this reporting unit were lower than amounts previously forecasted. We performed a quantitative analysis on the Aerosystems reporting unit using an income methodology based on management's estimates of forecasted cash flows, with those cash flows discounted to present value using rates commensurate with the risks associated with those cash flows. In addition, management used a market-based valuation involving analysis of market multiples of revenues and earnings before interest, taxes, depreciation and amortization ("EBITDA") for (i) a group of comparable companies and (ii) recent transactions, if any, involving comparable companies. The quantitative analysis resulted in a conclusion that the fair value of the Aerosystems reporting unit was \$56.1 million below its carrying value; therefore, goodwill was impaired. In 2020, we recorded a goodwill impairment charge of \$50.3 million for the Aerosystems reporting unit, which represented the entire goodwill balance associated with this reporting unit. No such triggering events were identified in 2021 or 2019. See Note 12, *Goodwill and Other Intangible Assets, Net*, in the Notes to Consolidated Financial Statements for additional information regarding these assets.

The carrying value of other intangible assets as of December 31, 2021, was \$138.1 million. No triggering events were identified in 2021, 2020 or 2019. See Note 12, *Goodwill and Other Intangible Assets, Net*, in the Notes to Consolidated Financial Statements for additional information regarding these assets.

Judgment and Uncertainties

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

We performed a qualitative assessment for the Specialty Bearings and KPP-Orlando reporting units. The results of these analyses indicated that it is more likely than not that goodwill is not impaired and these reporting units did not need to proceed to a quantitative assessment.

For the quantitative impairment tests, management estimated the fair value of the reporting units using an income methodology based on management's estimates of forecasted cash flows, with those cash flows discounted to present value using rates commensurate with the risks associated with those cash flows. In addition, management used a market-based valuation method involving analysis of market multiples of revenues and earnings before interest, taxes, depreciation and amortization ("EBITDA") for (i) a group of comparable public companies and (ii) recent transactions, if any, involving comparable companies. In estimating the fair value of the reporting units, a weighting of 80% to the income approach and 20% to the market-based valuation method was selected, consistent with the prior year. A higher weighting was applied to the estimate derived from the income approach as it is based on management's assumptions specific for the reporting units, which are the outcome of an internal planning process. While the selected companies in the market based valuation method have comparability to the reporting units, they may not fully reflect the market share, product portfolio and operations of the reporting units. The estimated fair value of the reporting units is adjusted for an excess net working capital assumption, which represents management's identification of specific contract-related assets that will generate cash flows in the future.

In performing our quantitative test for the Bal Seal reporting unit, we assumed a terminal growth rate of 3.0%. The discount rate utilized to reflect the risk and uncertainty in the financial markets and specifically in our internally developed earnings projections was 10.0% for this reporting unit. Changes in these estimates and assumptions could materially affect the results of our tests for goodwill impairment.

An impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. The results of the quantitative tests indicated that the fair values of the reporting units exceeded the respective carrying values; therefore, no impairment charge was recorded for the Bal Seal reporting unit.

Effect if Actual Results Differ From Assumptions

We performed the quantitative impairment test for the Bal Seal reporting unit. Bal Seal's fair value exceeded its carrying value by approximately 11%. A one percentage point decrease in our terminal growth rate or an increase of one percentage point in our discount rate would not result in a fair value calculation less than the carrying value for these reporting units. In 2020, we identified a triggering event for possible impairment at the Aerosystems reporting unit. The fair value of the Aerosystems reporting unit was \$56.1 million below its carrying value. We recorded a goodwill impairment charge of \$50.3 million for the Aerosystems reporting unit in 2020, which represented the entire goodwill balance associated with this reporting unit.

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

We do not currently believe there to be a reasonable likelihood that actual results will vary materially from estimates and assumptions used to test goodwill and other intangible assets for impairment losses. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to an impairment charge that could be material.

Long-Term Incentive Programs

Methodology

The Company maintains a Management Incentive Plan, which provides for cash and share-based payment awards. In 2021, the Company modified its long-term incentive program to increase the emphasis on equity. Beginning in the first quarter of 2021, the long-term incentive awards granted to the Company's Named Executive Officers ("NEOs") consist of a combination of service-based RSAs and PSUs which are intended to be settled in shares, as opposed to cash-based awards that had been utilized in the past. These awards are expected to increase the alignment of interests between the Company's NEOs and shareholders and help build stock ownership for new executives, supporting both executive retention and the Company's long-term financial performance.

The Company's share-based payment awards include non-statutory stock options, restricted stock and performance share units. We determine the fair value of our non-qualified stock option awards at the date of grant using a Black-Scholes model. We determine the fair value of our restricted share awards at the date of grant using the closing price the day prior to the grant. We determine the fair value of our performance share units at the date of grant using both the closing price the day prior to the grant

and a Monte-Carlo simulation model as the number of PSUs that will vest will be determined based on total shareholder return ("TSR") and return on total invested capital ("ROIC") over a three-year performance period, each of which will remain equally weighted in determining payouts. The achievement level for both factors may range from zero to 200%.

The long-term incentive program ("LTIP") cash-based awards provide certain senior executives an opportunity to receive long-term incentive award payments, generally in cash, for achieving targets established by the Personnel Compensation Committee of the Board of Directors. Performance metrics for LTIP cash-based awards are based on the following: (a) average return on total capital and (b) total return to shareholders, both compared to the Russell 2000 indices for the same performance period. No awards will be payable if the Company's performance is below the 25th percentile of the designated indices. The maximum award is payable if performance reaches the 75th percentile of the designated indices. Awards will be paid out at 100% at the 50th percentile. Awards for performance between the 25th and 75th percentiles are determined by straight-line interpolation between 0% and 200%.

In order to estimate the liability associated with the cash-based LTIP awards, management must make assumptions as to how our current performance compares to current Russell 2000 data based upon the Russell 2000's historical results. This analysis is performed on a quarterly basis. When sufficient Russell 2000 data for a year is available, which typically will not be until May or June of the following year, management will adjust the liability to reflect its best estimate of the total award. Actual results could differ significantly from management's estimates. The total estimated liability as of December 31, 2021, was \$3.1 million.

Judgment and Uncertainties

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

Our cash-based LTIP requires management to make assumptions regarding the likelihood of achieving long-term Company goals as well as estimate future Russell 2000 results.

Effect if Actual Results Differ From Assumptions

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

If actual results are not consistent with the assumptions used, the share-based compensation expense reported in our financial statements may not be representative of the actual economic cost of the share-based compensation. A 10% change in our share-based compensation expense from continuing operations for the year ended December 31, 2021, would have affected pre-tax earnings by approximately \$0.7 million in 2021.

Due to the timing of availability of the Russell 2000 data, there is a risk that the amount we have recorded as LTIP expense could be different from the actual payout. A 10% increase in the total estimated liability for our cash-based LTIP would result in a reduction of 2021 pretax earnings of \$0.3 million.

Pension Plans

Methodology

We maintain a qualified defined benefit pension, as well as a non-qualified Supplemental Employees Retirement Plan ("SERP") for certain key executives. See Note 17, *Pension Plans*, in the Notes to Consolidated Financial Statements included in this Form 10-K for further discussion of these plans.

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

We utilize a "spot rate approach" in the calculation of pension interest and service cost. The spot rate approach applies separate discount rates for each projected benefit payment in the calculation of pension interest and service cost.

Judgment and Uncertainties

The discount rate represents the interest rate used to determine the present value of future cash flows currently expected to be required to settle the pension obligation. Management uses the Financial Times Stock Exchange ("FTSE") Pension Discount Curve for discount rate assumptions. This index was designed to provide a market average discount rate to assist plan sponsors in valuing the liabilities associated with postretirement obligations. Additionally, we reviewed the changes in the general level of interest rates since the last measurement date noting that overall rates had increased when compared to 2020.

Based upon this information, we used a 2.71% discount rate as of December 31, 2021, for the qualified defined benefit pension plan. This rate takes into consideration the participants in our pension plan and the anticipated payment stream as compared to the Above Median Double-A Curve. For the SERP, we used the same methodology as the pension plan and derived a discount rate of 2.33% in 2021 for the benefit obligation. The difference in the discount rates is primarily due to the expected duration of SERP payments, which is shorter than the anticipated duration of benefit payments to be made to the average participant in the pension plan. The qualified defined benefit pension plan and SERP used discount rates of 2.34% and 1.78% at December 31, 2020, respectively, for purposes of calculating the benefit obligation.

The expected long-term rate of return on plan assets represents the average rate of earnings expected on the funds invested to provide for anticipated benefit payments. The expected return on assets assumption is developed based upon several factors. Such factors include current and expected target asset allocation, our expected returns by asset class type and our expected investment performance. The expected long-term rate of return on plan assets is 6.0%.

Effect if Actual Results Differ From Assumptions

During 2021, the pension plan generated net periodic benefit income and as a result, the sensitivity analysis calculates the change on pension income rather than on pension expense. A lower discount rate increases the present value of benefit obligations which increases pension expense; however, this is more than offset by a reduction in interest costs resulting in net pension income. A one percentage point decrease in the assumed discount rate would have increased pension income in 2021 by \$2.0 million. A one percentage point increase in the assumed discount rate would have decreased pension income in 2021 by \$1.3 million.

A lower expected rate of return on pension plan assets would increase pension expense. For 2021 and 2020, the expected rate of return on plan assets was 6.0% and 6.5%, respectively. A one-percentage point increase/decrease in the assumed return on pension plan assets would have changed pension income in 2021 by approximately \$7.5 million. During 2021, the actual return on pension plan assets of 3.2% was lower than our expected long-term rate of return on pension plan assets of 6.0%.

Income Taxes

Methodology

Deferred tax assets and liabilities generally represent temporary differences between the recognition of tax benefits/expenses in our financial statements and the recognition of these tax benefits/expenses for tax purposes.

We establish reserves for deferred taxes when, despite our belief that our tax return positions are valid and defensible, we believe that certain positions may not prevail if challenged. We adjust these reserves in light of changing facts and circumstances, such as the progress of a tax audit or changes in tax legislation. Our effective tax rate includes the impact of reserve provisions and changes to reserves that we consider appropriate. This rate is then applied to our quarterly operating results. In the event that there is a significant unusual or one-time item recognized in our operating results, the tax attributable to that item would be separately calculated and recorded at the same time as the unusual or one-time item.

As of December 31, 2021, we had recorded \$9.2 million of deferred tax assets, net of valuation allowances. The realization of these benefits is dependent in part on future taxable income and, if need be, tax planning strategies designed to realize the benefits associated with tax losses and credit carryforwards. For those jurisdictions where the expiration of tax loss or credit carryforwards or the projection of operating results indicates that realization is not likely, a valuation allowance is provided.

Judgment and Uncertainties

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

Our effective tax rate on earnings was 27.8% for 2021. This rate includes a charge to record additional valuation allowances relating to the Company's foreign and state tax loss carryforwards in the amount of \$1.5 million and \$1.2 million, respectively. The Company also incurred a charge in the amount \$1.4 million, primarily attributable to nondeductible compensation relating to post termination payments and benefits of former executive officers. Additionally, the Company recognized benefits relating to research and development credits in the amount of \$2.0 million. Our effective tax rate is based on expected or reported income or loss, statutory tax rates and tax planning opportunities available to us in the various jurisdictions in which we operate. Significant judgment is required in determining our effective tax rate and in evaluating our tax positions.

Effect if Actual Results Differ From Assumptions

We do not anticipate a significant change in our unrecognized tax benefits within the next twelve months. We file tax returns in numerous U.S. and foreign jurisdictions, with returns subject to examination for varying periods, but generally back to and including 2016. It is our policy to record interest and penalties on unrecognized tax benefits as income taxes. A one percentage point increase/decrease in our tax rate would have affected our 2021 earnings by \$0.6 million.

RECENT ACCOUNTING STANDARDS

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Foreign Currencies

We have manufacturing and sales facilities in various locations throughout the world. As a result, we make investments and conduct business transactions denominated in various currencies, including the U.S. dollar, the European euro, the Czech koruna, the Japanese yen, the Hong Kong dollar and the Indian rupee. Total annual foreign sales, including foreign export sales, averaged approximately \$342.0 million over the last three years. Foreign sales represented 41.6% of consolidated net sales in 2021; however, a significant portion of our foreign sales are denominated in the U.S. dollar. We estimate a hypothetical 10% adverse change in foreign currency exchange rates relative to the U.S. dollar for 2021 would have had an unfavorable impact of \$11.0 million on foreign-denominated sales and a favorable impact of \$0.3 million on operating income. We manage foreign currency exposures that are associated with committed foreign currency purchases and sales and other assets and liabilities created in the normal course of business at the subsidiary operations level. Sometimes we may, through the use of forward contracts or other derivative contracts, hedge the price risk associated with committed and forecasted foreign-denominated payments and rates. Historically the use of these forward contracts has been minimal. We do not use derivatives for speculative or trading purposes.

Interest Rates

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

Our principal debt facilities are contained within a variable rate credit agreement that provides a \$800.0 million revolving credit facility. This agreement was amended and restated on December 13, 2019 (as amended), and expires on December 13, 2024. The Company had no bank borrowings in 2021.

During the fiscal quarter ended June 30, 2017, we issued \$200.0 million aggregate principal of convertible unsecured senior notes, due May 2024, in a private placement offering. These notes bear 3.25% interest per annum on the principal amount, payable semiannually in arrears on May 1 and November 1 of each year, beginning on November 1, 2017, and have an effective interest rate of 5.0%.

From time to time we will enter into interest rate swap contracts for the purpose of securing a fixed interest rate on our variable interest rate borrowings. These contracts allow us to create certainty with respect to future cash flows associated with our variable rate debt that would otherwise be impacted by fluctuations in LIBOR rates.

Commodity Prices

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Kaman Corporation

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Kaman Corporation and its subsidiaries (the “Company”) as of December 31, 2021 and 2020, and the related consolidated statements of operations, of comprehensive income (loss), of shareholders’ equity and of cash flows for each of the three years in the period ended December 31, 2021, including the related notes and schedule of valuation and qualifying accounts for each of the three years in the period ended December 31, 2021 appearing under Item 15(a)(2) (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Basis for Opinions

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the

company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Estimated Costs at Completion for Certain Aerospace Contracts

As described in Notes 1 and 4 to the consolidated financial statements, for long-term aerospace contracts, management generally recognizes sales and income over time because of continuous transfer of control to the customer. The Company's net sales for the year ended December 31, 2021 were \$709 million, of which approximately 40% is recognized over time. Revenue is generally recognized using the cost-to-cost measure of progress for its over time performance obligations because this recognition best depicts the transfer of assets to the customer which occurs as cost is incurred under the contracts. Under the cost-to-cost method, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. Revenues, including estimated fees or profits, are recorded proportionally as costs are incurred.

The principal considerations for our determination that performing procedures relating to estimated costs at contract completion for certain aerospace contracts is a critical audit matter are the significant judgment by management when determining the estimated costs at completion for certain of these contracts; this in turn led to a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating evidence related to the estimated costs at completion for certain of these contracts.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to revenue recognition, including controls over the determination of estimated costs at contract completion for long-term aerospace contracts. The procedures also included, among others, evaluating and testing management's process for determining the estimated costs at contract completion for long-term aerospace contracts, which included evaluating the reasonableness of assumptions considered by management specific to each contract, and testing the accuracy of the revenue recognized based on these underlying contract estimates. Evaluating the reasonableness of significant assumptions involved assessing management's ability to reasonably estimate costs at contract completion by (i) testing the basis and underlying support for the cost estimate, (ii) evaluating the consistent application of accounting policies, and (iii) evaluating the timely identification of circumstances which may warrant a modification to a previous estimate.

/s/ PricewaterhouseCoopers LLP
Hartford, Connecticut
February 24, 2022

We have served as the Company's auditor since 2013.

CONSOLIDATED BALANCE SHEETS
KAMAN CORPORATION AND SUBSIDIARIES

(In thousands, except share and per share amounts)

	December 31, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 140,800	\$ 104,377
Restricted cash	—	25,121
Accounts receivable, net	73,524	153,806
Contract assets	112,354	108,645
Contract costs, current portion	850	3,511
Inventories	193,100	185,072
Income tax refunds receivable	13,832	5,269
Other current assets	12,083	12,173
Total current assets	<u>546,543</u>	<u>597,974</u>
Property, plant and equipment, net of accumulated depreciation of \$251,888 and \$228,984, respectively	197,822	210,852
Operating right-of-use asset, net	11,011	12,880
Goodwill	240,681	247,244
Other intangible assets, net	138,074	150,198
Deferred income taxes	15,717	39,809
Contract costs, noncurrent portion	10,249	8,311
Other assets	38,385	39,125
Total assets	<u>\$ 1,198,482</u>	<u>\$ 1,306,393</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable – trade	\$ 42,134	\$ 60,200
Accrued salaries and wages	38,892	70,552
Contract liabilities, current portion	2,945	39,073
Operating lease liabilities, current portion	4,502	4,305
Income taxes payable	386	19
Liabilities held for sale, current portion	—	18,086
Other current liabilities	32,076	36,177
Total current liabilities	<u>120,935</u>	<u>228,412</u>
Long-term debt, excluding current portion, net of debt issuance costs	189,421	185,401
Deferred income taxes	6,506	7,381
Underfunded pension	21,786	69,610
Contract liabilities, noncurrent portion	16,528	11,019
Operating lease liabilities, noncurrent portion	7,140	9,325
Liabilities held for sale, noncurrent portion	—	1,171
Other long-term liabilities	39,837	47,636
Commitments and contingencies (Note 19)		
Shareholders' equity:		
Preferred stock, \$1 par value, 200,000 shares authorized; none outstanding	—	—
Common stock, \$1 par value, 50,000,000 shares authorized; voting; 30,434,269 and 30,278,668 shares issued, respectively	30,434	30,279
Additional paid-in capital	248,153	238,829
Retained earnings	750,445	728,764
Accumulated other comprehensive income (loss)	(111,385)	(130,821)
Less 2,573,896 and 2,555,785 shares of common stock, respectively, held in treasury, at cost	(121,318)	(120,613)
Total shareholders' equity	<u>796,329</u>	<u>746,438</u>
Total liabilities and shareholders' equity	<u>\$ 1,198,482</u>	<u>\$ 1,306,393</u>

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS
KAMAN CORPORATION AND SUBSIDIARIES

(In thousands, except per share amounts)

	For the Year Ended December 31,		
	2021	2020	2019
Net sales	\$ 708,993	\$ 784,459	\$ 761,608
Cost of sales	472,375	538,877	520,803
Gross profit	236,618	245,582	240,805
Selling, general and administrative expenses	152,474	169,485	160,768
Goodwill and other intangibles impairment (Note 12)	—	50,307	—
Impairment on assets held for sale (Note 2)	—	36,285	—
Research and development costs	16,072	14,755	11,896
Intangible asset amortization expense	10,468	15,666	4,523
Costs from transition services agreement (Note 2)	1,728	12,515	4,673
Cost of acquired retention plans (Note 3)	—	22,814	—
Restructuring and severance costs (Note 5)	6,154	8,359	1,558
Loss (gain) on sale of business (Note 5)	234	(493)	3,739
Net (gain) loss on sale of assets	(8)	200	237
Operating income (loss)	49,496	(84,311)	53,411
Interest expense, net	16,290	19,270	17,202
Non-service pension and post retirement benefit income, net	(26,229)	(16,250)	(396)
Income from transition services agreement (Note 2)	(931)	(8,439)	(3,673)
Other income, net	(142)	(728)	(309)
Earnings (loss) from continuing operations before income taxes	60,508	(78,164)	40,587
Income tax expense (benefit)	16,832	(7,730)	(15,859)
Earnings (loss) from continuing operations, net of tax	43,676	(70,434)	56,446
Earnings from discontinued operations before gain on disposal, net of tax	—	—	29,027
Gain on disposal of discontinued operations, net of tax	—	692	124,356
Total earnings from discontinued operations, net of tax	—	692	153,383
Net earnings (loss)	<u>\$ 43,676</u>	<u>\$ (69,742)</u>	<u>\$ 209,829</u>
Earnings per share:			
Basic earnings (loss) per share from continuing operations	\$ 1.57	\$ (2.54)	\$ 2.02
Basic earnings per share from discontinued operations	—	0.02	5.49
Basic earnings (loss) per share	<u>\$ 1.57</u>	<u>\$ (2.52)</u>	<u>\$ 7.51</u>
Diluted earnings (loss) per share from continuing operations	\$ 1.57	\$ (2.54)	\$ 2.01
Diluted earnings per share from discontinued operations	—	0.02	5.46
Diluted earnings (loss) per share	<u>\$ 1.57</u>	<u>\$ (2.52)</u>	<u>\$ 7.47</u>
Weighted average shares outstanding:			
Basic	27,865	27,723	27,936
Diluted	27,891	27,723	28,092

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**KAMAN CORPORATION AND SUBSIDIARIES**

(In thousands)

	For the Year Ended December 31,		
	2021	2020	2019
Net earnings (loss)	\$ 43,676	\$ (69,742)	\$ 209,829
Other comprehensive income, net of tax:			
Foreign currency translation adjustments and other	9,489	15,634	(1,772)
Pension plan adjustments, net of tax expense of \$2,949, \$1,315, and \$2,619, respectively	9,947	4,438	8,871
Other comprehensive income	\$ 19,436	\$ 20,072	\$ 7,099
Total comprehensive income (loss)	<u>\$ 63,112</u>	<u>\$ (49,670)</u>	<u>\$ 216,928</u>

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
KAMAN CORPORATION AND SUBSIDIARIES

(In thousands, except share amounts)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Total Shareholders' Equity
	Shares	\$				Shares	\$	
Balance at December 31, 2018	29,544,714	\$ 29,545	\$ 200,474	\$610,103	\$ (134,898)	1,672,917	\$ (72,067)	\$ 633,157
Net earnings	—	—	—	209,829	—	—	—	209,829
Other comprehensive income	—	—	—	—	7,099	—	—	7,099
Reclassification of stranded tax effects resulting from Tax Reform	—	—	—	23,094	(23,094)	—	—	—
Dividends (per share of common stock, \$0.80)	—	—	—	(22,360)	—	—	—	(22,360)
Changes due to convertible notes transactions	—	—	(18)	—	—	—	—	(18)
Purchase of treasury shares	—	—	—	—	—	522,622	(31,785)	(31,785)
Employee stock plans	449,937	449	20,151	—	—	17,609	(924)	19,676
Share-based compensation expense	63,804	64	7,546	—	—	6,184	(6)	7,604
Balance at December 31, 2019	30,058,455	\$ 30,058	\$ 228,153	\$820,666	\$ (150,893)	2,219,332	\$(104,782)	\$ 823,202
Net loss	—	—	—	(69,742)	—	—	—	(69,742)
Other comprehensive income	—	—	—	—	20,072	—	—	20,072
Dividends (per share of common stock, \$0.80)	—	—	—	(22,160)	—	—	—	(22,160)
Purchase of treasury shares	—	—	—	—	—	302,778	(14,209)	(14,209)
Employee stock plans	164,149	164	5,752	—	—	32,150	(1,620)	4,296
Share-based compensation expense	56,064	57	4,924	—	—	1,525	(2)	4,979
Balance at December 31, 2020	30,278,668	\$ 30,279	\$ 238,829	\$728,764	\$ (130,821)	2,555,785	\$(120,613)	\$ 746,438
Net earnings	—	—	—	43,676	—	—	—	43,676
Other comprehensive income	—	—	—	—	19,436	—	—	19,436
Dividends (per share of common stock, \$0.80)	—	—	—	(22,269)	—	—	—	(22,269)
Impact of change in tax accounting standard	—	—	—	274	—	—	—	274
Purchase of treasury shares	—	—	—	—	—	12,992	(618)	(618)
Employee stock plans	71,945	72	2,716	—	—	1,416	(83)	2,705
Share-based compensation expense	83,656	83	6,608	—	—	3,703	(4)	6,687
Balance at December 31, 2021	30,434,269	\$ 30,434	\$ 248,153	\$750,445	\$ (111,385)	2,573,896	\$(121,318)	\$ 796,329

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
KAMAN CORPORATION AND SUBSIDIARIES

(In thousands)

	For the Year Ended December 31,		
	2021	2020	2019
Cash flows from operating activities:			
Net earnings (loss)	\$ 43,676	\$ (69,742)	\$ 209,829
Less: Total earnings from discontinued operations, net of tax	—	692	153,383
Earnings (loss) from continuing operations, net of tax	<u>43,676</u>	<u>(70,434)</u>	<u>56,446</u>
Adjustments to reconcile earnings from continuing operations, net of tax to net cash provided by operating activities:			
Depreciation and amortization	36,654	43,899	25,854
Amortization of debt issuance costs	1,836	1,746	1,996
Accretion of convertible notes discount	2,957	2,860	2,760
Provision for doubtful accounts	575	1,381	788
Impairment on assets held for sale	—	36,285	—
Loss (gain) on sale of business	234	(493)	3,971
Net (gain) loss on sale of assets	(8)	200	237
Goodwill and other intangible assets impairment	—	50,307	—
Net loss (gain) on derivative instruments	1,025	(466)	302
Stock compensation expense	6,687	4,979	4,669
Non-cash consideration received for aircraft sale	—	—	(3,100)
Deferred income taxes	20,998	(6,055)	182
Changes in assets and liabilities, excluding effects of acquisitions/divestitures:			
Accounts receivable	78,367	7,042	(8,173)
Contract assets	(3,482)	12,629	(21,994)
Contract costs	725	294	4,506
Inventories	(10,357)	(18,485)	(25,129)
Income tax refunds receivable	(8,565)	2,763	(6,296)
Operating right-of-use assets	1,798	1,513	3,390
Other assets	3,450	2,490	(6,108)
Accounts payable - trade	(18,398)	(9,227)	14,034
Contract liabilities	(30,708)	(29,555)	(26,638)
Operating lease liabilities	(1,918)	(1,560)	(3,423)
Acquired retention plan payments	(25,108)	—	—
Other current liabilities	(8,880)	16,955	6,085
Income taxes payable	295	(4,885)	7,888
Pension liabilities	(37,580)	(21,550)	4,170
Other long-term liabilities	(5,575)	(6,164)	6,071
Net cash provided by operating activities from continuing operations	<u>48,698</u>	<u>16,469</u>	<u>42,488</u>
Net cash used in operating activities of discontinued operations	—	—	(50,288)
Net cash provided by (used in) operating activities	<u>48,698</u>	<u>16,469</u>	<u>(7,800)</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
KAMAN CORPORATION AND SUBSIDIARIES
(In thousands)

	For the Year Ended December 31,		
	2021	2020	2019
Cash flows from investing activities:			
Proceeds from sale of discontinued operations	—	5,223	655,030
Proceeds from sale of business, net of cash on hand	(3,428)	493	—
Expenditures for property, plant & equipment	(17,530)	(17,783)	(22,447)
Acquisition of businesses including earn out adjustments, net of cash acquired	—	(304,661)	—
Other, net	(154)	(1,994)	(4,267)
Net cash (used in) provided by investing activities of continuing operations	<u>(21,112)</u>	<u>(318,722)</u>	<u>628,316</u>
Net cash used in investing activities of discontinued operations	—	—	(9,838)
Net cash (used in) provided by investing activities	<u>(21,112)</u>	<u>(318,722)</u>	<u>618,478</u>
Cash flows from financing activities:			
Net repayments under revolving credit agreements	—	—	(38,500)
Debt repayment	—	—	(76,875)
Repayment of convertible notes	—	—	(500)
Proceeds from exercise of employee stock awards	2,705	4,296	19,676
Purchase of treasury shares	(618)	(14,210)	(30,060)
Dividends paid	(22,241)	(22,210)	(22,343)
Debt and equity issuance costs	—	—	(3,584)
Other	(2,079)	(1,411)	(527)
Net cash used in financing activities of continuing operations	<u>(22,233)</u>	<u>(33,535)</u>	<u>(152,713)</u>
Net cash provided by financing activities of discontinued operations	—	—	7,967
Net cash used in financing activities	<u>(22,233)</u>	<u>(33,535)</u>	<u>(144,746)</u>
Net increase (decrease) in cash and cash equivalents	5,353	(335,788)	465,932
Cash and cash equivalents of discontinued operations and liabilities held for sale	—	—	(21,834)
Effect of exchange rate changes on cash and cash equivalents	(642)	337	(269)
Cash and cash equivalents and restricted cash at beginning of period	136,089	471,540	27,711
Cash and cash equivalents and restricted cash at end of period (See Note 2)	<u>\$ 140,800</u>	<u>\$ 136,089</u>	<u>\$ 471,540</u>

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2021, 2020 and 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Kaman Corporation, headquartered in Bloomfield, Connecticut, was incorporated in 1945 and is a diversified company that conducts business in the aerospace and defense, medical and industrial markets. Kaman Corporation reports information for itself and its subsidiaries (collectively, the "Company") in three business segments, Engineered Products, Precision Products and Structures.

Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. Certain amounts in prior year financial statements and notes thereto have been reclassified to conform to current year presentation. In 2021, the Company reclassified its research and development costs and intangible asset amortization expense out of selling, general and administrative expenses to distinct line items on the income statement. The Company updated the presentation of the earliest years presented on the Consolidated Statement of Operations to conform to this presentation.

Following the sale of the Company's Distribution business in 2019, the Company operated as one segment. In the fourth quarter of 2021, our Chief Operating Decision Maker ("CODM") established a new structure for the Company to better align the Company's businesses to support capital allocation plans, portfolio management and growth. This new structure resulted in the introduction of three reportable segments: Engineered Products, Precision Products and Structures. See Note 4, *Segment and Geographic Information*, for 2021 financial results by segment and a recast of financial results by segment for fiscal years 2020 and 2019.

During the fourth quarter of 2020, the Company committed to a plan and received approval from its Board of Directors to sell its United Kingdom ("UK") Composites division. As a result of the approved plan, the UK Composites division met the criteria set forth in ASC 205-20, *Presentation of Financial Statements - Discontinued Operations* ("ASC 205-20"), for held for sale. At December 31, 2020, the assets of the UK Composites business were considered impaired as the estimated fair value of the disposal group was lower than the estimated carrying value of the UK Composites business. As a result, \$24.3 million in assets were written off and the remaining loss related to the anticipated sale of the disposal group of \$12.0 million was accrued for in liabilities held for sale, current portion on the Company's Consolidated Balance Sheets, resulting in a total loss of \$36.3 million recorded to impairment on assets held for sale on the Company's Consolidated Statement of Operations in the year ended December 31, 2020. The related liabilities of the UK division to be sold were reclassified to liabilities held for sale, respectively, as of December 31, 2020 on the Company's Consolidated Balance Sheets. The Company sold its UK Composites division in a transaction that closed on February 2, 2021. An additional loss of \$0.2 million was recorded to loss (gain) on sale of business in the year ended December 31, 2021. See Note 2, *Disposals*, to the Consolidated Financial Statements for further information.

During the third quarter of 2019, the Company completed the sale of its Distribution business for total cash consideration of \$700.0 million, excluding certain working capital adjustments and transaction costs. The Distribution business' results of operations and the related cash flows have been reclassified to earnings from discontinued operations in the Consolidated Statements of Operations and cash flows from discontinued operations in the Consolidated Statements of Cash Flows, respectively, for all periods presented. See Note 2, *Disposals*, to the Consolidated Financial Statements for further information.

During the year ended December 31, 2020, the Company recorded a correction of certain prior-period errors. The errors primarily resulted in revenue being overstated and cost of sales being understated, resulting in income before taxes being overstated for the years ended December 31, 2019 and December 31, 2018 by approximately \$1.1 million and \$0.8 million, respectively. The corresponding correction, totaling \$1.9 million, was recorded in fiscal year 2020. This correction was not material to the prior period financial statements.

Use of Estimates

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the Years Ended December 31, 2021, 2020 and 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign Currency Translation

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

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of trade accounts receivable. The carrying amounts of these items, as well as trade accounts payable and notes payable, approximate fair value due to the short-term maturity of these instruments. At December 31, 2021, no individual customer accounted for more than 10% of consolidated accounts receivable. At December 31, 2020, one individual customer accounted for more than 10% of consolidated accounts receivable. In the year ended December 31, 2021, two individual customers, the U.S. Government ("USG") and a Joint Programmable Fuze ("JPF") direct commercial sales ("DCS") customer, accounted for more than 10% of consolidated net sales. In the year December 31, 2020, three individual customers, the USG, The Boeing Company and a JPF DCS customer, accounted for more than 10% of consolidated net sales. In both 2021 and 2020, sales to the USG were primarily made by the Engineered Products and Precision Products segment, while sales to a JPF DCS customer were made by the Precision Products segment. In 2020, sales to The Boeing Company were made by all three segments. Foreign sales were approximately 41.6%, 50.0% and 44.4% of the Company's net sales in 2021, 2020 and 2019, respectively, and are concentrated in the Middle East, Germany, Canada, United Kingdom, New Zealand, Switzerland and France.

Additional Cash Flow Information

Non-cash investing activities in 2021 include an accrual of \$2.0 million for purchases of property and equipment. Non-cash financing activities in 2021 include an adjustment to other comprehensive income related to the underfunding of the pension and SERP plans. The total net adjustment was \$9.9 million, net of tax of \$2.9 million. Additionally, non-cash financing activities in 2021 include \$5.6 million of dividends declared but not yet paid.

Non-cash financing activities in 2020 include an adjustment to other comprehensive income related to the underfunding of the pension and SERP plans. The total net adjustment was \$4.4 million, net of tax of \$1.3 million. Additionally, non-cash financing activities in 2020 include \$5.5 million of dividends declared but not yet paid.

Non-cash investing activities in 2019 include an accrual of \$0.8 million for purchases of property and equipment (including finance lease obligations), \$4.0 million in working capital adjustments associated with the sale of the Distribution business and the write-off of the \$4.0 million note receivable associated with the sales of the UK Tooling business as it was deemed not likely to be collected. Additionally, in 2019, the Company repurchased a K-MAX® aircraft from a customer who was simultaneously purchasing a new aircraft to support the development of the Company's unmanned aircraft system. The repurchased aircraft was used to settle a portion (\$3.1 million) of the purchase price on the customer's new K-MAX® aircraft. Non-cash financing activities in 2019 include an adjustment to other comprehensive income related to the underfunding of the pension and SERP plans. The total net adjustment was \$8.9 million, net of tax of \$2.6 million. Additionally, non-cash financing activities in 2019 include \$5.6 million of dividends declared but not yet paid and an accrual of \$1.7 million for purchases of treasury shares.

The Company describes its pension obligations in more detail in Note 17, *Pension Plans*.

Revenue Recognition

Under Accounting Standard Codification ("ASC") 606, the amount of revenue recognized for any goods or services reflects the consideration that the Company expects to be entitled to receive in exchange for these goods or services. To achieve this core principle, the Company applies the following five step approach: (1) identify the contract with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to performance obligations in the contract; and (5) recognize revenue when or as a performance obligation is satisfied.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition - continued

A contract is accounted for when there has been approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable. Performance obligations under a contract are identified based on the goods or services that will be transferred to the customer that are both capable of being distinct and are distinct in the context of the contract. In certain instances, the Company has concluded distinct goods or services should be accounted for as a single performance obligation when they are a series of distinct goods or services that have the same pattern of transfer to the customer. To the extent a contract includes multiple promised goods or services, the Company must apply judgment to determine whether the customer can benefit from the goods or services either on their own or together with other resources that are readily available to the customer (the goods or services are distinct) and if the promise to transfer the goods or services to the customer is separately identifiable from other promises in the contract (the goods or services are distinct in the context of the contract). If these criteria are not met, the promised services are accounted for as a single performance obligation. The transaction price is determined based on the consideration that the Company will be entitled to in exchange for transferring goods or services to the customer. To the extent the transaction price includes variable consideration, the Company estimates the amount of variable consideration that should be included in the transaction price, generally utilizing the most likely amount method. Determining the transaction price requires significant judgment. If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on a relative standalone selling price basis. Standalone selling price is determined by the price at which the performance obligation is sold separately. If the standalone selling price is not observable through past transactions, the Company estimates the standalone selling price by taking into account available information such as market conditions and internally approved pricing guidelines related to the performance obligations. Performance obligations are satisfied either over time or at a point in time as discussed in further detail below. In addition, the Company's contracts with customers generally do not include significant financing components or non-cash consideration.

In certain instances, the Company has accounted for contracts using the portfolio approach, a practical expedient permissible under the standard. The determination of when the use of the portfolio approach is appropriate requires judgment from management based on consideration of all the facts and circumstances. The Company uses the portfolio approach when the effect of accounting for a group of contracts or a group of performance obligations would not differ materially from considering each contract or performance obligation separately. This determination requires the use of estimates and assumptions that reflect the size and composition of the portfolio. The Company primarily uses the portfolio approach for its commercial and defense bearings and structures businesses. The Company's primary criteria considered when using the portfolio approach is the commonality of economic factors, which generally follow the product type based on consistent production costs and standard pricing for the products.

To determine the appropriate revenue recognition model for long-term contracts, the Company evaluates whether a contract exists, considering whether multiple contracts should be combined as one single contract and then whether the contract should be accounted for as more than one performance obligation. This evaluation requires significant judgment, as these decisions could change the amount of revenue and profit recorded in a given period. For certain programs, the Company may promise to provide distinct goods or services within a contract, in which case these are separated into more than one performance obligation.

For certain programs, the Company recognizes revenue over time because of continuous transfer of control to the customer. For USG contracts, this continuous transfer of control to the customer is supported by clauses in the contract that provide lien rights to the customer over the work in progress, thereby control transfers as costs are incurred. For non-USG contracts, the customer typically controls the work in progress because the Company is producing products that do not have an alternative use to the Company and where contractual termination clauses provide the Company rights to payment for work performed to date plus a reasonable profit.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the Years Ended December 31, 2021, 2020 and 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition - continued

Revenue is recognized based on the extent of progress towards completion of the performance obligation. The selection of the method to measure progress towards completion requires judgment and is based on the nature of the products or services to be provided. The Company generally uses the cost-to-cost measure of progress for its contracts because it best depicts the transfer of assets to the customer which occurs as cost is incurred under the contracts. Under the cost-to-cost method, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. Revenues, including estimated fees or profits, are recorded proportionally as costs are incurred. Total estimated contract costs generally include labor, materials and subcontractors' costs, other direct costs and related overhead costs. These estimates also include the estimated cost of satisfying offset obligations, as required under certain contracts. The complexity of certain programs as well as technical risks and uncertainty as to the future availability of materials and labor resources could affect the Company's ability to accurately estimate future contract costs.

For contracts that recognize revenue over time, the Company performs detailed quarterly reviews of the progress and execution of its performance obligations under these contracts. As part of this process, management reviews information including, but not limited to, any outstanding key contract matters, progress towards completion and the related program schedule, identified risks and opportunities and the related changes in estimates of revenues and costs. The risks and opportunities include management's judgment about the ability and cost to achieve the schedule (e.g. the number and type of milestone events), technical requirements (e.g., a newly-developed product versus a mature product) and other contract requirements. Management must make assumptions and estimates regarding labor productivity and availability, the complexity of the work to be performed, the availability of materials, the length of time to complete the performance obligation (e.g. to estimate increases in wages and prices for materials and related support cost allocations), execution by subcontractors, the availability and timing of funding from customers and overhead cost rates, among other variables. Based upon these reviews, the Company will 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, a provision for the entire anticipated contract loss is recorded at that time. The Company recognized reductions in revenue of \$2.6 million and \$7.0 million in the years ended December 31, 2021 and 2020, respectively, due to changes in profit estimates. These decreases were primarily related to cost growth on certain legacy fuzing contracts and certain structures contracts, partially offset by favorable cost performance on the JPF contract with the USG. The Company recognized as reduction in revenue in the year ended December 31, 2019 of \$4.6 million due to a change in profit estimates. This decrease was primarily related to cost growth on the SH-G program with Peru, a certain legacy fuzing contract and certain structures contracts, partially offset by favorable cost performance on the JPF contract with the USG.

Due to the nature of the work required to be performed on many of the Company's performance obligations, the estimation of total revenue and cost at completion is complex, subject to many variables and requires significant judgment. From time-to-time the Company enters into long-term contracts with the USG and other customers that contain award fees, incentive fees or other provisions that can either increase or decrease the transaction price. These variable amounts generally are awarded upon achievement of certain performance metrics, program milestones or cost targets and can be based upon customer discretion. The Company estimates variable consideration at the most likely amount to which it expects to be entitled. Estimated amounts are included in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. Estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based largely on an assessment of the Company's anticipated performance and all information (historical, current and forecasted) that is reasonably available. The Company does not include financing components as variable consideration if less than one year. At December 31, 2021, the Company did not have any significant financing components.

Contracts are often modified to account for changes in contract specifications and requirements. The Company considers contract modifications to exist when the modification either creates new or makes changes to the existing enforceable rights and obligations. Contract modifications for goods or services that are not distinct from the existing contract are accounted for as if they were part of that existing contract. In these cases, the effect of the contract modification on the transaction price and the measure of progress for the performance obligation to which it relates is recognized as an adjustment to revenue (either as an increase in or a reduction of revenue) on a cumulative catch-up basis, except when such modifications relate to a performance obligation that is a series of substantially the same distinct goods or services. If the modification relates to a performance obligation for a series of substantially the same distinct goods or services, the modification is treated prospectively. Contract modifications for goods or services that are considered distinct from the existing contract are accounted for as separate contracts. The Company applied the practical expedient for any contracts that were modified prior to January 1, 2018; therefore, the contracts were not restated retrospectively for those modifications.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the Years Ended December 31, 2021, 2020 and 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition - continued

For other contracts, excluding the long-term contracts discussed above, the method of revenue recognition remained substantially the same under ASC 606. For these contracts, revenue is primarily recognized at the point in time when the title transfers to the customer, as this is when the performance obligation is controlled by the customer. Additionally, a small percentage of revenue related to certain contracts for repairs and overhauls is accounted for over time under ASC 606. Under these contracts, revenue is generally recognized as work is performed in proportion to the actual costs incurred as compared to total estimated contract costs.

Cost of Sales and Selling, General and Administrative Expenses

Cost of sales includes costs of products and services sold (i.e., purchased product, raw material, direct labor, engineering labor, outbound freight charges, depreciation and amortization, indirect costs and overhead charges). Selling expenses primarily consist of advertising, promotion, bid and proposal, employee payroll and corresponding benefits and commissions paid to sales and marketing personnel. General and administrative expenses primarily consist of employee payroll including executive, administrative and financial personnel and corresponding benefits, incentive compensation, consulting expenses, warehousing costs, and depreciation. Legal costs are expensed as incurred and are generally included in general and administrative expenses.

In 2021, the Company reclassified its research and development costs and intangible asset amortization expense out of selling, general and administrative expenses to distinct line items on the income statement. The Company updated the presentation of the earliest years presented on the Consolidated Statement of Operations to conform to this presentation.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits and short-term cash investments. These investments are liquid in nature and have original maturities of three months or less. The Company's cash and cash equivalents at December 31, 2021 and 2020 included \$65.5 million and \$51.5 million of Level 1 (quoted prices in active markets for identical assets or liabilities) money market funds.

On January 3, 2020, the Company acquired all of the equity interests of Bal Seal. Upon closing, the Company funded \$24.7 million associated with Bal Seal's employee retention plans into escrow accounts. This amount and related interest was included in restricted cash on the Company's Consolidated Balance Sheets as of December 31, 2020. Eligible participants received an allocation of the escrow balance one year following the acquisition date.

Bank overdraft positions, which occur when total outstanding issued checks exceed available cash balances at a single financial institution at the end of a reporting period, are reclassified to other current liabilities within the consolidated balance sheets. At December 31, 2021 and 2020, the Company had bank overdrafts of \$1.4 million and \$1.6 million, respectively, included in other current liabilities.

Accounts Receivable

The Company has three types of accounts receivable: (a) Trade receivables, which consist of amounts billed and currently due from customers; (b) USG contracts, which consist of (1) amounts billed, and (2) costs and accrued profit – not billed; and (c) Commercial and other government contracts, which consist of (1) amounts billed, and (2) costs and accrued profit – not billed. The Company's receivables, net, consist of amounts billed and currently due from customers. The amounts due are stated at their net estimated realizable value.

The allowance for doubtful accounts reflects management's best estimate of probable losses inherent in the trade accounts receivable and billed contracts balance. Management performs ongoing evaluations of its customers' current creditworthiness, as determined by the review of their credit information to determine if events have occurred subsequent to the recognition of revenue and the related receivable that provide evidence that such receivable will be realized in an amount less than that recognized at the time of sale. Estimates of credit losses are based on historical losses, current economic conditions, geographic considerations, and in some cases, evaluating specific customer accounts for risk of loss.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the Years Ended December 31, 2021, 2020 and 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contract Assets

The Company's contract assets include unbilled amounts typically resulting from sales under long-term contracts when the cost-to-cost method of revenue recognition is applied and revenue recognized exceeds the amount billed to the customer, and right to payment is not just subject to the passage of time. Amounts do not exceed their net realizable value. Contract assets are generally classified as current as such amounts are billable and collectible within twelve months.

Contract Costs

Contract costs consist of costs to obtain and fulfill a contract. Costs to fulfill a contract primarily consist of nonrecurring engineering costs incurred at the start of a new program for which such costs are expected to be recovered under existing and future contracts. Such costs are amortized over the estimated revenue amount of the contract. Costs to obtain a contract consist of commissions and agent fees paid in connection with the award of a contract. If these costs are determined to have an amortization period of less than one year, the Company applies the practical expedient and the related costs are expensed as incurred. If the amortization period is determined to be greater than a year and the incremental costs to obtaining the contract qualify as an asset, then the contract costs are recorded and amortized over the estimated contract revenue.

Inventories

The Company has the following types of inventory: (a) raw materials, (b) contracts in process and other work in process, and (c) finished goods. Raw material includes certain general stock materials but primarily relates to purchases that were made in anticipation of specific programs for which production has not been started as of the balance sheet date. Raw materials are stated at the lower of the cost of the inventory or its fair market value. Contracts in process and other work in process and finished goods are valued at production cost represented by raw material, labor and overhead. Contracts in process and other work in process and finished goods are not reported at amounts in excess of net realizable values.

Property, Plant and Equipment

Property, plant and equipment is recorded at cost. Depreciation is computed primarily on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives for buildings generally range from 15 to 40 years and for leasehold improvements range from 1 to 20 years, whereas machinery, office furniture and equipment generally have useful lives ranging from 3 to 15 years. At the time of retirement or disposal, the acquisition cost of the asset and related accumulated depreciation are eliminated and any gain or loss is credited to or charged against income.

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

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

Leasing

The Company accounts for leases in accordance with ASC 842, Leases. Under ASC 842, the Company determines if a contract contains a lease at the inception date of the contract. To determine if the contract contains a lease, the Company evaluates if there is an identified asset in the contract and if the Company has control over the use of the identified asset. The Company has elected not to apply the recognition requirements of ASC 842 to short-term leases (leases that, at the commencement date, have a lease term of twelve months or less and do not include an option to purchase the underlying asset that the lessee is reasonably certain to exercise) as permissible under the standard. For short-term leases, the Company recognizes lease payments on a straight-line basis and variable payments in the period in which the obligation for those payments is incurred.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the Years Ended December 31, 2021, 2020 and 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasing - continued

The Company must classify each lease as a finance lease or an operating lease. The Company's finance leases are included in machinery, office furniture and equipment and construction in process. Amortization of these assets is included in depreciation and amortization expense. The Company's operating leases consist of rent commitments under various leases for office space, warehouses, land and buildings.

At the commencement date, the right-of-use asset and lease liability are recorded to the Company's Consolidated Balance Sheets when the Company obtains control of the use of the asset. Lease liabilities are recognized at commencement based on the present value of the unpaid lease payments over the lease term. The initial measurement of the right-of-use asset is equal to the total of the initial measurement of the lease liability, incremental costs to obtain the lease and prepaid lease payments, less any lease incentives received. Some of the Company's leases have fixed amount rent escalations or contingent rent that are recognized on a straight-line basis over the entire lease term. Material leasehold improvements and other landlord incentives are amortized over the shorter of their economic lives or the lease term, including renewal periods, if reasonably assured. Substantially all real estate taxes, insurance and maintenance expenses associated with leased facilities are obligations of the Company. The Company elected the practical expedient allowing the Company to combine lease and non-lease components by class as a single lease component for its real estate leases. Nonlease components for the Company's vehicles and other equipment leases are not material. The Company uses the discount rate implicit in a lease contract, if available. As most of the Company's leases do not provide an implicit rate, the Company uses the incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments.

Certain leases are renewable for varying periods and certain leases including options to terminate the leases. For renewal options, the Company performs an assessment at commencement if it is reasonably likely to exercise the option. The assessment is based on the Company's intentions, past practices, estimates and factors that create an economic incentive for the Company. Generally, the Company is not reasonably certain to exercise the renewal option in a lease contract as it performs an assessment for most real estate leases within six months prior to termination comparing the renewal rents under the option with the fair market returns for equivalent property under similar terms and conditions. Although the Company does not historically change locations often, it is not reasonably certain the Company will exercise the renewal option; therefore, the periods covered by the renewal option are not typically included in the lease term at commencement. While some of the Company's leases include options allowing early termination of the lease, the Company historically has not terminated its lease agreements early unless there is an economic, financial or business reason to do so; therefore, the Company does not typically consider the termination option in its lease term at commencement.

Subsequent to the initial measurement, the lease liability continues to be measured at the present value of unpaid lease payments throughout the lease term. The lease liability is remeasured if the lease is modified and the modification is not accounted for as a separate contract, there is a change in the assessment of the lease term, the assessment of a purchase option exercise or the amount probable of being owed under a residual value guarantee, or a contingency is resolved resulting in some or all of the variable lease payments becoming fixed payments. Subsequent to the initial measurement, the right-of-use asset for a finance lease is equivalent to the initial measurement less accumulated amortization and any accumulated impairment losses. Generally, amortization of finance leases is recorded to cost of sales on a straight-line basis over the lease term. Subsequent to initial measurement, the right-of-use asset for an operating lease is equivalent to initial measurement less accumulated amortization (the difference between the straight-line lease cost for the period and the accretion of the lease liability using the effective interest method).

Goodwill and Other Intangible Assets

Goodwill represents the excess of the aggregate purchase price over the fair value of the net identifiable assets acquired in a purchase business combination and is reviewed for impairment at least annually.

ASC Topic 350, "Intangibles - Goodwill and Other," ("ASC 350") permits the assessment of qualitative factors to determine whether events and circumstances lead to the conclusion that it is necessary to perform the quantitative goodwill impairment test required under ASC 350. The qualitative assessment management performs takes into consideration the following factors: general economic conditions, industry specific performance, changes in carrying values of the reporting units or asset groups, the assessment of assumptions used in the previous fair value calculation and changes in transaction multiples.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the Years Ended December 31, 2021, 2020 and 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill and Other Intangible Assets - continued

In the quantitative goodwill impairment test, the fair value of the reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit is less than its carrying value, an impairment charge is recognized for the amount by which the carrying amount exceeds the reporting unit's fair value, assuming the loss recognized does not exceed the total amount of goodwill for the reporting unit. Fair value of the reporting unit is determined using an income methodology based on management's estimates of forecasted cash flows for each reporting unit, with those cash flows discounted to present value using rates commensurate with the risks associated with those cash flows. In addition, management uses a market-based valuation method involving analysis of market multiples of revenues and earnings before interest, taxes, depreciation and amortization ("EBITDA") for (i) a group of comparable public companies and (ii) recent transactions, if any, involving comparable companies.

Goodwill and intangible assets with indefinite lives are evaluated annually for impairment in the fourth quarter, based on annual forecast information. Intangible assets with finite lives are amortized over their estimated period of benefit. Goodwill and other intangible assets are reviewed for possible impairment whenever changes in conditions indicate that the fair value of a reporting unit is more likely than not below its carrying value. During the third quarter of 2020, the Company identified a triggering event for possible impairment for the Aerosystems reporting unit based on a decline in earnings compared to forecasts used in prior periods and updated forecasts, which indicated the forecasted cash flows for this reporting unit were lower than amounts previously forecasted. Management performed a quantitative analysis on the Aerosystems reporting unit using an income methodology based on estimates of forecasted cash flows, with those cash flows discounted to present value using rates commensurate with the risks associated with those cash flows. In addition, management used a market-based valuation method involving analysis of market multiples of revenues and earnings before interest, taxes, depreciation and amortization ("EBITDA") for (i) a group of comparable companies and (ii) recent transactions, if any, involving comparable companies. The quantitative analysis resulted in a conclusion that the fair value of the Aerosystems reporting unit was \$56.1 million below its carrying value. In the year ended December 31, 2020, the Company recorded a goodwill impairment charge of \$50.3 million for the Aerosystems reporting unit, which represented the entire goodwill balance for the reporting unit. No such charges were recorded in 2021 or 2019.

In the fourth quarter of 2020, the Company committed to a plan and received approval from its Board of Directors to sell its UK Composites division. At December 31, 2020, the assets of the UK Composites business were considered impaired as the estimated fair value of the disposal group was lower than the estimated carrying value of the UK Composites business. As a result, \$24.3 million in assets were written off and the remaining loss related to the anticipated sale of the disposal group of \$12.0 million was accrued for in liabilities held for sale, current portion on the Company's Consolidated Balance Sheets, resulting in a total loss of \$36.3 million recorded to impairment on assets held for sale on the Company's Consolidated Statements of Operations in the year ended December 31, 2020. Of this amount, \$22.9 million related to the cumulative translation adjustment balance for the UK Composites division. The Company sold its UK Composites business in a transaction that closed on February 2, 2021. An additional loss of \$0.2 million was recorded to loss (gain) on sale of business in the year ended December 31, 2021.

Debt

The Company relies on bank financing as an important source of liquidity for its business activities. Outstanding debt is classified as current or long-term based on the maturity of the Company's financing arrangements. Current and long-term debt balances are reported net of debt issuance costs. See Note 14, *Debt*, for further information on the Company's financing arrangements.

Contract Liabilities

The Company's contract liabilities consist of advance payments and billings in excess of revenue recognized and deferred revenue. Advance payments and billings in excess of revenue recognized are classified as current or noncurrent based on the timing of when recognition of revenue is expected.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the Years Ended December 31, 2021, 2020 and 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unfulfilled Performance Obligations

Unfulfilled performance obligations ("backlog") represents the transaction price of firm orders for which work has not been performed and excludes unexercised contract options and potential orders under ordering-type contracts. As of December 31, 2021, the aggregate amount of the transaction price allocated to backlog was \$700.9 million. The Company expects to recognize revenue on approximately \$409.3 million of this amount over the next 12 months, with the remaining amount to be recognized thereafter. At December 31, 2020, the aggregate amount of the transaction price allocated to backlog was \$631.2 million.

Self-Insured Retentions

To limit exposure to losses related to group health, workers' compensation, auto and product general liability claims, the Company obtains third-party insurance coverage. The Company has varying levels of deductibles for these claims. The total liability/deductible for group health is limited to \$0.3 million per claim, workers' compensation is limited to \$0.4 million per claim and for product/general liability the limit is \$0.3 million per claim. The Company pays a fixed premium for its auto liability policy; therefore, there is no deductible on claims. The cost of such benefits is recognized as expense based on claims filed in each reporting period and an estimate of claims incurred but not reported ("IBNR") during such period. The estimates for the IBNR are based upon historical trends and information provided to us by the claims administrators, and are periodically revised to reflect changes in loss trends. These amounts are included in other current liabilities on the Consolidated Balance Sheets.

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

Research and Development

Research and development expenses include laboratory research; concept development; design, testing and modification of possible products or processes; design of tools for new technology and engineering activity required to advance development. Costs not specifically covered by contracts are recognized as expense as incurred and included in research and development costs on the Company's Consolidated Statements of Operations. In 2021, the Company reclassified its research and development costs out of selling, general and administrative expenses to a distinct line item on the income statement. The Company updated the presentation of the earliest years presented on the Consolidated Statement of Operations to conform to this presentation. Customer funded research expenditures (which are included in cost of sales) were \$0.4 million in 2021, \$0.1 million in 2020 and \$0.6 million in 2019.

Income Taxes

Income taxes are accounted for using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss, capital loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates was recognized in income in the period that includes the enactment date. The deferred income taxes were significantly impacted by the enactment of the Tax Cuts and Jobs Act of 2017 ("Tax Reform"). The adjustments to deferred income taxes resulted in stranded tax effects of items within accumulated other comprehensive income. In 2019, the Company elected to reclassify the stranded tax effects to retained earnings from accumulated other comprehensive income using the item-by-item approach.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the Years Ended December 31, 2021, 2020 and 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-Based Payment Arrangements

The Company records compensation expense for share-based awards based upon an assessment of the grant date fair value of the awards. The fair value of each option award is estimated on the date of grant using the Black-Scholes option valuation model. A number of assumptions are used to determine the fair value of options granted. These include expected term, dividend yield, volatility of the options and the risk free interest rate. In 2021, the Company modified its long-term incentive program to increase the emphasis on equity. Beginning in the first quarter of 2021, the long-term incentive awards granted consist of a combination of service-based restricted stock awards ("RSAs") and performance stock units ("PSUs") which are intended to be settled in shares, as opposed to cash-based awards that had been utilized in the past. The number of PSUs that will vest will be determined based on total shareholder return ("TSR") and return on total invested capital ("ROIC") over a three-year performance period, each of which will remain equally weighted in determining payouts. The fair value of the PSUs based on TSR is estimated on the date of grant using a Monte-Carlo simulation model. A number of assumptions are used to determine the fair value of the PSUs granted, including expected term, volatility, the risk-free interest rate and dividend yield. See Note 22, *Share-Based Arrangements*, for further information.

Environmental Remediation

The Company is subject to environmental regulation by federal, state and local authorities in the United States and regulatory authorities with jurisdiction over its foreign operations. When the Company becomes aware of environmental risk, it performs a site study to ascertain the potential magnitude of contamination and the estimated cost of remediation. Environmental costs are accrued when it is probable that a liability has been incurred and the amount can be reasonably estimated. The most likely cost to be incurred is accrued based on an evaluation of currently available facts with respect to each individual site. Conditions of the site must be monitored throughout the remediation process as numerous factors could affect the estimated liability. The Company evaluates the identified environmental issues to ensure the time to complete the remediation and the total cost of remediation are consistent with the initial estimate. If there is any change in the cost and/or timing of remediation, the accrual is adjusted accordingly. See Note 13, *Environmental Costs*, and Note 19, *Commitments and Contingencies*, for further information.

Derivative Financial Instruments

The Company is exposed to certain risks relating to its ongoing business operations, including market risks relating to fluctuations in foreign currency exchange rates and interest rates. Derivative financial instruments are recognized on the Consolidated Balance Sheets as either assets or liabilities and are measured at fair value. Changes in the fair values of derivatives are recorded each period in earnings or accumulated other comprehensive income, depending on whether a derivative is effective as part of a hedged transaction. Gains and losses on derivative instruments reported in accumulated other comprehensive income are subsequently included in earnings in the periods in which earnings are affected by the hedged item. The Company does not offset fair value amounts of derivative instruments. The Company does not use derivative instruments for speculative purposes. See Note 9, *Derivative Financial Instruments*, for further information.

Pension Accounting

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

Expenses and liabilities associated with the plan are determined based upon actuarial valuations. Integral to the actuarial valuations are a variety of assumptions including expected return on plan assets and discount rate. The Company regularly reviews the assumptions, which are updated at the measurement date, December 31st. The impact of differences between actual results and the assumptions are accumulated and generally amortized over future periods, which will affect expense recognized in future periods. The service cost component of net benefit cost is recorded in cost of sales and selling, general and administrative expenses separately from the other components of net benefit cost, which are recorded to non-service pension and postretirement benefit income. See Note 17, *Pension Plans*, for further information.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the Years Ended December 31, 2021, 2020 and 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Standards

Recent Accounting Standards Adopted

In December 2019, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2019-12, "Income Taxes (Topic 740) - Simplifying the Accounting for Income Taxes". The objective of the standard is to simplify the accounting for income taxes by removing certain exceptions and to improve consistent application of Topic 740 by clarifying and amending existing guidance. The standard update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Early adoption of the standard was permitted, including adoption in any interim period for which financial statements have not yet been issued. If early adopted in an interim period, the adjustments should be reflected as of the beginning of the annual period that includes that interim period. All amendments under the standard must be adopted in the same period. In 2021, the Company adopted ASU 2019-12 using the modified retrospective basis which resulted in a cumulative effect increase to retained earnings of \$0.3 million.

Recent Accounting Standards Yet to be Adopted

In October 2021, the FASB issued ASU 2021-08, "Business Combinations (Topic 805), Accounting for Contract Assets and Contract Liabilities from Contracts with Customers". The amendments in this standard update address diversity and inconsistency related to the recognition and measurement of contract assets and contract liabilities acquired in a business combination and require that an acquirer recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606, Revenue from Contracts with Customers. This standard update is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years and should be applied prospectively to business combinations occurring on or after the effective date of the amendments. Early adoption of the standard is permitted, including adoption in an interim period. The adoption of this standard update is not expected to have a material impact on the Company's consolidated financial statements; however, the impact will be dependent on future business combinations.

In May 2021, the FASB issued ASU 2021-04, "Earnings Per Share (Topic 260), Debt - Modifications and Extinguishments (Subtopic 470-50), Compensation - Stock Compensation (Topic 718), and Derivatives and Hedging - Contracts in Entity's Own Equity (Subtopic 815-40): Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options (a consensus of the FASB Emerging Issues Task Force)". The objective of this standard update is to clarify and reduce diversity in an issuer's accounting for modifications or exchanges of freestanding equity-classified written call options that remain equity classified after modification or exchange. The guidance clarifies whether an issuer should account for a modification or an exchange of a freestanding equity-classified written call option that remains equity classified after modification or exchange as either an adjustment to equity and, if so, the related earnings per share ("EPS") effects, if any, or as an expense and, if so, the manner and pattern of recognition. The standard update is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The Company is currently assessing the potential impact this standard update could have on its consolidated financial statements.

In August 2020, the FASB issued ASU 2020-06, "Debt - Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging - Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity". The objective of this standard update is to simplify the accounting for certain financial instruments with characteristics of liabilities and equity. The update removes certain separation models between a debt component and equity or derivative component for certain convertible instruments, adds new disclosure requirements for convertible instruments to improve the decision usefulness and relevance of the information being provided to users of financial statements, clarifies the guidance for determining whether a contract qualifies for a scope exception from derivative accounting, and amends EPS guidance to improve consistency. The standard update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2021. Early adoption of the standard is permitted, but no earlier than fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. An entity should adopt the guidance as of the beginning of its annual fiscal year and can do so using a modified retrospective method or fully retrospective method of transition. The Company is currently assessing the potential impact this standard update could have on its consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the Years Ended December 31, 2021, 2020 and 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Standards

Recent Accounting Standards Yet to be Adopted - continued

In March 2020, the FASB issued ASU 2020-04, "Reference Rate Reform (Topic 848) - Facilitation of the Effects of Reference Rate Reform on Financial Reporting". The objective of the standard is to address operational challenges likely to arise in accounting for contract modifications and hedge accounting due to reference rate reform. The amendments in this ASU provide optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The standard update is effective for all entities as of March 12, 2020 through December 31, 2022. An entity may elect to apply the amendments for contract modifications by topic or industry subtopic as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020, or prospectively from a date within an interim period that includes or is subsequent to March 12, 2020. Once elected for a topic or industry subtopic, the amendments in this standard update must be applied prospectively for all eligible contract modifications for that topic or industry subtopic. An entity may elect to apply the amendments for eligible hedging relationships existing as of the beginning of the interim period that includes March 12, 2020 and to new eligible hedging relationships entered into after the beginning of the interim period that includes March 12, 2020. If an entity elects to apply any of the amendments for an eligible hedging relationship existing as of the beginning of the interim period that includes March 12, 2020, any adjustments as a result of those elections must be reflected as of the beginning of that interim period. If an entity elects to apply any of the amendments for a new hedging relationship entered into between the beginning of the interim period that includes March 12, 2020 and March 12, 2020, any adjustments as a result of those elections must be reflected as of the beginning of the hedging relationship. In December 2021, the Company amended its credit agreement to move its LIBOR benchmark for non-USD borrowings to other non-USD benchmark rates. Future USD borrowings under this current Credit Agreement will continue be based on LIBOR. The impact of the adoption of this standard update is dependent on the Company's contracts modifications as a result of reference rate reform; however, the Company does not expect the adoption of the amendments associated with hedging relationships to have a material impact on the Company's consolidated financial statements.

Subsequent to the issuance of ASU 2020-04, the FASB issued the following update: ASU 2021-01, "Reference Rate Reform (Topic 848) - Scope". The amendments in this update affect the guidance within ASU 2020-04 and are being assessed with ASU 2020-04.

2. DISPOSALS

UK Composites Business

In the fourth quarter of 2020, the Company received approval from its Board of Directors to sell its UK Composites division. Subsequent to the end of the year, the Company sold its UK Composites division in a transaction that closed on February 2, 2021. The sale of the UK Composites business did not meet the criteria set forth in ASC 205-20, for discontinued operations as it did not reflect a shift in the Company's strategy. As a result of the approved plan, the UK Composites division met the criteria set forth in ASC 205-20 for held for sale presentation. The related liabilities of the UK division to be sold were reclassified to liabilities held for sale, as of December 31, 2020 on the Company's Consolidated Balance Sheets. Financial results for the UK Composites division were included in the Structures segment for the years ended December 31, 2021, 2020 and 2019 within Note 4, *Segment and Geographic Information*.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the Years Ended December 31, 2021, 2020 and 2019

2. DISPOSALS (CONTINUED)

UK Composites Business - continued

The following table provides information on the loss recorded on the sale of the UK Composites business. These amounts reflect the balance sheet of the UK Composites business as of February 2, 2021.

In thousands

Estimated fair value	\$ 3,600
Assets, including cash on hand	23,460
Liabilities	6,618
Net book value of business	<u>16,842</u>
UK cumulative foreign currency translation adjustment balance	22,835
Transaction costs	<u>442</u>
Loss on the sale of the UK Composites business	<u>\$ 36,519</u>

Of this amount, a loss of \$36.3 million was recorded to impairment on assets held for sale in the year ended December 31, 2020 and a loss of \$0.2 million was recorded to loss (gain) on sale of business in the year ended December 31, 2021.

Cash and cash equivalents and restricted cash at the beginning of the period on the Company's Consolidated Statement of Cash Flows for the year ended December 31, 2021 includes \$6.6 million of cash that was included in the UK Composites business disposal group. However, given the assets of the disposal group are recognized net of the impairment charge recorded in December 31, 2020, such amounts are not reflected on the Company's Consolidated Balance Sheet at December 31, 2020.

Distribution Business

On August 26, 2019, the Company completed the sale of its Distribution business for total cash consideration of \$700.0 million, excluding certain working capital adjustments. The sale of the Distribution business was a result of the Company's shift in strategy to be a highly focused, technologically differentiated aerospace and engineered products company. As a result of the sale, the Distribution segment met the criteria set forth in ASC 205-20 for discontinued operations.

Upon closing, the Company entered into a transition services agreement ("TSA") with the buyer, pursuant to which the Company agreed to support the information technology, human resources and benefits, tax and treasury functions of the Distribution business for six to twelve months. The buyer exercised the option to extend the support period for up to a maximum of an additional year for certain IT services. The buyer had the right to terminate individual services at any point over the renewal term and began to terminate certain services in 2020. During the third quarter of 2021, the TSA expired and all services were completed as of the end of the period. Since the sale of the Distribution business, costs associated with the TSA were \$18.9 million through December 31, 2021. The Company incurred \$1.7 million, \$12.5 million and \$4.7 million in costs associated with the TSA in 2021, 2020 and 2019, respectively, which was included in costs from transition services agreement on the Company's Consolidated Statement of Operations. Since the sale of the Distribution business, the Company earned \$13.0 million in income associated with the TSA through December 31, 2021. The Company earned \$0.9 million, \$8.4 million and \$3.7 million in income associated with the TSA in 2021, 2020 and 2019, respectively, which was included in income from transition services agreement on the Company's Consolidated Statement of Operations.

Since the sale of the Distribution business, cash outflows from the Company to its former Distribution business totaled \$8.7 million through December 31, 2021, which primarily related to Distribution employee and employee-related costs incurred prior to the sale. Cash outflows from the Company to its former Distribution business after the sale totaled \$0.6 million, \$0.3 million and \$7.8 million for the years ended December 31, 2021, 2020 and 2019, respectively. Since the sale of the Distribution business, cash inflows from the Company's former Distribution business to the Company totaled \$18.9 million through December 31, 2021, which primarily related to cash received for services performed under the TSA and the \$5.2 million working capital adjustment settled in the first quarter of 2020. Cash inflows from the Company's former Distribution business after the sale totaled \$2.0 million, \$13.3 million and \$3.6 million for the years ended December 31, 2021, 2020 and 2019, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the Years Ended December 31, 2021, 2020 and 2019

2. DISPOSALS (CONTINUED)

Distribution Business - continued

The results of operations for the Company's former Distribution business were included in discontinued operations on the Company's Consolidated Statement of Operations. The following table provides information regarding the results of discontinued operations:

	For the Year Ended December 31,		
	2021	2020	2019
<i>In thousands</i>			
Net sales from discontinued operations	\$ —	\$ —	\$ 748,451
Cost of sales from discontinued operations	—	—	536,749
Gross profit from discontinued operations	—	—	211,702
Selling, general and administrative expenses from discontinued operations	—	—	177,475
Net loss on sale of assets from discontinued operations	—	—	8
Operating income from discontinued operations	—	—	34,219
Interest expense, net from discontinued operations	—	—	25
Other income, net from discontinued operations	—	—	(12)
Earnings from discontinued operations before income taxes	—	—	34,206
Income tax expense	—	—	5,179
Earnings from discontinued operations before gain on disposal	—	—	29,027
Gain on disposal of discontinued operations, pretax	—	925	167,757
Income tax expense on gain on disposal	—	233	43,401
Gain on disposal of discontinued operations, net of tax	—	692	124,356
Earnings from discontinued operations, net of tax	<u>\$ —</u>	<u>\$ 692</u>	<u>\$ 153,383</u>

In the year ended December 31, 2020, the Company recorded a gain on disposal of discontinued operations as a result of the final settlement of the working capital adjustment, partially offset by transaction costs.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the Years Ended December 31, 2021, 2020 and 2019

2. DISPOSALS (CONTINUED)

Distribution Business - continued

The following table provides information on the gain recorded on the sale of the Company's former Distribution business for 2019. These amounts reflect the closing balance sheet of its Distribution business upon the closing of the sale on August 26, 2019 (in thousands):

Net proceeds received from sale of Distribution ⁽¹⁾	\$	659,934
Distribution assets		
Cash and cash equivalents	\$	21,834
Accounts receivable, net		150,317
Contract assets		9,128
Inventories		163,995
Other current assets		20,289
Property plant and equipment, net of accumulated depreciation of \$73,795		51,039
Operating right-of-use assets, net		68,049
Goodwill		149,204
Other intangible assets, net		28,361
Deferred income taxes		133
Other assets		195
Total Distribution assets	<u>\$</u>	<u>662,544</u>
Distribution liabilities		
Accounts payable - trade	\$	67,975
Accrued salaries and wages		12,916
Operating lease liabilities, current portion		19,981
Other current liabilities		22,024
Deferred income taxes		78
Operating lease liabilities, noncurrent portion		48,130
Other long-term liabilities		188
Total Distribution liabilities	<u>\$</u>	<u>171,292</u>
Gain on sale of Distribution before income taxes	<u>\$</u>	<u>168,682</u>

⁽¹⁾ The proceeds received from the sale of the Distribution business were included in net cash (used in) provided by investing activities of continuing operations on the Company's Consolidated Statement of Cash Flows. These proceeds were net of transaction costs of \$33.4 million and working capital adjustments. The final consideration and gain on sale was settled in the first quarter of 2020.

3. BUSINESS COMBINATIONS

On January 3, 2020, the Company acquired all of the equity interests of Bal Seal Engineering ("Bal Seal"), of Foothill Ranch, California, at a purchase price of \$317.5 million. Bal Seal is a leader in the design, development, and manufacturing of highly engineered products, including precision springs, seals, and contacts. With this acquisition, the Company has significantly expanded its portfolio of engineered products and offerings while creating new opportunities to reach customers in medical technology, aerospace and defense, and industrial end markets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the Years Ended December 31, 2021, 2020 and 2019

3. BUSINESS COMBINATIONS (CONTINUED)

This acquisition was accounted for as a purchase transaction. The assets acquired and liabilities assumed were recorded based on their fair values at the date of acquisition as follows (in thousands):

Cash	\$	10,953
Restricted cash		1,932
Accounts receivable		9,525
Contract assets		784
Inventories		13,500
Property, plant and equipment		81,997
Operating right-of-use asset		653
Other tangible assets		2,492
Goodwill		95,089
Other intangible assets		110,300
Liabilities		(9,679)
Net assets acquired		<u>317,546</u>
Less cash received		<u>(12,885)</u>
Net consideration	\$	<u><u>304,661</u></u>

The goodwill associated with this acquisition is tax deductible and is the result of expected synergies from combining the operations of the acquired business with the Company's operations and intangible assets that do not qualify for separate recognition, such as an assembled workforce.

The fair value of the identifiable intangible assets of \$110.3 million, consisting of customer relationships, developed technologies, trade name and acquired backlog, was determined using the income approach. Specifically, a multi-period, excess earnings method was utilized for the customer relationships and backlog and the relief-from-royalty method was utilized for the trade name and developed technologies. The fair value of the customer relationships, \$70.1 million, is being amortized based on the economic pattern of benefit over periods ranging from 30 to 38 years; the fair value of the developed technologies, \$25.5 million, is being amortized on a straight-line basis over periods ranging from 7 to 13 years; the fair value of the trade name, \$11.9 million, is being amortized on a straight-line basis over a 40 year term; and the fair value of the acquired backlog, \$2.8 million, was amortized on a straight-line basis over a period of 1 year. These amortization periods represent the estimated useful lives of the assets.

As of the acquisition date, Bal Seal had \$1.9 million in costs accrued for its employee retention plans in other long term liabilities. Upon closing, the Company funded \$24.7 million associated with these employee retention plans into escrow accounts. This amount and related interest was included in restricted cash on the Company's Consolidated Balance Sheets as of December 31, 2020. Eligible participants received an allocation of the escrow balance one year following the acquisition date, which was reflected in the Company's cash flows from operating activities in the year ended December 31, 2021. In addition to the purchase price of \$317.5 million, the Company incurred \$22.8 million in compensation expense associated with these retention plans in the year ended December 31, 2020.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the Years Ended December 31, 2021, 2020 and 2019

3. BUSINESS COMBINATIONS (CONTINUED)

Bal Seal's results of operations have been included in the Company's financial statements for the period subsequent to the completion of the acquisition on January 3, 2020. Bal Seal contributed \$77.0 million of revenue and \$30.8 million of operating loss for the year ended December 31, 2020. The following table reflects the unaudited pro forma operating results of the Company for the twelve-month fiscal periods ended December 31, 2020, and 2019 which gives effect to the acquisition of Bal Seal as if the Company had been acquired on January 1, 2019. The pro forma results are based on assumptions that the Company believes are reasonable under the circumstances. The pro forma results are not necessarily indicative of the operating results that would have occurred had the acquisitions been effective January 1, 2019, nor are they intended to be indicative of results that may occur in the future. The underlying pro forma information includes the historical financial results of the Company and the acquired business adjusted for certain items discussed below. The pro forma information does not include the effects of any synergies, cost reduction initiatives or anticipated integration costs related to the acquisitions.

	For the year ended December 31,	
	2020	2019
<i>In thousands</i>		
Net sales	\$ 784,459	\$ 853,192
(Loss) earnings from continuing operations	\$ (35,681)	\$ 27,126
Net (loss) earnings	\$ (34,989)	\$ 180,509

Adjustments to pro forma earnings for the year ended December 31, 2020, include a \$22.8 million reduction in compensation expense associated with Bal Seal's employee retention plans, the absence of \$8.5 million in acquisition-related costs, a \$2.4 million reduction in costs associated with the inventory step-up, \$5.3 million in lower amortization of intangible assets and \$4.1 million in higher income tax expense. Adjustments to pro forma earnings for the year ended December 31, 2019, include a \$4.2 million reduction in net expenses associated with buildings purchased by the Company that were previously leased by Bal Seal, \$11.1 million in incremental amortization of intangible assets, \$22.8 million in incremental compensation expense associated with Bal Seal's employee retention plans, \$8.5 million of acquisition-related costs, a \$3.7 million reduction in transaction costs incurred by Bal Seal associated with the acquisition, \$2.4 million in additional costs associated with the inventory step-up and \$2.6 million in lower income tax expense.

4. SEGMENT AND GEOGRAPHIC INFORMATION

Segment Information

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

The Engineered Products segment serves the aerospace and defense, industrial and medical markets providing sophisticated proprietary aircraft bearings and components; super precision, miniature ball bearings; and proprietary spring energized seals, springs and contacts.

The Precision Products segment serves the aerospace and defense markets providing precision safe and arming solutions for missile and bomb systems for the U.S. and allied militaries; subcontract helicopter work; restoration, modification and support of the Company's SH-2G Super Seasprite maritime helicopters; manufacture and support of the heavy lift K-MAX® manned helicopter, the *K-MAX TITAN* unmanned aerial system and the *KARGO UAV* unmanned aerial system, a purpose built autonomous medium lift logistics vehicle.

The Structures segment serves the aerospace and defense and medical end markets providing sophisticated complex metallic and composite aerostructures for commercial, military and general aviation fixed and rotary wing aircraft, and medical imaging solutions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the Years Ended December 31, 2021, 2020 and 2019

4. SEGMENT AND GEOGRAPHIC INFORMATION (CONTINUED)

Segment Information - continued

Summarized financial information by business segment is as follows:

	For the year ended December 31,		
	2021	2020	2019
<i>In thousands</i>			
Net sales:			
Engineered Products	\$ 317,683	\$ 315,063	\$ 270,335
Precision Products	256,329	302,509	307,312
Structures	134,981	166,887	183,961
Net sales ⁽¹⁾⁽²⁾	<u>\$ 708,993</u>	<u>\$ 784,459</u>	<u>\$ 761,608</u>
Operating income (loss):			
Engineered Products	\$ 43,097	\$ 33,561	\$ 64,195
Precision Products	55,366	74,033	59,573
Structures	(340)	(8,858)	1,194
Corporate expense	(40,519)	(53,059)	(61,344)
Other unallocated expenses, net ⁽³⁾	(8,108)	(129,988)	(10,207)
Operating income (loss)	<u>\$ 49,496</u>	<u>\$ (84,311)</u>	<u>\$ 53,411</u>

⁽¹⁾ Sales of the Company's formerly owned Distribution business were included in earnings from discontinued operations, net of tax, on the Company's Consolidated Statements of Operations in the year ended December 31, 2019. See Note 2, *Disposals*, for further information on the Company's sale of the Distribution business.

⁽²⁾ Net sales under contracts with USG agencies (including sales to foreign governments through foreign military sales contracts with USG agencies) totaled \$230.6 million, \$220.8 million and \$244.3 million in 2021, 2020 and 2019, respectively, and represent direct and indirect sales to the USG and related agencies.

⁽³⁾ Other unallocated expenses, net include goodwill and other intangibles impairments, impairment on assets held for sale, costs from the TSA, cost of acquired retention plans, restructuring and severance costs, net gain (loss) on sale of business, and net (gain) loss on sale of assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the Years Ended December 31, 2021, 2020 and 2019

4. SEGMENT AND GEOGRAPHIC INFORMATION (CONTINUED)

Segment Information - continued

The following table disaggregates segment revenue by major product line:

In thousands

2021

	Engineered Products	Precision Products	Structures	Total
Defense	\$ 51,033	\$ 30,062	\$ 87,575	\$ 168,670
Safe and Arm Devices	—	191,524	—	191,524
Commercial, Business, & General Aviation	115,576	28,995	40,115	184,686
Medical	79,424	—	7,291	86,715
Industrial & Other	71,650	5,748	—	77,398
Total revenue	<u>\$ 317,683</u>	<u>\$ 256,329</u>	<u>\$ 134,981</u>	<u>\$ 708,993</u>

2020

	Engineered Products	Precision Products	Structures	Total
Defense	\$ 55,380	\$ 22,523	\$ 102,497	\$ 180,400
Safe and Arm Devices	—	248,482	—	248,482
Commercial, Business, & General Aviation	135,289	26,803	58,171	220,263
Medical	63,791	—	6,219	70,010
Industrial & Other	60,603	4,701	—	65,304
Total revenue	<u>\$ 315,063</u>	<u>\$ 302,509</u>	<u>\$ 166,887</u>	<u>\$ 784,459</u>

2019

	Engineered Products	Precision Products	Structures	Total
Defense	\$ 36,125	\$ 36,078	\$ 106,086	\$ 178,289
Safe and Arm Devices	—	227,846	—	227,846
Commercial, Business, & General Aviation	173,786	37,541	69,660	280,987
Medical	20,437	—	8,215	28,652
Industrial & Other	39,987	5,847	—	45,834
Total revenue	<u>\$ 270,335</u>	<u>\$ 307,312</u>	<u>\$ 183,961</u>	<u>\$ 761,608</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the Years Ended December 31, 2021, 2020 and 2019

4. SEGMENT AND GEOGRAPHIC INFORMATION (CONTINUED)

Segment Information - continued

The following table illustrates the approximate percentage of segment revenue recognized by product types.

	2021			
	Engineered Products	Precision Products	Structures	Total
Original Equipment Manufacturer	35 %	5 %	19 %	59 %
Aftermarket	10 %	4 %	— %	14 %
Safe and Arm Devices	— %	27 %	— %	27 %
Total revenue	<u>45 %</u>	<u>36 %</u>	<u>19 %</u>	<u>100 %</u>
	2020			
	Engineered Products	Precision Products	Structures	Total
Original Equipment Manufacturer	31 %	4 %	21 %	56 %
Aftermarket	9 %	3 %	— %	12 %
Safe and Arm Devices	— %	32 %	— %	32 %
Total revenue	<u>40 %</u>	<u>39 %</u>	<u>21 %</u>	<u>100 %</u>
	2019			
	Engineered Products	Precision Products	Structures	Total
Original Equipment Manufacturer	25 %	9 %	24 %	58 %
Aftermarket	10 %	2 %	— %	12 %
Safe and Arm Devices	— %	30 %	— %	30 %
Total revenue	<u>35 %</u>	<u>41 %</u>	<u>24 %</u>	<u>100 %</u>

The timing related to the satisfaction of performance obligations and the typical timing of payment could vary between military, safe and arm devices and commercial, medical and industrial contracts. For military and safe and arm device contracts with the USG, payment terms typically include progress payments, and the satisfaction of these performance obligations does not vary significantly from timing of payment. For firm-fixed price military and safe and arm device contracts with foreign militaries, the satisfaction of performance obligations could occur at a point in time or over time, depending on the nature of the performance obligations and the right to payment terms in the contracts. Generally, payment terms for these types of contracts range from 30 to 60 days from delivery; however, at times, the Company may negotiate advance payments to cover a portion of the initial costs. Payment terms for firm-fixed price commercial, medical and industrial contracts generally range from 30 to 90 days from delivery. The satisfaction of these performance obligations could occur at a point in time or over time, depending on the nature of the performance obligations and the right to payment terms in the contracts. For certain commercial contracts, the Company may negotiate advance payments for long-lead materials.

The following table presents research and development costs by segment:

	For the year ended December 31,		
	2021	2020	2019
<i>In thousands</i>			
Engineered Products	\$ 8,399	\$ 8,806	\$ 5,504
Precision Products	7,443	5,211	5,995
Structures	230	738	397
Total research and development costs	<u>\$ 16,072</u>	<u>\$ 14,755</u>	<u>\$ 11,896</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the Years Ended December 31, 2021, 2020 and 2019

4. SEGMENT AND GEOGRAPHIC INFORMATION (CONTINUED)

Segment Information - continued

Summarized asset and cash flow information by business segment is as follows:

	For the year ended December 31,		
	2021	2020	2019
<i>In thousands</i>			
Identifiable assets ⁽¹⁾ :			
Engineered Products	\$ 623,899	\$ 681,097	\$ 359,423
Precision Products	250,146	315,439	287,192
Structures	125,027	135,021	221,098
Corporate ⁽²⁾	199,410	174,836	551,230
Total assets	<u>\$ 1,198,482</u>	<u>\$ 1,306,393</u>	<u>\$ 1,418,943</u>
Capital expenditures:			
Engineered Products	\$ 9,537	\$ 11,496	\$ 13,668
Precision Products	3,554	2,545	3,532
Structures	2,075	2,650	2,470
Corporate	2,364	1,092	2,777
Total capital expenditures	<u>\$ 17,530</u>	<u>\$ 17,783</u>	<u>\$ 22,447</u>
Depreciation and amortization ⁽³⁾ :			
Engineered Products	\$ 26,306	\$ 31,574	\$ 13,753
Precision Products	4,148	3,706	4,035
Structures	3,462	5,201	4,909
Corporate	2,738	3,418	3,157
Total depreciation and amortization	<u>\$ 36,654</u>	<u>\$ 43,899</u>	<u>\$ 25,854</u>

⁽¹⁾ Identifiable assets are year-end assets at their respective net carrying values segregated as to segment and corporate use.

⁽²⁾ For the periods presented, the corporate identifiable assets are principally comprised of cash, short-term and long-term deferred income tax assets, cash surrender value of life insurance policies and fixed assets.

⁽³⁾ Depreciation and amortization amounts exclude amortization of debt issuance costs.

Geographic Information

Sales are attributed to geographic regions based on the location to which the product is shipped. Geographic distribution of sales recorded is as follows:

	For the year ended December 31,		
	2021	2020	2019
<i>In thousands</i>			
North America	\$ 442,432	\$ 412,025	\$ 438,638
Europe	113,811	148,473	164,921
Middle East	107,408	170,835	114,110
Asia	27,638	34,424	19,326
Oceania	14,160	11,156	14,598
Other	3,544	7,546	10,015
Total revenue	<u>\$ 708,993</u>	<u>\$ 784,459</u>	<u>\$ 761,608</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the Years Ended December 31, 2021, 2020 and 2019

4. SEGMENT AND GEOGRAPHIC INFORMATION (CONTINUED)

Geographic Information - continued

Geographic distribution of long-lived assets is as follows:

	At December 31,	
	2021	2020
<i>In thousands</i>		
United States	\$ 476,546	\$ 493,490
Germany	152,061	167,939
Czech Republic	5,354	5,747
Mexico	1,291	796
Netherlands	593	339
Switzerland	245	235
Hong Kong	132	64
Total long-lived assets ⁽¹⁾	<u>\$ 636,222</u>	<u>\$ 668,610</u>

⁽¹⁾ For the purpose of this disclosure the Company excluded deferred tax assets of \$15.7 million and \$39.8 million as of December 31, 2021 and 2020, respectively.

5. RESTRUCTURING AND SEVERANCE COSTS

The following table disaggregates the components of restructuring and severance costs:

	2021	2020	2019
<i>In thousands</i>			
Cost reduction initiative	\$ 6,154	\$ 3,970	\$ 927
Integration of Bal Seal acquisition	—	524	—
Workforce reductions in response to COVID-19	—	3,549	—
Composites business restructuring	—	316	631
Total restructuring and severance costs	<u>\$ 6,154</u>	<u>\$ 8,359</u>	<u>\$ 1,558</u>

Cost Reduction Initiative

Since the sale of our former distribution business in 2019, the Company has continued to evaluate its cost structure with the objective of a lean organizational structure that improves operational efficiency and provides a scalable infrastructure which facilitates future growth opportunities. We have identified information technology functions to be outsourced, workforce reductions and other reductions in certain general and administrative expenses to support the cost savings initiative.

Integration of Bal Seal Acquisition

We incurred severance costs as we integrated the acquisition of Bal Seal in year ended December 31, 2020.

Workforce Reductions in Response to COVID-19

During 2020, the Company implemented workforce reductions, including temporary furloughs, and elected to eliminate certain open positions as a response to the unprecedented hardships brought on by COVID-19.

The severance costs above were included in restructuring and severance costs on the Company's Consolidated Statements of Operations and other unallocated expenses, net within in Note 4, *Segment and Geographic Information*.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the Years Ended December 31, 2021, 2020 and 2019

5. RESTRUCTURING AND SEVERANCE COSTS (CONTINUED)

Composites Business Restructuring

During the third quarter of 2017, the Company initiated restructuring activities at certain businesses to support the ongoing effort of improving capacity utilization and operating efficiency to better position the Company for increased profitability and growth. Such actions included workforce reductions and the consolidation of operations, with the majority completed by the end of 2019. As part of the restructuring activities discussed above, the Company sold its UK Tooling business in 2018. This divestiture did not qualify for the reporting of discontinued operations. In the year ended December 31, 2019, the Company incurred a loss of \$3.7 million associated with the write-off of note receivables recorded in 2018 for the remaining amounts to be collected on the sale of the UK Tooling business as this balance was deemed not likely to be collected. In the year ended December 31, 2020, the Company collected \$0.5 million of the note receivables written off in 2019. These charges were included in loss (gain) on the sale of business on the Company's Consolidated Statements of Operations and other unallocated expenses, net in Note 4, *Segment and Geographic Information*.

6. ACCOUNTS RECEIVABLE, NET

Accounts receivable consist of the following:

	At December 31,	
	2021	2020
<i>In thousands</i>		
Trade receivables	\$ 19,228	\$ 19,945
U.S. Government contracts:		
Billed	14,748	18,854
Costs and accrued profit – not billed	167	1,080
Commercial and other government contracts:		
Billed	36,787	111,794
Costs and accrued profit – not billed	4,141	4,141
Less allowance for doubtful accounts	(1,547)	(2,008)
Accounts receivable, net	<u>\$ 73,524</u>	<u>\$ 153,806</u>

The Company performs ongoing evaluations of its customers' current creditworthiness, as determined by the review of their credit information to determine if events have occurred subsequent to the recognition of revenue and the related receivable that provide evidence that such receivable will be realized in an amount less than that recognized at the time of sale. Estimates of credit losses are based on historical losses, current economic conditions, geographic considerations, and in some cases, evaluating specific customer accounts for risk of loss.

The following table summarizes the activity in the allowance for doubtful accounts in the year ended December 31, 2021:

<i>In thousands</i>	
Balance at December 31, 2020	\$ (2,008)
Provision	(575)
Amounts written off	648
Recoveries	385
Changes in foreign currency exchange rates	3
Balance at December 31, 2021	<u>\$ (1,547)</u>

COVID-19

The Company anticipates that the disruptions and delays resulting from the spread of COVID-19 and the measures instituted by governments and businesses to mitigate its spread will impact the Company's liquidity in the next twelve months. The Company continues to closely monitor the collectability of its receivables from commercial aerospace customers as it recognizes there may be delays in payments due to the impacts of COVID-19 on its customers. As of the date of this filing, the Company does not believe there has been any material impact on the collectability of these receivables.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the Years Ended December 31, 2021, 2020 and 2019

6. ACCOUNTS RECEIVABLE, NET (CONTINUED)

Accounts receivable, net includes amounts for matters such as contract changes, negotiated settlements and claims for unanticipated contract costs. These amounts are as follows:

	At December 31,	
	2021	2020
<i>In thousands</i>		
Contract changes, negotiated settlements and claims for unanticipated contract costs	\$ 900	\$ 900
Total	<u>\$ 900</u>	<u>\$ 900</u>

7. CONTRACT ASSETS, CONTRACT COSTS AND CONTRACT LIABILITIES

Activity related to contract assets, contract costs and contract liabilities is as follows:

	December 31, 2021	December 31, 2020	\$ Change	% Change
<i>In thousands</i>				
Contract assets ⁽¹⁾	\$ 112,354	\$ 108,645	\$ 3,709	3.4 %
Contract costs, current portion	\$ 850	\$ 3,511	\$ (2,661)	(75.8)%
Contract costs, noncurrent portion	\$ 10,249	\$ 8,311	\$ 1,938	23.3 %
Contract liabilities, current portion	\$ 2,945	\$ 39,073	\$ (36,128)	(92.5)%
Contract liabilities, noncurrent portion	\$ 16,528	\$ 11,019	\$ 5,509	50.0 %

⁽¹⁾ The Company's contract assets were net of unliquidated progress payments, primarily from the U.S. Government, of \$59.3 million and \$32.4 million at December 31, 2021 and December 31, 2020, respectively.

Contract Assets

The increase in contract assets was primarily due to the recognition of revenue related to the satisfaction or partial satisfaction of performance obligations in excess of amounts billed, particularly on the JPF program, the A-10 contract and the KAflex® contract during the year ended December 31, 2021, partially offset by amounts billed on certain structures contracts. There were no significant impairment losses related to the Company's contract assets during the years ended December 31, 2021 and December 31, 2020.

Contract assets includes amounts for matters such as contract changes, negotiated settlements and claims for unanticipated contract costs. These amounts are as follows:

	At December 31,	
	2021	2020
<i>In thousands</i>		
Contract changes, negotiated settlements and claims for unanticipated contract costs	\$ 682	\$ 3,178

Contract Costs

At December 31, 2021, costs to fulfill a contract were \$11.1 million. There were no costs to obtain a contract at December 31, 2021. At December 31, 2020, costs to fulfill a contract and costs to obtain a contract were \$9.3 million and \$2.5 million, respectively. These amounts are included in contract costs, current portion and contract costs, noncurrent portion on the Company's Consolidated Balance Sheets at December 31, 2021 and December 31, 2020.

Contract costs, current portion at December 31, 2021 decreased when compared to December 31, 2020. This was primarily the result of the amortization of contract costs, partially offset by the reclassification of costs to fulfill certain structures programs from contract costs, noncurrent portion. For the years ended December 31, 2021 and December 31, 2020, amortization of contract costs was \$8.7 million and \$11.5 million, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the Years Ended December 31, 2021, 2020 and 2019

7. CONTRACT ASSETS, CONTRACT COSTS AND CONTRACT LIABILITIES (CONTINUED)

Contract Costs - continued

The increase in contract costs, noncurrent portion was primarily attributable to the addition of costs to fulfill the *TITAN UAV* unmanned aerial system program, partially offset by the reclassification of costs to fulfill certain structures programs to contract costs, current portion.

Contract Liabilities

The decrease in contract liabilities, current portion was primarily due to revenue recognized on a JPF DCS contract. For the years ended December 31, 2021 and December 31, 2020, revenue recognized related to contract liabilities, current portion was \$47.9 million and \$58.1 million, respectively.

The increase in contract liabilities, noncurrent portion was due to advances received on the JPF DCS contract. For the years ended December 31, 2021 and December 31, 2020, the Company did not recognize revenue against contract liabilities, noncurrent portion.

8. FAIR VALUE MEASUREMENTS

Fair value is defined as the exchange price that would be received for an asset or the price paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date.

The Company uses a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires us to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- Level 1 — Quoted prices in active markets for identical assets or liabilities.
- Level 2 — Observable inputs other than quoted prices included in Level 1, such as quoted prices for markets that are not active or other inputs that are observable or can be corroborated by observable market data.
- Level 3 — Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The following table provides the carrying value and fair value of financial instruments that are not carried at fair value at December 31, 2021 and 2020:

	2021		2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<i>In thousands</i>				
Debt ⁽¹⁾	\$ 191,876	\$ 213,222	\$ 188,919	\$ 230,093

⁽¹⁾ These amounts are classified within Level 2.

The above fair values were computed based on quoted market prices and discounted future cash flows (observable inputs), as applicable. Differences from carrying values are attributable to interest rate changes subsequent to when the transactions occurred. The fair values of cash and cash equivalents, accounts receivable, net, and accounts payable - trade approximate their carrying amounts due to the short-term maturities of these instruments. The Company's cash and cash equivalents at December 31, 2021 and 2020 included \$65.5 million and \$51.5 million, respectively, of Level 1 money market funds.

Recurring Fair Value Measurements

The Company holds derivative instruments for foreign exchange contracts that are measured at fair value using observable market inputs such as forward rates and our counterparties' credit risks. Based on these inputs, the derivative instruments are classified within Level 2 of the valuation hierarchy and have been included in other current assets and other current liabilities on the Consolidated Balance Sheets at December 31, 2021 and December 31, 2020. Based on the continued ability to trade and enter into forward contracts and interest rate swaps, the Company considers the markets for the fair value instruments to be active.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the Years Ended December 31, 2021, 2020 and 2019

8. FAIR VALUE MEASUREMENTS (CONTINUED)

Recurring Fair Value Measurements - continued

The Company evaluated the credit risk associated with the counterparties to these derivative instruments and determined that as of December 31, 2021, such credit risks have not had an adverse impact on the fair value of these instruments.

Nonrecurring Fair Value Measurements

During 2020, the Company incurred a \$50.3 million impairment charge for its Aerosystems reporting unit. Refer to *Note 12, Goodwill and Other Intangible Assets, Net* for further information regarding the calculation of fair value.

9. DERIVATIVE FINANCIAL INSTRUMENTS

The Company is exposed to certain risks relating to its ongoing business operations, including market risks relating to fluctuations in foreign currency exchange rates and interest rates. Derivative financial instruments are reported on the Consolidated Balance Sheets at fair value. Changes in the fair values of derivatives are reported each period in earnings or accumulated other comprehensive income, depending on whether a derivative is effective as part of a hedged transaction. Gains and losses on derivative instruments reported in accumulated other comprehensive income are subsequently included in earnings in the periods in which earnings are affected by the hedged item. The Company does not use derivative instruments for speculative purposes.

The Company held forward exchange contracts designed to hedge forecasted transactions denominated in foreign currencies and to minimize the impact of foreign currency fluctuations on the Company's earnings and cash flows. Some of those contracts were designated as cash flow hedges. The Company will include in earnings amounts currently included in accumulated other comprehensive income upon recognition of cost of sales related to the underlying transaction.

Forward Exchange Contracts

From time to time, the Company will enter into foreign exchange contracts that are not designated as hedging instruments. These contracts are entered into in order to minimize the impact of foreign currency fluctuations on the Company's earnings and cash flows. The Company reports expense related to these contracts in other income, net on the Consolidated Statements of Operations.

In addition to the forward exchange contract mentioned above, the Company held forward exchange contracts to mitigate the risk associated with foreign currencies that were not designated as hedging instruments as of December 31, 2021 and 2020. The balances associated with the contracts and the gains or losses reported in other income, net were not material for the years ended December 31, 2021, 2020 or 2019.

10. INVENTORIES

Inventories consist of the following:

	At December 31,	
	2021	2020
<i>In thousands</i>		
Raw materials	\$ 19,123	\$ 19,502
Contracts in process:.....		
US Government	1,985	5,439
Commercial and other government contracts	61,637	59,565
Contracts and other work in process (including certain general stock materials)	75,115	64,237
Finished goods	35,240	36,329
Inventories	<u>\$ 193,100</u>	<u>\$ 185,072</u>

Inventories include amounts associated with matters such as contract changes, negotiated settlements and claims for unanticipated contract costs, which totaled \$0.6 million and \$0.5 million at December 31, 2021 and 2020, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the Years Ended December 31, 2021, 2020 and 2019

10. INVENTORIES (CONTINUED)

At December 31, 2021 and 2020, \$69.2 million and \$60.4 million, respectively, of K-MAX® inventory was included in contracts and other work in process inventory and finished goods on the Company's Consolidated Balance Sheets. Management believes that approximately \$36.2 million of the K-MAX® inventory will be sold after December 31, 2022, based upon the anticipation of additional aircraft manufacturing and supporting the fleet for the foreseeable future.

At December 31, 2021 and 2020, \$6.0 million and \$6.3 million, respectively, of SH-2G(I) inventory was included in contracts and other work in process inventory on the Company's Consolidated Balance Sheets. Management believes that approximately \$4.7 million of the SH-2G(I) inventory will be sold after December 31, 2022. This balance represents spares requirements and inventory to be used in SH-2G programs.

11. PROPERTY, PLANT AND EQUIPMENT, NET

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

	At December 31,	
	2021	2020
<i>In thousands</i>		
Land	\$ 36,367	\$ 36,683
Buildings	135,887	134,995
Leasehold improvements	16,151	15,590
Machinery, office furniture and equipment	249,527	241,027
Construction in process	11,778	11,541
Total	<u>449,710</u>	<u>439,836</u>
Less accumulated depreciation	<u>(251,888)</u>	<u>(228,984)</u>
Property, plant and equipment, net	<u>\$ 197,822</u>	<u>\$ 210,852</u>

Depreciation expense was \$26.2 million, \$28.0 million and \$21.3 million for 2021, 2020 and 2019, respectively.

Finance Leases

For the years ended December 31, 2021 and 2020, \$6.7 million of assets included in machinery, office furniture and equipment and construction in process were accounted for as finance leases in both periods. At December 31, 2021 and 2020, the Company had accumulated depreciation of \$2.9 million and \$2.1 million, respectively, associated with these assets. Depreciation expense associated with the finance leases was \$0.8 million, \$0.9 million and \$0.9 million for 2021, 2020 and 2019, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the Years Ended December 31, 2021, 2020 and 2019

12. GOODWILL AND OTHER INTANGIBLE ASSETS, NET

Goodwill

The following table sets forth the change in the carrying amount of goodwill for the Company:

	2021			
	Engineered Products	Precision Products	Structures	Total
<i>In thousands</i>				
Gross balance at beginning of period	\$ 205,869	\$ 41,375	\$ 66,559	\$ 313,803
Accumulated impairment	—	—	(66,559)	(66,559)
Net balance at beginning of period	205,869	41,375	—	247,244
Additions	—	—	—	—
Impairments	—	—	—	—
Foreign currency translation	(6,563)	—	—	(6,563)
Net balance at end of period	<u>\$ 199,306</u>	<u>\$ 41,375</u>	<u>\$ —</u>	<u>\$ 240,681</u>
Accumulated impairment at end of period	\$ —	\$ —	\$ (66,559)	\$ (66,559)
	2020			
	Engineered Products	Precision Products	Structures	Total
<i>In thousands</i>				
Gross balance at beginning of period	\$ 102,979	\$ 41,375	\$ 67,212	\$ 211,566
Accumulated impairment	—	—	(16,252)	(16,252)
Net balance at beginning of period	102,979	41,375	50,960	195,314
Additions ⁽¹⁾	95,089	—	—	95,089
Impairments	—	—	(50,307)	(50,307)
Foreign currency translation	7,801	—	(653)	7,148
Net balance at end of period	<u>\$ 205,869</u>	<u>\$ 41,375</u>	<u>\$ —</u>	<u>\$ 247,244</u>
Accumulated impairment at end of period	\$ —	\$ —	\$ (66,559)	\$ (66,559)

⁽¹⁾ The additions to goodwill in the year ended December 31, 2020 were attributable to the acquisition of Bal Seal. Refer to Note 3, *Business Combinations*, for further information on this acquisition.

2021 Analysis

In accordance with ASC 350, the Company evaluates goodwill for possible impairment on at least an annual basis. The Company performed a qualitative assessment for the Specialty Bearings and KPP-Orlando reporting units, while a quantitative assessment was performed for the Bal Seal reporting unit.

The qualitative assessments performed for the Specialty Bearings and KPP-Orlando reporting units took into consideration the following factors: general economic conditions, industry specific performance, changes in carrying values of the reporting units, the assessment of assumptions used in the previous fair value calculations and changes in transaction multiples. The results of these analyses indicated that it is more likely than not that goodwill is not impaired and these reporting units did not need to proceed to a quantitative assessment.

The results of the quantitative analysis performed for the Bal Seal reporting unit indicated that the fair value of the reporting unit exceeded its respective carrying value. The Company performed a sensitivity analysis relative to the discount rate and growth rate selected and determined a decrease of one percentage point in the terminal growth rate or an increase of one percentage point in the discount rate would not result in a fair value calculation less than the carrying value for the reporting unit.

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

Goodwill - continued

2020 Analysis

The Company is required to evaluate goodwill for possible impairment testing if an event occurs or circumstances change that indicate that the fair value of the reporting entity may be below its carrying amount. The spread of COVID-19 and the precautionary measures instituted by governments and businesses to mitigate the risk of its spread contributed to the general slowdown in the global economy and significant volatility in financial markets, which resulted in a significant decrease in the Company's stock price and market capitalization in the first quarter of 2020. As COVID-19 continued to impact the organization throughout 2020 and the Company's stock price remained at a similar level, management assessed each reporting unit for triggering events for potential impairment on a quarterly basis.

As part of management's evaluation of triggering events in the third quarter of 2020, the assessment of the Company's operating results identified a decline in earnings compared to forecasts used in prior periods for its Aerosystems reporting unit. The Company considered this decline, as well as the updated forecasts for the reporting unit, which indicated the forecasted cash flows for this reporting unit were lower than amounts previously forecasted. As a result, management identified a triggering event for possible goodwill impairment in its Aerosystems reporting unit. Management performed a quantitative analysis on the Aerosystems reporting unit using an income methodology based on management's estimates of forecasted cash flows, with those cash flows discounted to present value using rates commensurate with the risks associated with those cash flows. In addition, management used a market-based valuation method involving analysis of market multiples of revenues and earnings before interest, taxes, depreciation and amortization ("EBITDA") for (i) a group of comparable companies and (ii) recent transactions, if any, involving comparable companies. In estimating the fair value of the reporting unit, a weighting of 80% to the income approach and 20% to the market-based valuation method was selected, consistent with quantitative analyses performed in prior periods. The estimated fair value of the reporting unit was adjusted based on an assumption of excess working capital, which represents management's identification of specific contract-related assets that will generate cash flows in the future. The quantitative analysis resulted in a conclusion that the fair value of the Aerosystems reporting unit was \$56.1 million below its carrying value; therefore, goodwill was impaired. In the year ended December 31, 2020, the Company recorded a goodwill impairment charge of \$50.3 million for the Aerosystems reporting unit, which represented the entire goodwill balance for the reporting unit. This impairment charge was included in goodwill and other intangibles impairment on the Company's Statement of Operations and other unallocated expenses, net in Note 4, *Segment and Geographic Information*.

Upon completion of the annual 2020 qualitative assessment of events and circumstances affecting recorded goodwill as described in Note 1, *Summary of Significant Accounting Policies*, the Company concluded that a quantitative assessment should be performed on the Bal Seal reporting unit. The Company also elected to perform a quantitative assessment on its Specialty Bearings and Engineered Products reporting unit. A qualitative assessment was performed on the KPP-Orlando reporting unit.

The qualitative assessment performed for KPP-Orlando took into consideration the following factors: general economic conditions, industry specific performance, changes in carrying values of the reporting unit, the assessments of assumptions used in the previous fair value calculation and changes in transaction multiples. The results of this analysis indicated that it is more likely than not that goodwill was not impaired and this reporting unit did not need to proceed to a quantitative assessment.

A quantitative assessment was performed for the Specialty Bearings and Engineered Products and Bal Seal reporting units. The results of these analyses indicated that the fair values of the reporting units exceeded the respective carrying values. The Company performed a sensitivity analysis relative to the discount rates and growth rates selected and determined a decrease of one percentage point in the terminal growth rate or an increase of one percentage point in the discount rate would not result in a fair value calculation less than the carrying value for each reporting unit.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the Years Ended December 31, 2021, 2020 and 2019

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

Other Intangible Assets

Other intangible assets consisted of:

	Amortization Period	At December 31, 2021		At December 31, 2020	
		Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
<i>In thousands</i>					
Customer lists / relationships	6-38 years	\$ 127,206	\$ (35,096)	\$ 128,882	\$ (30,094)
Developed technologies	7-20 years	45,170	(13,591)	45,798	(9,665)
Trademarks / trade names	15-40 years	16,982	(2,659)	17,353	(2,149)
Non-compete agreements and other ..	1-15 years	4,629	(4,617)	5,290	(5,276)
Patents	17 years	523	(473)	523	(464)
Total		<u>\$ 194,510</u>	<u>\$ (56,436)</u>	<u>\$ 197,846</u>	<u>\$ (47,648)</u>

Intangible asset amortization expense of \$10.5 million, \$15.7 million and \$4.5 million in 2021, 2020 and 2019, respectively, was included in intangible asset amortization expense on the Company's Consolidated Statements of Operations.

In accordance with ASC 360 - Property, Plant, and Equipment ("ASC 360"), the Company is required to evaluate long-lived assets for possible impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. At December 31, 2020, the assets of the Company's former UK Composites business were considered impaired as the estimated fair value of the business based on the anticipated sale was lower than the estimated carrying value of the UK Composites business. Refer to Note 2, *Disposals*, for further information on the sale and the impairment charge recorded in the year ended December 31, 2020. No such triggering events were identified in 2021 or 2019.

Estimated amortization expense for the next five years associated with intangible assets existing as of December 31, 2021 is as follows:

<i>In thousands</i>	
2022	\$ 9,963
2023	\$ 9,681
2024	\$ 9,329
2025	\$ 9,271
2026	\$ 8,858

In order to determine the useful life of acquired intangible assets, the Company considers numerous factors, most importantly the industry considerations associated with the acquired entities. The Company determines the amortization period for acquired intangible assets, such as customer relationships, based primarily on an analysis of their historical customer sales attrition information and the period over which the assets are expected to deliver meaningful cash flow generation in support of the fair value of the asset.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the Years Ended December 31, 2021, 2020 and 2019

13. ENVIRONMENTAL COSTS

The following table displays the activity and balances associated with accruals related to environmental costs included in other current liabilities and other long-term liabilities:

	<u>2021</u>	<u>2020</u>
<i>In thousands</i>		
Balance at January 1	\$ 6,049	\$ 6,078
Net additions to accrual	391	141
Payments	(482)	(165)
Changes in foreign currency exchange rates	—	(5)
Balance at December 31	<u>\$ 5,958</u>	<u>\$ 6,049</u>

Bloomfield

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

The following represents estimated future payments for the undiscounted environmental remediation liability related to the Bloomfield campus as of December 31, 2021:

<i>In thousands</i>		
2022	\$	318
2023		184
2024		387
2025		—
2026		132
Thereafter		3,760
Total	<u>\$</u>	<u>4,781</u>

Other

In 2014, the Company sold its former manufacturing facility in Moosup, Connecticut to TD Development, LLC ("TD"). Although TD assumed responsibility for the environmental remediation work required on this site, the Company may be liable for the remediation and abatement costs in the event that TD does not complete the remediation. There can be no assurance that this matter would not have an adverse impact on our business, financial condition, results of operation and cash flows.

The Company's environmental accrual also includes estimated environmental remediation costs that the Company expects to incur at the former Music segment's New Hartford, CT facility. The Company continues to assess the work that may be required at this facility, which may result in a change to this accrual. For further discussion of these matters, see Note 19, *Commitments and Contingencies*.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the Years Ended December 31, 2021, 2020 and 2019

14. DEBT

Long-Term Debt

The Company has long-term debt as follows:

	At December 31,	
	2021	2020
<i>In thousands</i>		
Revolving credit agreement	\$ —	\$ —
Convertible notes	191,876	188,919
Total	191,876	188,919
Less current portion	—	—
Total excluding current portion	<u>\$ 191,876</u>	<u>\$ 188,919</u>

At December 31, 2021 and 2020, the current and long-term debt balances on the Company's Consolidated Balance Sheets were net of debt issuance costs of \$2.5 million and \$3.5 million, respectively.

The weighted average interest rate on long-term borrowings outstanding as of December 31, 2021 and 2020 was 3.25% in both periods.

For the years ended December 31, 2021 and 2020, \$2.6 million and \$4.3 million, respectively, of liabilities associated with our finance leases were included in other long-term liabilities. See Note 20, *Leases*, for further information.

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

<i>In thousands</i>		
2022	\$	—
2023	\$	—
2024	\$	199,500
2025	\$	—
2026	\$	—

Convertible Notes

Overview

During May 2017, the Company issued \$200.0 million aggregate principal amount of convertible senior unsecured notes due May 2024 (the "2024 Notes") pursuant to an indenture (the "Indenture"), dated May 12, 2017, between the Company and U.S. Bank National Association, as trustee. In connection therewith, the Company entered into certain capped call transactions that cover, collectively, the number of shares of the Company's common stock underlying the 2024 Notes.

2024 Notes

On May 12, 2017, the Company issued \$175.0 million in principal amount of 2024 Notes, in a private placement offering. On May 24, 2017, the Company issued an additional \$25.0 million in principal amount of 2024 Notes pursuant to the initial purchasers' exercise of their overallotment option, resulting in the issuance of an aggregate \$200.0 million principal amount of 2024 Notes. The 2024 Notes bear 3.25% interest per annum on the principal amount, payable semiannually in arrears on May 1 and November 1 of each year, beginning on November 1, 2017. The 2024 Notes will mature on May 1, 2024, unless earlier repurchased by the Company or converted. The Company will settle any conversions of the 2024 Notes in cash, shares of the Company's common stock or a combination of cash and shares of common stock, at the Company's election.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the Years Ended December 31, 2021, 2020 and 2019

14. DEBT (CONTINUED)

Convertible Notes - continued

2024 Notes - continued

The sale of the Distribution business in the third quarter of 2019 was deemed to be a "Fundamental Change" and a "Make-Whole Fundamental Change" pursuant to the terms and conditions of the indenture governing the 2024 Notes. As a result, the sale triggered the right of the holders of our 2024 Notes to require us to repurchase all of the 2024 Notes, or any portion thereof that is a multiple of \$1,000 principal amount on September 27, 2019. The aggregate principal amount of the 2024 Notes validly tendered and not validly withdrawn was \$0.5 million, representing 0.25% of all outstanding notes. Holders of such notes receive the purchase price equal to 100% of the principal amount of the 2024 Notes being purchased, plus accrued and unpaid interest.

The following table illustrates the conversion rate at the date of issuance of the 2024 Notes:

2024 Notes

Conversion Rate per \$1,000 principal amount ⁽¹⁾		15.3227
Conversion Price ⁽²⁾	\$	65.2626
Contingent Conversion Price ⁽³⁾	\$	84.8413
Aggregate shares to be issued upon conversion ⁽⁴⁾		3,056,879

- ⁽¹⁾ Represents the number of shares of Common Stock hypothetically issuable per each \$1,000 principal amount of 2024 Notes, subject to adjustments upon the occurrence of certain specified events in accordance with the terms of the Indenture.
- ⁽²⁾ Represents \$1,000 divided by the conversion rate as of such date. The conversion price reflects the strike price of the embedded option within the 2024 Notes. If the Company's share price exceeds the conversion price at conversion, the noteholders would be entitled to receive additional consideration either in cash, shares or a combination thereof, the form of which is at the sole discretion of the Company.
- ⁽³⁾ Prior to November 1, 2023, the notes are convertible only in the following circumstances: (1) during any fiscal quarter commencing after July 1, 2017, and only during any such fiscal quarter, if the last reported sale price of the Company's common stock was greater than or equal to 130% of the applicable conversion price for at least 20 trading days (whether or not consecutive) during the 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding fiscal quarter, (2) during the five consecutive business day period following any ten consecutive trading day period (the "measurement period") in which the trading price per \$1,000 principal amount of 2024 Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such trading day or (3) upon the occurrence of specified corporate events. On or after November 1, 2023, until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their notes at any time, regardless of the foregoing circumstances. If the Company undergoes a fundamental change (as defined in the Indenture), holders of the notes may require the Company to repurchase all or a portion of their notes for cash at a repurchase price equal to 100% of the principal amount to be repurchased, plus any accrued and unpaid interest. As of December 31, 2021, none of the conditions permitting the holders of the 2024 Notes to convert had been met. Therefore, the 2024 Notes are classified as long-term debt.
- ⁽⁴⁾ This represents the number of shares hypothetically issuable upon conversion of 100% of the outstanding aggregate principal amount of the 2024 Notes at each date; however, the terms of the 2024 Notes state that the Company may pay or deliver, as the case may be, cash, shares of the Company's common stock or a combination of cash and shares of common stock, at the Company's election. The Company currently intends to settle the aggregate principal amount in cash. Amounts due in excess of the principal, if any, also may be settled in cash, shares of the Company's common stock or a combination of cash and shares of common stock, at the Company's election.

In connection with the 2024 Notes offering, the Company entered into capped call transactions with certain of the initial purchasers or their respective affiliates. These transactions are intended to reduce the potential dilution to the Company's shareholders and/or offset the cash payments the Company is required to make in excess of the principal amount upon any future conversion of the notes in the event that the market price per share of the Company's common stock is greater than the strike price of the capped call transactions, with such reduction and/or offset subject to a cap based on the cap price of the capped call transactions. Under the terms of the capped call transactions, the strike price (\$65.2626) and the cap price (\$88.7570) are each subject to adjustment in certain circumstances. In connection with establishing their initial hedges of the capped call transactions, the option counterparties or their respective affiliates entered into various derivative transactions with respect to the Company's common stock concurrently with or shortly after the pricing of the notes. The capped call transactions, which cost an aggregate \$20.5 million, were recorded as a reduction of additional paid-in capital.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the Years Ended December 31, 2021, 2020 and 2019

14. DEBT (CONTINUED)

Convertible Notes - continued

2024 Notes - continued

ASC Topic 815 - Derivatives and Hedging ("ASC 815") provides that contracts are initially classified as equity if (1) the contract requires physical settlement or net-share settlement, or (2) the contract gives the company a choice of net-cash settlement or settlement in its own shares (physical settlement or net-share settlement). The settlement terms of our capped call transactions require net-share settlement. Based on the guidance in ASC 815, the capped call transactions were recorded as a reduction of equity as of the trade date. ASC 815 states that a reporting entity shall not consider contracts to be derivative instruments if the contract issued or held by the reporting entity is both indexed to its own stock and classified in shareholders' equity in its balance sheet. The Company concluded the capped call transactions should be accounted for in shareholders' equity and are, therefore, not to be considered a derivative instrument.

ASC 470-20 "Debt with Conversion and Other Options" ("ASC 470-20") clarifies the accounting for convertible debt instruments that may be settled in cash upon conversion, including partial cash settlement. ASC 470-20 specifies that an issuer of such instruments should separately account for the liability and equity components of the instruments in a manner that reflects the issuer's non-convertible debt borrowing rate which interest costs are to be recognized in subsequent periods. The note payable principal balance for the 2024 Notes at the date of issuance of \$200.0 million was bifurcated into the debt component of \$179.5 million and the equity component of \$20.5 million. The difference between the note payable principal balance and the fair value of the debt component representing the debt discount is being accreted to interest expense over the term of the 2024 Notes. The fair value of the debt component was recognized using a 5.0% discount rate, representing the Company's borrowing rate at the date of issuance for a similar debt instrument without a conversion feature with an expected life of seven years.

The Company incurred \$7.4 million of debt issuance costs in connection with the sale of the 2024 Notes, which was allocated between the debt and equity components of the instrument. Of the total amount, \$0.7 million was recorded as an offset to additional paid-in capital. The balance, \$6.7 million, was recorded as a contra-debt balance and is being amortized over the term of the 2024 Notes. Total amortization expense for the years ended December 31, 2021, 2020 and 2019 was \$1.1 million, \$0.9 million and \$0.9 million.

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

	2024 Notes	
	December 31, 2021	December 31, 2020
<i>In thousands</i>		
Principal amount of liability	\$ 199,500	\$ 199,500
Unamortized discount	7,624	10,581
Carrying value of liability	<u>\$ 191,876</u>	<u>\$ 188,919</u>
Equity component	<u>\$ 20,408</u>	<u>\$ 20,408</u>

Because the embedded conversion option is indexed to the Company's own stock and would be classified in shareholders' equity, it does not meet the criterion under ASC 815 that would require separate accounting as a derivative instrument.

As of December 31, 2021, the "if converted value" did not exceed the principal amount of the 2024 Notes since the closing sales price of the Company's common stock was less than the conversion price of the 2024 Notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the Years Ended December 31, 2021, 2020 and 2019

14. DEBT (CONTINUED)

Convertible Notes - continued

2024 Notes - continued

Interest expense associated with the 2024 Notes consisted of the following:

	For the year ended December 31,		
	2021	2020	2019
<i>In thousands</i>			
Contractual coupon rate of interest	\$ 6,484	\$ 6,484	\$ 6,503
Accretion of convertible notes discount	2,957	2,860	2,753
Interest expense - convertible notes	<u>\$ 9,441</u>	<u>\$ 9,344</u>	<u>\$ 9,256</u>

Revolving Credit Agreement

On December 13, 2019, the Company closed an amended and restated \$800.0 million Credit Agreement (the "Credit Agreement") with JPMorgan Chase Bank, N.A., as Administrative Agent and as Collateral Agent. The Credit Agreement amends and restates the Company's previously existing credit facility in its entirety to, among other things: (i) extend the maturity date to December 13, 2024; (ii) increase the aggregate amount of revolving commitments from \$600.0 million to \$800.0 million; (iii) remove the existing term loan credit facility; (iv) modify the affirmative and negative covenants set forth in the facility; and (v) effectuate a number of additional modifications to the terms and provisions of the facility, including its pricing. Capitalized terms used but not defined within this Note 14, *Debt*, have the meanings ascribed thereto in the Credit Agreement. This agreement was further amended on December 8, 2021 to move its LIBOR benchmark for non-USD borrowings to other non-USD benchmark rates. Future USD borrowings under this current Credit Agreement will continue be based on LIBOR.

The Credit Agreement permits the Company to pay cash dividends. The Lenders have been granted a security interest in substantially all of the Company's and its domestic subsidiaries' personal property and other assets (including intellectual property but excluding real estate), including a pledge of 66% of the Company's equity interest in certain foreign subsidiaries and 100% of the Company's equity interest in its domestic subsidiaries, as collateral for the Company's obligations under the Credit Agreement.

The following table shows the amounts available for borrowing under the Company's revolving credit facility:

	At December 31,	
	2021	2020
<i>In thousands</i>		
Total facility	\$ 800,000	\$ 800,000
Amounts outstanding, excluding letters of credit	—	—
Amounts available for borrowing, excluding letters of credit	800,000	800,000
Letters of credit under the credit facility ⁽¹⁾⁽²⁾	92,646	165,373
Amounts available for borrowing	<u>\$ 707,354</u>	<u>\$ 634,627</u>
Amounts available for borrowing subject to EBITDA, as defined by the Credit Agreement ⁽³⁾	<u>\$ 409,914</u>	<u>\$ 363,997</u>

⁽¹⁾ The Company has entered into standby letters of credit issued on the Company's behalf by financial institutions, and directly issued guarantees to third parties primarily related to advances received from customers and the guarantee of future performance on certain contracts. Letters of credit generally are available for draw down in the event the Company does not perform its obligations.

⁽²⁾ Of these amounts, \$86.3 million and \$146.2 million letters of credit relate to a certain JPF DCS contract in both periods.

⁽³⁾ Amounts available for borrowing subject to EBITDA reflect the minimum borrowing capacity under EBITDA, subject to adjustments.

Debt issuance costs in connection with the Credit Agreement have been capitalized and are being amortized over the term of the agreement. The Company incurred \$3.6 million of debt issuance costs in connection with the amendment and restatement of the Credit Agreement in the year ended December 31, 2019. Total amortization expense for the years ended December 31, 2021, 2020 and 2019 was \$0.7 million, \$0.7 million and \$1.0 million, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the Years Ended December 31, 2021, 2020 and 2019

14. DEBT (CONTINUED)

Revolving Credit Agreement - continued

Interest rates on amounts outstanding under the Credit Agreement are variable, and are determined based on the Senior Secured Net Leverage Ratio, as defined in the Credit Agreement. In addition, the Company is required to pay a quarterly commitment fee on the unused revolving loan commitment amount at a rate ranging from 0.150% to 0.250% per annum, based on the Senior Secured Net Leverage Ratio. Fees for outstanding letters of credit range from 1.125% to 1.625%, based on the Senior Secured Net Leverage Ratio.

At December 31, 2021 and December 31, 2020, there were no outstanding amounts on the revolving credit facility; therefore, the interest rate was 0% at both dates.

The financial covenants associated with the Credit Agreement include a requirement that (i) the Consolidated Total Net Leverage Ratio, as defined in the Credit Agreement, cannot be greater than 4.00 to 1.00, with an election to increase the maximum to 4.50 to 1.00 for four consecutive quarters, in connection with a Material Permitted Investment; (ii) the Interest Coverage Ratio cannot be less than 3.00 to 1.00; and (iii) Liquidity: (a) as of the last day of the fiscal quarter ending on or about September 30, 2023 cannot be less than an amount equal to 50% of the aggregate principal amount of the 2024 Convertible Notes as of such date, and (b) as of the last day of the fiscal quarter ending on December 31, 2023 and ending on or about March 29, 2024, to be less than the amount equal to 100% of the aggregate principal amount of the 2024 Convertible Notes as of such day. The Company was in compliance with those financial covenants as of and for the quarter ended December 31, 2021, and management does not anticipate noncompliance in the foreseeable future.

Interest Payments

Cash payments for interest were \$11.5 million, \$20.8 million and \$15.7 million in 2021, 2020 and 2019, respectively.

15. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

	<u>2021</u>	<u>2020</u>
<i>In thousands</i>		
Foreign currency translation and other:		
Beginning balance	\$ (717)	\$ (16,351)
Net (loss) gain on foreign currency translation	(13,346)	15,634
Reclassification to net income ⁽¹⁾	22,835	—
Other comprehensive loss, net of tax	9,489	15,634
Ending balance	<u>\$ 8,772</u>	<u>\$ (717)</u>
Pension and other post-retirement benefits ⁽²⁾:		
Beginning balance	\$ (130,104)	\$ (134,542)
Reclassification to net income		
Amortization of net loss, net of tax expense of \$1,031 and \$1,314, respectively	3,478	4,434
Change in net loss, net of tax expense of \$1,918 and \$1, respectively	6,469	4
Other comprehensive loss, net of tax	9,947	4,438
Ending balance	<u>\$ (120,157)</u>	<u>\$ (130,104)</u>
Total accumulated other comprehensive income (loss)	<u>\$ (111,385)</u>	<u>\$ (130,821)</u>

⁽¹⁾The foreign currency translation reclassified to net income relates to the sale of the Company's UK Composites business. This balance was included in the loss accrual recorded in impairment on assets held for sale on the Company's Consolidated Statement of Operations in the year ended December 31, 2020 (see Note 2, *Disposals*, for additional information).

⁽²⁾These accumulated other comprehensive income components are included in the computation of net periodic pension cost (see Note 17, *Pension Plans* for additional information).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the Years Ended December 31, 2021, 2020 and 2019

16. INCOME TAXES

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

	For the twelve months ended December 31,		
	2021	2020	2019
<i>In thousands</i>			
Current:			
Federal	\$ (5,613)	\$ 1,693	\$ (19,432)
State	1,061	(3,143)	1,996
Foreign	266	168	585
	<u>(4,286)</u>	<u>(1,282)</u>	<u>(16,851)</u>
Deferred:			
Federal	17,533	(5,650)	719
State	2,526	899	277
Foreign	1,059	(1,697)	(4)
	<u>21,118</u>	<u>(6,448)</u>	<u>992</u>
Income tax expense (benefit)	<u>\$ 16,832</u>	<u>\$ (7,730)</u>	<u>\$ (15,859)</u>

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

	For the twelve months ended December 31,		
	2021	2020	2019
<i>In thousands</i>			
Federal tax at 21% statutory rate	\$ 12,707	\$ (16,415)	\$ 8,523
State income taxes, net of federal benefit ⁽¹⁾	1,459	(2,208)	1,839
Tax effect:			
Goodwill impairment charge	—	8,297	—
Impairment on business	—	7,620	—
Research and development credits	(1,995)	(821)	(3,480)
Impact of entity classification election	894	—	(24,813)
Foreign derived intangible income benefit	(494)	—	—
Provision to return adjustments	66	610	(1,466)
Foreign losses for which no tax benefit has been recorded	308	41	1,282
Change in valuation allowance	2,697	1,449	976
Equity compensation benefit	77	(209)	(482)
Nondeductible compensation	1,372	215	891
Nondeductible acquisition costs	—	—	546
Federal benefit of NOL Carryback	—	(3,885)	—
Other, net	(259)	(2,424)	325
Income tax expense (benefit)	<u>\$ 16,832</u>	<u>\$ (7,730)</u>	<u>\$ (15,859)</u>

⁽¹⁾ Included in state income taxes, net of federal benefit was the state impact of the entity classification election of \$0.9 million for the year ended December 31, 2019.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the Years Ended December 31, 2021, 2020 and 2019

16. INCOME TAXES (CONTINUED)

The 2021 effective tax rate includes a charge to record additional valuation allowances relating to the Company's foreign and state tax loss carryforwards in the amount of \$1.5 million and \$1.2 million, respectively. The Company also incurred a charge in the amount \$1.4 million, primarily attributable to nondeductible compensation relating to post termination payments and benefits of former executive officers. Additionally, the Company recognized benefits relating to research and development credits in the amount of \$2.0 million.

The 2020 effective tax rate included charges in the amount of \$15.9 million relating to book impairment charges to goodwill and assets held for sale associated with the anticipated sale of the Company's UK Composites business as neither charge had associated tax benefits.

The 2019 effective tax rate includes a benefit of \$24.8 million resulting from an entity classification election with regard to the investment in the Company's UK Composites business, which had the effect of treating the subsidiary as a disregarded entity for U.S. tax purposes, but had no impact on operations or taxation in the UK. This election resulted in a loss for U.S tax purposes and a significant tax benefit was recognized by the Company in 2019. Additionally, the Company recognized benefits relating to research and development credits associated with research completed in the three prior years in the amount of \$3.5 million.

Cash payments for income taxes, net of refunds, were \$4.7 million, \$0.9 million and \$47.8 million in 2021, 2020 and 2019, respectively.

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

	At December 31,	
	2021	2020
<i>In thousands</i>		
Deferred tax assets:		
Deferred employee benefits	\$ 18,380	\$ 30,701
Tax loss and credit carryforwards	17,057	33,065
Accrued liabilities and other	3,553	7,307
Contract accounting differences	3,693	3,553
Environmental liabilities	3,266	3,122
Lease obligations	2,450	3,438
Total deferred tax assets	<u>48,399</u>	<u>81,186</u>
Deferred tax liabilities:		
Property, plant and equipment	(11,680)	(5,379)
Intangibles	(21,282)	(32,398)
Other items	(205)	(765)
Total deferred tax liabilities	<u>(33,167)</u>	<u>(38,542)</u>
Net deferred tax assets before valuation allowance	15,232	42,644
Valuation allowance	(6,022)	(10,216)
Net deferred tax assets after valuation allowance	<u>\$ 9,210</u>	<u>\$ 32,428</u>

As of December 31, 2021, the Company had foreign tax loss carryforwards and state tax loss and credit carryforwards of \$5.6 million and \$11.4 million, respectively. Tax loss and credit carryforwards associated with approximately \$9.3 million of deferred tax assets have no expiration period. The remainders of the loss and credit carryforwards will expire between 2022 and 2040.

A valuation allowance is required to be established unless management determines it is more likely than not that the Company will ultimately utilize the tax benefit associated with a deferred tax asset. At December 31, 2021, the Company has foreign valuation allowances of \$1.9 million, and federal and state valuation allowances of \$4.1 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the Years Ended December 31, 2021, 2020 and 2019

16. INCOME TAXES (CONTINUED)

Management will continue to evaluate the appropriate level of valuation allowance on all deferred tax assets considering such factors as prior earnings history, expected future earnings, carryback and carryforward periods, and tax and business strategies that could potentially enhance the likelihood of realization of the deferred tax assets.

Pre-tax losses from foreign operations amounted to \$1.5 million, \$36.9 million and \$4.0 million in 2021, 2020, and 2019, respectively. Tax Reform required the Company to effectively recognize all foreign earnings in U.S. taxable income in the year ended December 31, 2017. Due to this provision and foreign losses incurred in prior years, there were no accumulated earnings in foreign subsidiaries for which U.S. income taxes were required to be provided in 2021.

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

The change in the liability for 2021, 2020 and 2019 is explained as follows:

<i>In thousands</i>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Balance at January 1	\$ 3,612	\$ 3,214	\$ 3,457
Additions (reductions) based on current year tax positions	32	481	(378)
Changes for tax positions of prior years	(52)	3	135
Settlements	—	(86)	—
Balance at December 31 ⁽¹⁾	<u>\$ 3,592</u>	<u>\$ 3,612</u>	<u>\$ 3,214</u>

⁽¹⁾ Including interest and penalties of \$0.5 million, \$0.4 million and \$0.2 million in 2021, 2020 and 2019, respectively.

Included in unrecognized tax benefits at December 31, 2021, were items approximating \$3.1 million that, if recognized, would favorably affect the Company's effective tax rate in future periods. The Company files tax returns in numerous U.S. and foreign jurisdictions, with returns subject to examination for varying periods, but generally back to and including 2016. During 2021, 2020 and 2019, \$0.2 million or less of interest and penalties was recognized each year as a component of income tax expense. It is the Company's policy to record interest and penalties on unrecognized tax benefits as income taxes. The Company does not anticipate any significant increases or decreases to unrecognized tax benefits during the next twelve months.

17. PENSION PLANS

The Company has a non-contributory qualified defined benefit pension plan (the "Qualified Pension Plan"). On February 23, 2010, the Company's Board of Directors approved an amendment to the Qualified Pension Plan that, among other things, closed the Qualified Pension Plan to all new hires on or after March 1, 2010, and stipulated that years of service would continue to be added for purposes of the benefit calculations only through December 31, 2015, with no further accrual of benefits for service thereafter. As a result, effective December 31, 2015, the qualified pension plan was frozen with respect to future benefit accruals. Under U.S. Government Cost Accounting Standard ("CAS") 413 the Company must determine the USG's share of any pension curtailment adjustment calculated in accordance with CAS. During the fourth quarter of 2016, the Company accrued a \$0.3 million liability representing our estimate of the amount due to the USG based on our pension curtailment adjustment calculation, which was submitted to the USG for review in December 2016. The Company has maintained its accrual at \$0.3 million as of December 31, 2021. There can be no assurance that the ultimate resolution of this matter will not have a material adverse effect on the Company's results of operations, financial position and cash flows.

The Company also has a Supplemental Employees' Retirement Plan ("SERP"), which is considered a non-qualified pension plan. The SERP provides certain key executives, whose compensation is in excess of the limitations imposed by federal law on the qualified defined benefit pension plan, with supplemental benefits based upon eligible earnings, years of service and age at retirement. During 2010, the Company's Board of Directors also approved an amendment to the SERP that made changes consistent with the pension plan amendment. The Board's Compensation Committee and the Board have not approved any new participants to the SERP since February 28, 2010, and do not intend to do so at any time in the future. The measurement date for both these plans is December 31.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the Years Ended December 31, 2021, 2020 and 2019

17. PENSION PLANS (CONTINUED)

Obligations and Funded Status

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

	For the twelve months ended December 31,			
	Qualified Pension Plan		SERP	
	2021	2020	2021	2020
<i>In thousands</i>				
Projected benefit obligation at beginning of year	\$ 836,531	\$ 777,388	\$ 7,669	\$ 7,336
Service cost	1,301	5,234	—	—
Interest cost	14,165	21,020	63	165
Actuarial liability (gain) loss ⁽¹⁾	(29,590)	72,145	(63)	702
Benefit payments	(36,612)	(39,256)	(2,652)	(534)
Projected benefit obligation at end of year	<u>\$ 785,795</u>	<u>\$ 836,531</u>	<u>\$ 5,017</u>	<u>\$ 7,669</u>
Fair value of plan assets at beginning of year	\$ 766,921	\$ 680,142	\$ —	\$ —
Actual return on plan assets	23,700	116,035	—	—
Employer contributions	10,000	10,000	2,652	534
Benefit payments	(36,612)	(39,256)	(2,652)	(534)
Fair value of plan assets at end of year	<u>\$ 764,009</u>	<u>\$ 766,921</u>	<u>\$ —</u>	<u>\$ —</u>
Funded status at end of year	<u>\$ (21,786)</u>	<u>\$ (69,610)</u>	<u>\$ (5,017)</u>	<u>\$ (7,669)</u>
Accumulated benefit obligation	<u>\$ 785,795</u>	<u>\$ 836,531</u>	<u>\$ 5,017</u>	<u>\$ 7,669</u>

⁽¹⁾ The actuarial liability (gain) loss amount for the qualified pension plan for 2021 and 2020 was principally due to the effect of changes in the discount rate.

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

	At December 31,			
	Qualified Pension Plan		SERP	
	2021	2020	2021	2020
<i>In thousands</i>				
Current liabilities ⁽¹⁾	\$ —	\$ —	\$ (526)	\$ (2,771)
Noncurrent liabilities	(21,786)	(69,610)	(4,491)	(4,898)
Total	<u>\$ (21,786)</u>	<u>\$ (69,610)</u>	<u>\$ (5,017)</u>	<u>\$ (7,669)</u>

⁽¹⁾ The current liabilities are included in other current liabilities on the Consolidated Balance Sheets.

The following table presents amounts included in accumulated other comprehensive income on the Consolidated Balance Sheets that will be recognized as components of pension cost in future periods.

	At December 31,			
	Qualified Pension Plan		SERP	
	2021	2020	2021	2020
<i>In thousands</i>				
Unrecognized loss	\$ 159,015	\$ 171,571	\$ 730	\$ 1,069
Amount included in accumulated other comprehensive income	<u>\$ 159,015</u>	<u>\$ 171,571</u>	<u>\$ 730</u>	<u>\$ 1,069</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the Years Ended December 31, 2021, 2020 and 2019

17. PENSION PLANS (CONTINUED)

Obligations and Funded Status - continued

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

	For the twelve months ended December 31,					
	Qualified Pension Plan			SERP		
	2021	2020	2019	2021	2020	2019
<i>In thousands</i>						
Service cost for benefits earned during the year	\$ 1,301	\$ 5,234	\$ 5,100	\$ —	\$ —	\$ —
Interest cost on projected benefit obligation	14,165	21,020	26,422	63	165	237
Expected return on plan assets	(45,177)	(43,183)	(42,560)	—	—	—
Recognized net loss	4,444	4,804	15,260	65	944	245
Additional amount recognized due to curtailment/settlement	—	—	—	211	—	—
Net pension benefit (income) cost	<u>\$ (25,267)</u>	<u>\$ (12,125)</u>	<u>\$ 4,222</u>	<u>\$ 339</u>	<u>\$ 1,109</u>	<u>\$ 482</u>
Change in net (loss) or gain	(8,113)	(708)	3,295	(274)	703	720
Amortization of net loss	(4,444)	(4,804)	(15,260)	(65)	(944)	(245)
Total recognized in other comprehensive (loss) income	<u>\$ (12,557)</u>	<u>\$ (5,512)</u>	<u>\$ (11,965)</u>	<u>\$ (339)</u>	<u>\$ (241)</u>	<u>\$ 475</u>
Total recognized in net periodic benefit cost and other comprehensive (income) loss	<u><u>\$ (37,824)</u></u>	<u><u>\$ (17,637)</u></u>	<u><u>\$ (7,743)</u></u>	<u><u>\$ —</u></u>	<u><u>\$ 868</u></u>	<u><u>\$ 957</u></u>

The following tables show the amount of the contributions made to the Qualified Pension Plan and SERP during each period and the amount of contributions the Company expects to make during 2022:

	Qualified Pension Plan		SERP	
	2021	2020	2021	2020
<i>In thousands</i>				
Contributions	\$ 10,000	\$ 10,000	\$ 2,652	\$ 534
			Qualified Pension Plan	SERP
<i>In thousands</i>				
Expected contributions during 2022			\$ —	\$ 526

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the Years Ended December 31, 2021, 2020 and 2019

17. PENSION PLANS (CONTINUED)

Obligations and Funded Status - continued

Expected future benefit payments are as follows:

<i>In thousands</i>	<u>Qualified Pension Plan</u>	<u>SERP</u>
2022	\$ 41,871	\$ 526
2023	\$ 43,100	\$ 507
2024	\$ 44,156	\$ 485
2025	\$ 44,839	\$ 460
2026	\$ 45,378	\$ 432
2027-2031	\$ 224,835	\$ 1,710

Mortality is a key assumption in developing actuarial estimates, and therefore could significantly impact the valuation of the Company's obligations under the qualified pension plan and SERP. The Company reviewed the mortality data and based on the size and demographics of the plan's participant population, the Company determined the Pri-2012 Blue Collar with Scale MP-2021 mortality table was the most appropriate assumption.

The Company uses the Financial Times Stock Exchange ("FTSE") Pension Discount Code, as it is deemed to be the most appropriate basis for generating the Company's discount rate assumption, as the future cash flows of the plan are most closely aligned to the Above Median Double-A Curve. The discount rates used in determining benefit obligations of the pension plans are as follows:

	<u>At December 31,</u>			
	<u>Qualified Pension Plan</u>		<u>SERP</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Discount rate	2.71 %	2.34 %	2.33 %	1.78 %

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

	<u>For the twelve months ended December 31,</u>			
	<u>Qualified Pension Plan</u>		<u>SERP</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Discount rate ⁽¹⁾	2.34 %	3.14 %	1.78% / 2.29 %	2.76 %
Expected return on plan assets	6.00 %	6.50 %	N/A	N/A
Average rate of increase in compensation levels	N/A	N/A	N/A	N/A

⁽¹⁾ In November 2021, the Company's SERP had a settlement and re-measurement. This resulted in the Company using a discount rate of 1.78% for the first ten months of the year ended December 31, 2021 and a discount rate of 2.29% for the remaining two months following the re-measurement.

Other

The Company utilizes a "spot rate approach" in the calculation of pension interest and service cost. The spot rate approach applies separate discount rates for each projected benefit payment in the calculation of pension interest and service cost.

Qualified Pension Plan Assets

The expected return on plan assets rate was determined based upon historical returns adjusted for estimated future market fluctuations. For 2021 and 2020, the expected rate of return on plan assets was 6.0% and 6.5%, respectively. During 2021, the actual return on pension plan assets, net of direct expenses, was 3.2%.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the Years Ended December 31, 2021, 2020 and 2019

17. PENSION PLANS (CONTINUED)

Qualified Pension Plan Assets - continued

Plan assets are invested in a diversified portfolio consisting of equity and fixed income securities. The investment goals for pension plan assets are to improve and/or maintain the Plan's funded status by generating long-term asset returns that exceed the rate of growth of the Plan's liabilities. The Plan invests assets in a manner that seeks to (a) maximize return within reasonable and prudent levels of risk of loss of funded status; and (b) maintain sufficient liquidity to meet benefit payment obligations and other periodic cash flow requirements on a timely basis. The return generation/liability matching asset allocation ratio is currently 27.9%/72.1%. As the plan's funded status changes, the Pension Administrative Committee (the management committee that is responsible for plan administration) will act through an immediate or gradual process, as appropriate, to reallocate assets.

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

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

Short-term Investments – This investment category consists of cash and cash equivalents and futures and options contracts. Cash and cash equivalents are comprised of investments with maturities of three months or less when purchased, including certain short-term fixed-income securities, and are classified as Level 1 investments. Futures contracts and options contracts requiring the investment managers to receive from or pay to the broker an amount of cash equal to daily fluctuations are included in short-term investments and are classified as Level 2 investments.

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the Years Ended December 31, 2021, 2020 and 2019

17. PENSION PLANS (CONTINUED)

Qualified Pension Plan Assets - continued

The fair values of the Company's qualified pension plan assets at December 31, 2021 and 2020, are as follows:

	Total Carrying Value at December 31, 2021	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Not subject to leveling
<i>In thousands</i>					
Short-term investments:					
Cash and cash equivalents	\$ 19,033	\$ 19,033	\$ —	\$ —	\$ —
Futures contracts - assets	2,014	—	2,014	—	—
Futures contracts - liabilities	(372)	—	(372)	—	—
Fixed income securities	231,433	—	231,433	—	—
Mutual funds	72,834	72,834	—	—	—
Common trust funds ⁽¹⁾	417,022	—	—	—	417,022
Corporate stock	20,222	20,222	—	—	—
Subtotal	<u>\$ 762,186</u>	<u>\$ 112,089</u>	<u>\$ 233,075</u>	<u>\$ —</u>	<u>\$ 417,022</u>
Accrued income/expense	1,823	(33)	1,856	—	—
Total	<u><u>\$ 764,009</u></u>	<u><u>\$ 112,056</u></u>	<u><u>\$ 234,931</u></u>	<u><u>\$ —</u></u>	<u><u>\$ 417,022</u></u>
	Total Carrying Value at December 31, 2020	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Not subject to leveling
<i>In thousands</i>					
Short term investments:					
Cash and cash equivalents	\$ 26,951	\$ 26,951	\$ —	\$ —	\$ —
Futures contracts - assets	285	—	285	—	—
Futures contracts - liabilities	(15)	—	(15)	—	—
Fixed income securities	214,961	—	214,961	—	—
Mutual funds	130,490	130,490	—	—	—
Common trust funds ⁽¹⁾	362,288	—	—	—	362,288
Corporate stock	30,222	30,222	—	—	—
Subtotal	<u>\$ 765,182</u>	<u>\$ 187,663</u>	<u>\$ 215,231</u>	<u>\$ —</u>	<u>\$ 362,288</u>
Accrued income/expense	1,739	17	1,722	—	—
Total	<u><u>\$ 766,921</u></u>	<u><u>\$ 187,680</u></u>	<u><u>\$ 216,953</u></u>	<u><u>\$ —</u></u>	<u><u>\$ 362,288</u></u>

⁽¹⁾ In accordance with ASU 2015-07, Fair Value Measurement (Topic 820), certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented for the total pension plan assets.

Derivatives are primarily used to manage risk and gain asset class exposure while still maintaining liquidity. Derivative instruments mainly consist of equity futures and interest rate futures.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the Years Ended December 31, 2021, 2020 and 2019

17. PENSION PLANS (CONTINUED)

Other Plans

The Company also maintains a Defined Contribution Plan that has been adopted by most of its U.S. subsidiaries. Employees of the adopting employers who meet the eligibility requirements of the plan may participate. Employer matching contributions are made to the plan based on a percentage of each participant's pre-tax contribution. For each dollar that a participant contributes, up to 5% of compensation, participating subsidiaries make employer contributions of one dollar. Employer contributions to the plan for continuing operations totaled \$6.1 million, \$6.7 million and \$7.1 million in 2021, 2020 and 2019, respectively. There were no employer contributions made to the plan for discontinued operations in 2021 or 2020. Employer contributions to the plan for discontinued operations totaled \$4.5 million in 2019.

One of the Company's foreign subsidiaries maintains a defined benefit plan of its own for its local employees. The net pension liability associated with this plan was not material as of December 31, 2021 and 2020.

18. OTHER LONG-TERM LIABILITIES

Other long-term liabilities consist of the following:

	At December 31,	
	2021	2020
<i>In thousands</i>		
Supplemental employees' retirement plan ("SERP")	\$ 4,491	\$ 4,898
Deferred compensation	20,618	21,968
Long-term incentive plan	1,016	3,448
Noncurrent income taxes payable	3,365	3,625
Environmental remediation liability	5,548	5,313
Finance leases	2,629	4,315
Other	2,170	4,069
Total other long-term liabilities	<u>\$ 39,837</u>	<u>\$ 47,636</u>

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

Disclosures regarding the assumptions used in the determination of the SERP liabilities are included in Note 17, *Pension Plans*. Discussions of our environmental remediation liabilities are in Note 13, *Environmental Costs*, and Note 19, *Commitments and Contingencies*.

19. COMMITMENTS AND CONTINGENCIES

Asset Retirement Obligations

The Company has unrecorded Asset Retirement Obligation's ("AROs") that are conditional upon certain events. These AROs generally include the removal and disposition of non-friable asbestos. The Company has not recorded a liability for these conditional AROs at December 31, 2021, because the Company does not currently believe there is a reasonable basis for estimating a date or range of dates for major renovation or demolition of these facilities. In reaching this conclusion, the Company considered the historical performance of each facility and has taken into account factors such as planned maintenance, asset replacements and upgrades, which, if conducted as in the past, can extend the physical lives of the facilities indefinitely. The Company also considered the possibility of changes in technology and risk of obsolescence in arriving at its conclusion.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the Years Ended December 31, 2021, 2020 and 2019

19. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Asset Retirement Obligations - continued

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

Other Matters

Pension Freeze

Effective December 31, 2015, the Company's qualified pension plan was frozen with respect to future benefit accruals. Under CAS 413 the Company must determine the USG's share of any pension curtailment adjustment calculated in accordance with CAS. Such adjustments can result in an amount due to the USG for pension plans that are in a surplus position or an amount due to the contractor for plans that are in a deficit position. During the fourth quarter of 2016, the Company accrued a \$0.3 million liability representing our estimate of the amount due to the USG based on the Company's pension curtailment adjustment calculation, which was submitted to the USG for review in December 2016. The Company has maintained its accrual at \$0.3 million as of December 31, 2021. There can be no assurance that the ultimate resolution of this matter will not have a material adverse effect on the Company's results of operations, financial position and cash flows.

Offset Agreement

During January 2018, the Company entered into an offset agreement as a condition to obtaining orders from a foreign customer for the Company's JPF product. This agreement is designed to return economic value to the foreign country by requiring the Company to engage in activities supporting local defense or commercial industries, promoting a balance of trade, developing in-country technology capabilities or addressing other local development priorities. The offset agreement may be satisfied through activities that do not require a direct cash payment, including transferring technology, providing manufacturing, training and other consulting support to in-country projects and the purchase by third parties of supplies from in-country vendors. This agreement may also be satisfied through the Company's use of cash for activities, such as subcontracting with local partners, purchasing supplies from in-country vendors, providing financial support for in-country projects and making investments in local ventures. At December 31, 2021, the offset agreement had an outstanding notional value of approximately \$194.0 million, which is equal to sixty percent of the contract value of \$324.0 million as defined by the agreement between the customer and the Company. The amount ultimately applied against the offset agreement is based on negotiations with the customer and may require cash outlays that represent only a fraction of the notional value in the offset agreement.

The Company continues to work with the customer to further define the requirements to satisfy the offset agreement. The satisfaction of the offset requirements will be determined by the customer and is expected to occur over a seven-year period. Deliveries under the contract are expected to be completed prior to satisfaction of the offset requirements. In the event the offset requirements of the contract are not met, the Company could be liable for potential penalties up to \$16.5 million payable to the customer. The Company began recognizing revenue associated with this contract in the third quarter of 2019 and has considered the potential penalties of \$16.5 million as a reduction to the transaction price in its determination of the value of the contract. At December 31, 2021, \$16.5 million in contract liabilities associated with the potential penalties of the offset requirements were included on the Company's Consolidated Balance Sheets. At the point the Company has an approved plan to satisfy the offset requirements, the Company will update its contract estimates with respect to any costs or penalties associated with the plan to satisfy the offset obligation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the Years Ended December 31, 2021, 2020 and 2019

19. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Other Matters - continued

Guarantee

During 2020, the Company and the USG entered into a Guaranty Agreement, pursuant to which the Company agreed to guarantee the full, complete and satisfactory performance of its subsidiary, Kaman Precision Products, Inc. ("KPPI") under all current and future contracts with the USG. As of the date of this filing, the only contract in place between KPPI and the USG relates to the production and sale of the JPF. KPPI is currently fulfilling the requirements of Option 15 and has been awarded Option 16. The guarantee was provided in lieu of a periodic financial capability review by the Financial Capacity Team ("FCT") of the Defense Contract Management Agency ("DCMA"). The Company is unable to estimate the maximum potential amount of future payments under the guarantee as it is dependent on costs incurred by the USG in the event of default. Although the Company believes the risk of default is low given the maturity and operational performance of the JPF program, there can be no assurance that the guarantee will not have a material adverse effect on the Company's results of operations, financial position and cash flows.

New Hartford

In connection with sale of the Company's Music segment in 2007, the Company assumed responsibility for meeting certain requirements of the Transfer Act that applied to our transfer of the New Hartford, Connecticut, facility leased by that segment for guitar manufacturing purposes ("Ovation"). Under the Transfer Act, those responsibilities essentially consist of assessing the site's environmental conditions and remediating environmental impairments, if any, caused by Ovation's operations prior to the sale. The site is a multi-tenant industrial park, in which Ovation and other unrelated entities lease space. The environmental assessment, which began in 2008, has been completed and site remediation is in process.

The Company's estimate of its portion of the cost to assess the environmental conditions and remediate this site is \$2.3 million, all of which has been accrued. The total amount paid to date in connection with these environmental remediation activities is \$1.7 million. At December 31, 2021, the Company had \$0.6 million accrued for these environmental remediation activities. A portion (\$0.1 million) of the accrual related to this property is included in other current liabilities and the balance is included in other long-term liabilities. The remaining balance of the accrual reflects the total anticipated cost of completing these environmental remediation activities. Although it is reasonably possible that additional costs will be paid in connection with the resolution of this matter, the Company is unable to estimate the amount of such additional costs, if any, at this time.

Bloomfield

In connection with the Company's 2008 purchase of the portion of the Bloomfield campus that Kaman Aerospace Corporation had leased from NAVAIR, the Company assumed responsibility for environmental remediation at the facility as may be required under the Transfer Act and is currently remediating the property under the guidance of the CTDEP. The assumed environmental liability of \$10.3 million was determined by taking the undiscounted estimated remediation liability of \$20.8 million and discounting it at a rate of 8%. This remediation process will take many years to complete. The total amount paid to date in connection with these environmental remediation activities is \$14.9 million. At December 31, 2021, the Company had \$2.2 million accrued for these environmental remediation activities. A portion (\$0.3 million) of the accrual related to this property is included in other current liabilities, and the balance is included in other long-term liabilities. Although it is reasonably possible that additional costs will be paid in connection with the resolution of this matter, the Company is unable to estimate the amount of such additional costs, if any, at this time.

20. LEASES

The Company's operating leases consist of rent commitments under various leases for office space, warehouses, land and buildings at varying dates from January 2022 to March 2028. The terms of most of these leases are in the range of 3 to 8 years, with certain leases renewable for varying periods. It is expected that in the normal course of business leases that expire will be renewed or replaced by leases on other similar property. Some of the Company's lease obligations have rent escalations or contingent rent that are recognized on a straight-line basis over the entire lease term. Material leasehold improvements and other landlord incentives are amortized over the shorter of their economic lives or the lease term, including renewal periods, if reasonably assured. Substantially all real estate taxes, insurance and maintenance expenses associated with leased facilities are obligations of the Company. The terms for most machinery and equipment leases range from 3 to 5 years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the Years Ended December 31, 2021, 2020 and 2019

20. LEASES (CONTINUED)

The Company's finance leases are included in machinery, office furniture and equipment and construction in process and amortization of these assets is included in depreciation and amortization expense. The terms of these leases are 5 years. At December 31, 2021 and 2020, \$6.7 million of assets included in property, plant and equipment were accounted for as finance leases in both periods. At December 31, 2021 and 2020, the Company had accumulated depreciation of \$2.9 million and \$2.1 million, respectively, associated with these assets.

At the commencement date of a contract containing a lease, a right-of-use asset and lease liability are recorded to the Company's Consolidated Balance Sheets when the Company obtains control of the use of the asset. Right-of-use assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make payments upon entering into a lease agreement.

Right-of-use assets, net consisted of the following:

<i>In thousands</i>	Classification	December 31, 2021	December 31, 2020
Assets			
Operating lease right of use assets	Operating lease right-of-use assets, net	\$ 11,011	\$ 12,880
Finance lease right of use assets	Property, plant and equipment, net of accumulated depreciation	3,830	4,618
Total leased assets		<u>\$ 14,841</u>	<u>\$ 17,498</u>

The lease liability and future rental payments are required under leases that have initial or remaining non-cancellable lease terms in excess of one year as of December 31, 2021. Lease liabilities consisted of the following:

<i>In thousands</i>	Classification	December 31, 2021	December 31, 2020
Liabilities			
<i>Current</i>			
Operating lease liability, current portion	Operating lease liabilities, current portion	\$ 4,502	\$ 4,305
Finance lease liability, current portion	Other current liabilities	1,697	1,899
<i>Noncurrent</i>			
Operating lease liability, noncurrent portion	Operating lease liabilities, noncurrent portion	7,140	9,325
Finance lease liability, noncurrent portion	Other long-term liabilities	2,629	4,315
Total lease liabilities		<u>\$ 15,968</u>	<u>\$ 19,844</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the Years Ended December 31, 2021, 2020 and 2019

20. LEASES (CONTINUED)

Future rental payments for continuing operations consisted of the following:

	<u>December 31, 2021</u>	
<i>In thousands</i>		
Operating leases		
2022	\$	4,824
2023		3,643
2024		2,547
2025		673
2026		315
Thereafter		246
Total future operating lease payments	\$	12,248
Interest		(606)
Present value of future operating lease payments	\$	11,642
Finance leases		
2022		1,771
2023		1,253
2024		775
2025		669
2026		—
Thereafter		—
Total future finance lease payments	\$	4,468
Interest		(142)
Present value of future finance lease payments	\$	4,326
Present value of total future lease payments	\$	15,968

The following table illustrates the components of lease expense for the Company's leases.

	For the Years Ended December 31,	
	<u>2021</u>	<u>2020</u>
<i>In thousands</i>		
Finance lease cost		
Amortization of right-of-use assets	\$ 758	\$ 880
Interest on lease liabilities	139	196
Operating lease cost	5,245	5,465
Short-term lease cost	242	443
Variable lease cost	79	96
Total lease expense	\$ 6,463	\$ 7,080

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the Years Ended December 31, 2021, 2020 and 2019

20. LEASES (CONTINUED)

The following table segregates cash paid for the Company's leases from continuing operations.

	For the Years Ended December 31,	
	2021	2020
<i>In thousands</i>		
Operating cash flows from operating leases	\$ (6,294)	\$ (5,556)
Operating cash flows from finance leases	(2,028)	(1,533)
Financing cash flows from finance leases	(139)	(196)
Total cash flows from leasing activities	<u>\$ (8,461)</u>	<u>\$ (7,285)</u>

During the twelve-month fiscal period ended December 31, 2021, \$4.9 million in right-of-use assets were obtained in exchange for new operating lease liabilities. No right-of-use assets were obtained in exchange for new finance lease liabilities in the year ended December 31, 2021.

Other information related to leases is as follows:

	<u>December 31, 2021</u>
Weighted-average remaining lease term (years)	
Operating leases	3.1
Finance leases	2.6
Weighted-average discount rate	
Operating leases	3.4 %
Finance leases	2.4 %

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the Years Ended December 31, 2021, 2020 and 2019

21. COMPUTATION OF EARNINGS PER SHARE

The computation of basic earnings per share is based on net earnings divided by the weighted average number of shares of common stock outstanding for each year. The computation of diluted earnings per share includes the common stock equivalency of dilutive options granted to employees under the Company's stock incentive plan and shares issuable on redemption of its Convertible Notes.

	For the Year Ended December 31,		
	2021	2020	2019
<i>In thousands, except per share amounts</i>			
Earnings (loss) from continuing operations	\$ 43,676	\$ (70,434)	\$ 56,446
Total earnings from discontinued operations	—	692	153,383
Net earnings (loss)	<u>\$ 43,676</u>	<u>\$ (69,742)</u>	<u>\$ 209,829</u>
Basic:			
Weighted average number of shares outstanding	27,865	27,723	27,936
Earnings (loss) per share from continuing operations	\$ 1.57	\$ (2.54)	\$ 2.02
Earnings per share from discontinued operations	—	0.02	5.49
Basic earnings (loss) per share	<u>\$ 1.57</u>	<u>\$ (2.52)</u>	<u>\$ 7.51</u>
Diluted:			
Weighted average number of shares outstanding	27,865	27,723	27,936
Weighted average shares issuable on exercise of dilutive stock options	26	—	156
Weighted average shares issuable on exercise of convertible notes	—	—	—
Weighted average shares issuable on redemption of warrants related to 2017 Notes	—	—	—
Total	<u>27,891</u>	<u>27,723</u>	<u>28,092</u>
Earnings (loss) per share from continuing operations	\$ 1.57	\$ (2.54)	\$ 2.01
Earnings per share from discontinued operations	—	0.02	5.46
Diluted earnings (loss) per share	<u>\$ 1.57</u>	<u>\$ (2.52)</u>	<u>\$ 7.47</u>

Equity awards

Excluded from the diluted earnings per share calculation for the years ended December 31, 2021, 2020 and 2019, respectively, were 567,741, 597,904 and 339,961 shares associated with equity awards granted to employees that are anti-dilutive based on the average stock price.

All outstanding stock awards were excluded in the computation of diluted earnings per share in the year ended December 31, 2020 because their effect was antidilutive due to the loss from continuing operations. For the year ended December 31, 2020, an additional 40,979 shares issuable under equity awards, which would have been dilutive if exercised based on the average market price being higher than the exercise price, were excluded from the computation of diluted earnings per share as their effect was antidilutive due to the loss from continuing operations.

2024 Convertible Notes

For the years ended December 31, 2021, 2020 and 2019, shares issuable under the 2024 Notes were excluded from the calculation of diluted earnings per share as the conversion price for the Convertible Notes was more than the average share price of the Company's stock.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the Years Ended December 31, 2021, 2020 and 2019

22. SHARE-BASED ARRANGEMENTS

General

The Company accounts for stock options, RSAs, restricted stock units and PSUs as equity awards and measures the cost of all share-based payments, including stock options, at fair value on the grant date and recognizes this cost in the statement of operations. The Company also has an employee stock purchase plan which is accounted for as a liability award.

In 2021, the Company modified its long-term incentive program to increase the emphasis on equity. Beginning in the first quarter of 2021, the long-term incentive awards granted to the Company's NEOs consist of a combination of service-based RSAs and PSUs which are intended to be settled in shares, as opposed to cash-based awards that had been utilized in the past. These awards are expected to increase the alignment of interests between the Company's NEOs and shareholders and help build stock ownership for new executives, supporting both executive retention and the Company's long-term financial performance. RSAs will vest over a three-year period on each of the first three anniversaries of the date of grant. The number of PSUs that will vest will be determined based on TSR and ROIC over a three-year performance period, each of which will remain equally weighted in determining payouts. The achievement level for both factors may range from zero to 200%.

Compensation expense for stock options, RSAs, restricted stock units and PSUs is recognized on a straight-line basis over the vesting period of the awards. Throughout the course of the vesting period, the Company monitors the achievement level for the ROIC metric of the PSUs compared to the ROIC target and adjusts the number of shares expected to be earned, and the related compensation expense recorded thereafter, to reflect the most probable outcome. Share-based compensation expense recorded for continuing operations for the years ended December 31, 2021, 2020 and 2019 was \$6.7 million, \$5.0 million and \$4.7 million, respectively. Of these amounts, \$0.4 million, \$0.4 million and \$0.1 million was recorded to restructuring and severance costs, respectively, and the remaining amounts were recorded to selling, general and administrative expenses on the Company's Consolidated Statements of Operations.

Share-based compensation expense for discontinued operations for the year ended December 31, 2019 was \$2.9 million. Of this amount, \$0.5 million was included in earnings from discontinued operations, net of tax on the Company's Consolidated Statements of Operations. As a result of the Company selling its Distribution business, the vesting dates of all outstanding unvested stock options and restricted stock awards for Distribution employees were accelerated to vest on the closing date. These stock options and awards would not have vested prior to the closing date; therefore, the related stock-based compensation expense previously recognized through the modification date of \$0.4 million was reduced to zero and a new fair value of the options and awards was established on the date the Company entered the definitive agreement to sell the Distribution business. The expense of \$2.8 million was recognized ratably from the date of signing the definitive agreement to the closing date of the sale. The amount included in the gain on disposal of discontinued operations, net of tax attributable to the acceleration and modification of these awards was \$2.4 million for the year ended December 31, 2019. These amounts were included in earnings from discontinued operations, net of tax on the Company's Consolidated Statement of Operations. There was no share-based compensation expense recorded for discontinued operations for the years ended December 31, 2021 or December 31, 2020 .

Stock Incentive Plan

On April 17, 2013, the shareholders of the Company approved the 2013 Management Incentive Plan (the "2013 Plan"), which replaced the 2003 Stock Incentive Plan. The 2013 Plan was designed as a flexible share authorization plan, such that the Company's share authorization is based on the least costly type of award (stock options). Shares issued pursuant to "Full Value Awards" as defined in the 2013 Plan (awards other than stock options or stock appreciation rights which are settled by the issuance of shares, e.g., restricted stock, restricted stock units, performance shares, performance units if settled with stock, or other stock-based awards) count against the 2013 Plan's share authorization at a rate of 3 to 1, while shares issued upon exercise of stock options or stock appreciation rights count against the share authorization at a rate of 1 to 1. This means that every time an option is granted, the authorized pool of shares is reduced by one (1) share and every time a Full Value Award is granted, the authorized pool of shares is reduced by 3 shares. In deriving the valuation ratio used in the 2013 Plan, the Company used the Black Scholes Fair Value model as the basis for determining the approximate value of an option as compared to a "full value share." The 2013 Plan provided the Company with the ability to use equity-based awards of up to 2,250,000 authorized shares. On April 18, 2018, the shareholders of the Company approved the amendment and restatement of the 2013 Plan, which increased the number of authorized shares by 2,250,000 shares. As of December 31, 2021, there were 1,437,368 shares available for grant under the plan.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the Years Ended December 31, 2021, 2020 and 2019

22. SHARE-BASED ARRANGEMENTS (CONTINUED)

Stock Incentive Plan - continued

LTIP awards provide certain senior executives an opportunity to receive award payments in either stock or cash as determined by the Compensation Committee of the Board of Directors in accordance with the Plan, at the end of each performance cycle. Performance metrics for LTIP Awards are based on the following: (a) average return on total capital and (b) total return to shareholders, both compared to the Russell 2000 indices for the same performance period. No awards will be payable if the Company's performance is below the 25th percentile. The maximum award is payable if performance reaches the 75th percentile of the designated indices. Awards are paid out at 100% at the 50th percentile. Awards for performance between the 25th and 75th percentiles are determined by straight-line interpolation between 0% and 200%. Generally, LTIP awards are paid in cash.

Stock options were granted with an exercise price equal to the average market price of our stock at the date of grant. Stock options and Stock Appreciation Rights ("SARs") granted under the plan generally expire ten years from the date of grant and vest 20% each year over a 5-year period on each of the first five anniversaries of the date of grant. RSAs granted prior to 2021 were generally granted with restrictions that lapse at the rate of 20% per year over a 5-year period on each of the first five anniversaries of the date of grant. As discussed above, the RSAs granted beginning in 2021 are generally granted with restrictions that lapse at the rate of 33.3% over a 3-year period on each of the first three anniversaries of the grant. Generally, these awards are subject to forfeiture if a recipient separates from service with the Company.

Stock option activity is as follows:

	Options	Weighted average- exercise price
Options outstanding at December 31, 2020	772,625	\$ 54.87
Granted	4,990	55.85
Exercised	(18,669)	38.54
Forfeited or expired	(12,706)	63.68
Options outstanding at December 31, 2021	<u>746,240</u>	<u>\$ 55.14</u>

The following table presents information regarding options outstanding as of December 31, 2021:

Weighted-average remaining contractual term - options outstanding (years)	4.6
Aggregate intrinsic value - options outstanding (in thousands)	\$ 423
Weighted-average exercise price - options outstanding	\$ 55.14
Options exercisable	509,156
Weighted-average remaining contractual term - options exercisable (years)	3.9
Aggregate intrinsic value - options exercisable (in thousands)	\$ 423
Weighted-average exercise price - options exercisable	\$ 52.16

The intrinsic value represents the amount by which the market price of the stock on the measurement date exceeds the exercise price of the option. The intrinsic value of options exercised in 2021, 2020 and 2019 was \$0.3 million, \$2.4 million and \$6.2 million, respectively. The Company currently has an open stock repurchase plan, which would enable the Company to repurchase shares as needed. Since 2008 the Company has generally issued shares related to option exercises, restricted stock and PSUs from its authorized but unissued common stock.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the Years Ended December 31, 2021, 2020 and 2019

22. SHARE-BASED ARRANGEMENTS (CONTINUED)

Stock Incentive Plan - continued

The fair value of each option award is estimated on the date of grant using the Black-Scholes option valuation model. The following table indicates the weighted-average assumptions used in estimating fair value:

	2021	2020	2019
Expected option term (years)	4.9	4.9	4.9
Expected volatility	35.7 %	20.2 %	19.4 %
Risk-free interest rate	0.5 %	1.4 %	2.5 %
Expected dividend yield	1.6 %	1.3 %	1.3 %
Per share fair value of options granted	\$ 14.89	\$ 10.74	\$ 11.18

The expected term of options granted represents the period of time option grants are expected to be outstanding based upon historical exercise patterns. Forfeitures of options are estimated based upon historical data and are adjusted based upon actual occurrences. The cumulative effect of stock award forfeitures was immaterial. The volatility assumption is based on the historical daily price data of the Company's stock over a period equivalent to the weighted-average expected term of the options. Management evaluated whether there were factors during that period that were unusual and would distort the volatility figure if used to estimate future volatility and concluded that there were no such factors. The Company relies only on historical volatility since future volatility is expected to be consistent with historical volatility.

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

Restricted Stock Award and Restricted Stock Unit activity is as follows:

	Restricted Stock Awards	Weighted-average grant date fair value
Restricted Stock outstanding at December 31, 2020	109,514	\$ 53.66
Granted	83,656	55.20
Vested	(54,481)	56.02
Forfeited or expired	(3,338)	58.56
Restricted Stock outstanding at December 31, 2021	<u>135,351</u>	<u>\$ 53.53</u>

The grant date fair value for restricted stock is the average market price of the unrestricted shares on the date of grant. The total fair value of restricted stock awards vested during 2021, 2020 and 2019 was \$2.7 million, \$3.1 million and \$6.5 million, respectively.

Performance stock unit activity was as follows:

	Performance Stock	Weighted-average grant date fair value
Performance Stock outstanding at December 31, 2020	—	\$ —
Granted ⁽¹⁾	82,460	70.17
Vested	—	—
Forfeited or expired	(12,297)	70.16
Performance Stock outstanding at December 31, 2021	<u>70,163</u>	<u>\$ 70.17</u>

⁽¹⁾ The PSUs granted in 2021 assumed a 100% achievement level.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the Years Ended December 31, 2021, 2020 and 2019

22. SHARE-BASED ARRANGEMENTS (CONTINUED)

Stock Incentive Plan - continued

The fair value of the PSUs based on TSR was estimated on the date of grant using a Monte-Carlo simulation model. The following table indicates the weighted-average assumptions used in estimating fair value:

	<u>2021</u>
Expected term (years).....	2.9
Expected volatility.....	41.3 %
Risk-free interest rate.....	0.2 %
Expected dividend yield.....	1.4 %
Per share fair value of performance stock granted.....	\$ 84.49

The Company records a tax benefit and associated deferred tax asset for compensation expense recognized on non-qualified stock options and restricted stock for which the Company is allowed a tax deduction. For 2021, 2020 and 2019, respectively, the Company recorded a tax benefit of \$1.4 million, \$1.1 million and \$1.6 million for these two types of compensation expense.

As of December 31, 2021, future compensation costs related to non-vested stock options, restricted stock grants and performance share units is \$7.7 million. The Company anticipates that this cost will be recognized over a weighted-average period of 2.1 years.

Employees Stock Purchase Plan

The Kaman Corporation Employees Stock Purchase Plan (“ESPP”) allows employees to purchase common stock of the Company, through payroll deductions, at 85% of the market value of shares at the time of purchase. The plan provides for the grant of rights to employees to purchase a maximum of 2,000,000 shares of common stock.

During 2021, 51,225 shares were issued to employees at prices ranging from \$35.67 to \$58.35. During 2020, 47,524 shares were issued to employees at prices ranging from \$38.47 to \$65.92. During 2019, 60,997 shares were issued to employees at prices ranging from \$55.61 to \$63.69. At December 31, 2021, there were 452,363 shares available for purchase under the plan.

23. SUBSEQUENT EVENTS

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

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company has carried out an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of December 31, 2021, the Company's disclosure controls and procedures were effective.

Management's Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Management has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2021.

In making its assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2021, management utilized the criteria set forth by the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission in Internal Control—Integrated Framework (2013). Management concluded that based on its assessment the Company's internal control over financial reporting was effective as of December 31, 2021. The effectiveness of internal control over financial reporting as of December 31, 2021, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report, which is included in Item 8 of this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting

Management of the Company has evaluated, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, changes in the Company's internal controls over financial reporting during 2021.

During the fourth quarter ended December 31, 2021, management made no changes to internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations of Controls

The Company's evaluation described in this Item was undertaken acknowledging that there are inherent limitations to the effectiveness of any system of controls, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective controls can only provide reasonable assurance of achieving their control objectives.

ITEM 9B. OTHER INFORMATION

The disclosure set forth below is provided in lieu of a separate Form 8-K filing pursuant to Item 5.02 of Form 8-K. On February 22, 2022, the Compensation Committee of our Board updated our form of Restricted Share Agreement and our form of Performance Stock Unit Award Agreement for awards granted on or after February 22, 2022 under, and subject to the terms and conditions of, our Amended and Restated 2013 Management Incentive Plan. The updates to each of the forms reflected certain technical and administrative changes. The foregoing descriptions of the form of Restricted Share Agreement and the form of Performance Stock Unit Award Agreement are not complete and are qualified in their entirety by reference to the full text of the form of Restricted Share Agreement and the form of Performance Stock Unit Award Agreement, copies of each of which are filed as Exhibits 10.7 and 10.9, respectively, to this Annual Report on Form 10-K and are incorporated herein by reference.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Other than the list of executive officers of the Company set forth in Item 1, Information about our Executive Officers, all information under this caption may be found in the Company’s proxy statement to be delivered to stockholders in connection with the Annual Meeting of Shareholders, which is scheduled for April 20, 2022, (the “Proxy Statement”) in the following sections: “Proposal 1 - Election of Seven Directors for One-Year Terms,” “Information about Nominees,” “Information about the Board of Directors and Corporate Governance - Director Nominees,” “Information about the Board of Directors and Corporate Governance - Specific Experience, Qualifications, Attributes and Skills of Current Board Members,” “Information about the Board of Directors and Corporate Governance - Code of Business Conduct and Other Governance Documents Available on the Company's Website,” "Information about the Board of Directors and Corporate Governance - Board Meetings and Committees," “Information about the Board of Directors and Corporate Governance - Board Meetings and Committees - Audit Committee,” and "Proxy Statement Summary - Our Board of Directors." Those portions of the Proxy Statement are incorporated by reference into this Item 10.

ITEM 11. EXECUTIVE COMPENSATION

Information about the compensation of Kaman’s named executive officers appears under the captions “Compensation Discussion and Analysis,” “Summary Compensation Table,” “Post-Termination Payments and Benefits” and “Pay Ratio Disclosure” in the Proxy Statement. Information about the compensation of Kaman’s directors appears under “Information about the Board of Directors and Corporate Governance - 2021 Director Compensation” in the Proxy Statement. Information required pursuant to Item 407(d) and (e) of Regulation S-K appears under the captions “Information about the Board of Directors and Corporate Governance - Board Meetings and Committees - Compensation Committee Interlocks and Insider Participation” and “Compensation Discussion and Analysis - Compensation Committee Report.” Those portions of the Proxy Statement are incorporated by reference into this Item 11.

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

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

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table provides information as of December 31, 2021, 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	19,249	\$ 36.12	—
2013 Management Incentive Plan	726,991	55.64	1,437,368
Employees Stock Purchase Plan	—	—	452,363
Equity compensation plans not approved by security holders	—	—	—
Total	746,240	\$ 55.14	1,889,731

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

Information about certain relationships and related transactions appears under “Information about the Board of Directors and Corporate Governance - Related Party Transactions” and “Information about the Board of Directors and Corporate Governance - Board and Committee Independence Requirements” in the Proxy Statement. Those portions of the Proxy Statement are incorporated by reference into this Item 13.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information regarding audit fees and all other fees, in addition to the Audit Committee’s pre-approval policies and procedures appears under “Principal Accounting Fees and Services” and "Audit Committee Preapproval Policy" in the Proxy Statement. Those portions of the Proxy Statement are incorporated by reference into this Item 14.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULE

(a)(1) FINANCIAL STATEMENTS.

Page Number in
Form 10-K

See Item 8 of this Form 10-K setting forth the Report of Independent Registered Public Accounting Firm (PCAOB ID 238) and our Consolidated Financial Statements.

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(a)(2) FINANCIAL STATEMENT SCHEDULE.

KAMAN CORPORATION AND SUBSIDIARIES
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019
(Dollars in Thousands)

DESCRIPTION	Balance Beginning of Period	Additions		Deductions (B)	Balance End of Period
		Charged to Costs and Expenses	Others (A)		
2021					
Allowance for doubtful accounts	\$ 2,008	\$ 575	\$ —	\$ 1,036	\$ 1,547
2020					
Allowance for doubtful accounts	\$ 1,246	\$ 1,391	\$ 82	\$ 711	\$ 2,008
2019					
Allowance for doubtful accounts	\$ 2,498	\$ 788	\$ —	\$ 2,040	\$ 1,246

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

(B) Recoveries and write-off of bad debts.

DESCRIPTION	Balance Beginning of Period	Additions (Reductions)		Balance End of Period
		Current Year Provision (Benefit)	Others	
2021				
Valuation allowance on deferred tax assets	\$ 10,216	\$ 910	\$ (5,104)	\$ 6,022
2020				
Valuation allowance on deferred tax assets	\$ 8,142	\$ 1,166	\$ 908	\$ 10,216
2019				
Valuation allowance on deferred tax assets	\$ 8,243	\$ 2,046	\$ (2,147)	\$ 8,142

(a)(3) EXHIBITS.

Page Number in
Form 10-K

An index to the exhibits filed or incorporated by reference immediately precedes such exhibits.

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ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, in the Town of Bloomfield, State of Connecticut, on this 24th day of February 2022.

KAMAN CORPORATION
(Registrant)

By: /s/ Ian K. Walsh

Ian K. Walsh
Chairman, President and
Chief Executive Officer

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

Signature	Title:	Date:
<u>/s/ Ian K. Walsh</u> Ian K. Walsh	Chairman, President, Chief Executive Officer and Director (Principal Executive Officer)	February 24, 2022
<u>/s/ James G. Coogan</u> James G. Coogan	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	February 24, 2022
<u>/s/ Rebecca F. Stath</u> Rebecca F. Stath	Vice President and Controller (Principal Accounting Officer)	February 24, 2022
<u>/s/ Ian K. Walsh</u> Ian K. Walsh Attorney-in-Fact for:		February 24, 2022
Aisha M. Barry	Director	
E. Reeves Callaway III	Director	
A. William Higgins	Director	
Scott E. Kuechle	Director	
Michelle J. Lohmeier	Director	
George E. Minnich	Director	
Jennifer M. Pollino	Director	

KAMAN CORPORATION
INDEX TO EXHIBITS

Exhibit 2.1	Share Purchase Agreement, dated as of June 25, 2019, by and between Kaman Corporation and LJ KAI Blocker, Inc., LJ KFP Blocker, Inc. and LJ KIT Blocker, Inc. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K dated June 26, 2019, File No. 001-35419).	Previously Filed
Exhibit 2.2	Securities and Asset Purchase Agreement, dated November 4, 2019, by and among Kaman Aerospace Group, Inc., Kaman Corporation, as guarantor, Peter J. Balsells, in his capacity as trustee of the BF Trust, 19650 Pauling, LLC, Pauling Properties LLC and Bal Seal Engineering, Inc. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K dated November 5, 2019, File No. 001-35419).	Previously Filed
Exhibit 2.3	First Amendment to Securities and Asset Purchase Agreement, dated as of December 26, 2019, by and among Kaman Aerospace Group, Inc., Kaman Corporation, as guarantor, Peter J. Balsells, in his capacity as trustee of The Balsells Family Trust Dated October 1, 1985 - Trust A, as Wholly Amended And Restated June 5, 2019, 19650 Pauling, LLC, Pauling Properties LLC and Bal Seal Engineering, Inc. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K/A dated December 27, 2019, File No. 001-35419).	Previously Filed
Exhibit 3.1	Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K dated November 4, 2005, File No. 333-66179), as amended by the Certificate of Amendment thereto (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K dated April, 22 2019).	Previously Filed
Exhibit 3.2	Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K dated December 15, 2020, File No. 001-35419).	Previously Filed
Exhibit 4.1	Description of Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934. (incorporated by reference to Exhibit 4.1 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2019, File No. 001-35419).	Previously Filed
Exhibit 4.2	Indenture, dated as of May 12, 2017, by and between Kaman Corporation and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated May 12, 2017, File No. 001-35419).	Previously Filed
Exhibit 4.3	First Supplemental Indenture, dated as of July 15, 2019, by and between Kaman Corporation and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated July 16, 2019, File No. 001-35419).	Previously Filed
Exhibit 10.1	Kaman Corporation 2013 Management Incentive Plan (incorporated by reference to Annex A to the Company's Definitive Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on March 1, 2013, File No. 001-35419).*	Previously Filed
Exhibit 10.2	First Amendment to the Kaman Corporation 2013 Management Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated February 23, 2015, File No. 001-35419).*	Previously Filed
Exhibit 10.3	Kaman Corporation Amended and Restated 2013 Management Incentive Plan. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 23, 2018, File No. 001-35419).*	Previously Filed
Exhibit 10.4	Form of Nonqualified Stock Option Agreement under the Kaman Corporation 2013 Management Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated February 24, 2014, File No. 001-35419).*	Previously Filed
Exhibit 10.5	Form of Restricted Share Agreement under the Kaman Corporation 2013 Management Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K dated February 24, 2014, File No. 001-35419).*	Previously Filed

Exhibit 10.6	Form of Restricted Share Agreement under the Amended and Restated Kaman Corporation 2013 Management Incentive Plan, for awards granted on or after February 22, 2021 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated February 26, 2021, File No 001-35419).*	Previously Filed
Exhibit 10.7	<u>Form of Restricted Share Agreement under the Amended and Restated Kaman Corporation 2013 Management Incentive Plan</u> , for awards granted on or after February 22, 2022.*	Filed Herewith
Exhibit 10.8	Form of Performance Stock Unit Award Agreement under the Amended and Restated Kaman Corporation 2013 Management Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K dated February 26, 2021, File No 001-35419).*	Previously Filed
Exhibit 10.9	<u>Form of Performance Stock Unit Award Agreement under the Amended and Restated Kaman Corporation 2013 Management Incentive Plan</u> , for awards granted on or after February 22, 2022.*	Filed Herewith
Exhibit 10.10	Form of Restricted Stock Unit Agreement under the Kaman Corporation 2013 Management Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated June 6, 2014, File No 001-35419).*	Previously Filed
Exhibit 10.11	Form of Long-Term Performance Award Agreement (Payable in Cash) under the Kaman Corporation 2013 Management Incentive Plan (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K dated February 24, 2014, File No. 001-35419).*	Previously Filed
Exhibit 10.12	Form of Long-Term Performance Award Agreement (Payable in Cash) granted under the Kaman Corporation 2013 Management Incentive Plan, for awards granted on or after February 17, 2017 (incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q for the fiscal quarter ended March 31, 2017, File No. 001-35419).*	Previously Filed
Exhibit 10.13	Form of Long-Term Performance Award Agreement (Payable in Shares) granted under the Kaman Corporation 2013 Management Incentive Plan (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K dated February 24, 2014, File No. 001-35419).*	Previously Filed
Exhibit 10.14	Form of Award Agreement for Non-Employee Directors under the Kaman Corporation 2013 Management Incentive Plan (incorporated by reference to Exhibit 10.6 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013, File No. 001-35419).*	Previously Filed
Exhibit 10.15	Kaman Corporation 2003 Stock Incentive Plan (incorporated by reference to Exhibit 10(a)(i) to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended October 2, 2009, File No. 000-01093), as amended by amendments thereto filed with the SEC on April 7, 2010 (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K dated April 7, 2010, File No. 000-01093) and November 1, 2010 (incorporated by reference to Exhibit 10(b) to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended October 1, 2010, File No. 000-01093), and February 22, 2012 (incorporated by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K, dated February 22, 2012, File No. 000-01093).*	Previously Filed
Exhibit 10.16	Form of Incentive Stock Option Agreement under the Kaman Corporation 2003 Stock Incentive Plan (incorporated by reference to Exhibit 10h(i) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008, File No. 000-01093).*	Previously Filed
Exhibit 10.17	Form of Non-Statutory Stock Option Agreement under the Kaman Corporation 2003 Stock Incentive Plan (incorporated by reference to Exhibit 10h(ii) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008, File No. 000-01093).*	Previously Filed
Exhibit 10.18	Form of Stock Appreciation Rights Agreement under the Kaman Corporation 2003 Stock Incentive Plan (incorporated by reference to Exhibit 10h(iii) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008, File No. 000-01093).*	Previously Filed

Exhibit 10.19	Form of Restricted Stock Agreement under the Kaman Corporation 2003 Stock Incentive Plan (incorporated by reference to Exhibit 10h(iv) to the Company's Form 10-Q for the fiscal quarter ended June 29, 2007, File No. 000-01093).*	Previously Filed
Exhibit 10.20	Form of Long Term Performance Award Agreement under the Kaman Corporation 2003 Stock Incentive Plan (incorporated by reference to Exhibit 10h(v) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011, File No. 001-35419).*	Previously Filed
Exhibit 10.21	Form of Restricted Stock Unit Agreement under the Kaman Corporation 2003 Stock Incentive Plan (incorporated by reference to Exhibit 10h(vi) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009, File No. 000-10093).*	Previously Filed
Exhibit 10.22	Kaman Corporation Employees Stock Purchase Plan (incorporated by reference to Exhibit 10(a) to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended October 1, 2010, File No. 000-01093), as amended by the First Amendment thereto filed with the SEC on February 27, 2012 (incorporated by reference to Exhibit 10b to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011, File No. 001-35419), the Second Amendment thereto filed with the SEC on February 25, 2013 (incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012, File No. 001-35419) and the Third Amendment thereto filed with the SEC on February 27, 2014 by reference to Exhibit 10.15 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013, File No. 001-35419).*	Previously Filed
Exhibit 10.23	Kaman Corporation Amended and Restated Employee Stock Purchase Plan. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on April 23, 2018, File No. 001-35419), as amended by the First Amendment thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated November 15, 2018, File No. 001-35419) and the Second Amendment thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated November 16, 2021, File No. 001-35419).*	Previously Filed
Exhibit 10.24	Kaman Corporation Supplemental Employees' Retirement Plan (incorporated by reference to Exhibit 10c to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, File No. 333-66179), as amended by an amendment thereto filed with the SEC on March 5, 2004 (incorporated by reference to Exhibit 10c to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, File No. 333-66179), and an amendment thereto filed with the SEC on February 26, 2007 (incorporated by reference to Exhibit 10.10 to the Company's Current Report on Form 8-K, dated February 26, 2007, File No. 000-01093).*	Previously Filed
Exhibit 10.25	Post-2004 Supplemental Employees' Retirement Plan (incorporated by reference to Exhibit 10.11 to the Company's Current Report on Form 8-K, dated February 26, 2007, File No. 000-01093), as amended by the First Amendment thereto filed with the SEC on February 28, 2008 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, dated February 28, 2008, File No. 000-01093) and the Second Amendment thereto filed with the SEC on February 25, 2010 (incorporated by reference to Exhibit 10(c)(iii) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009, File No. 000-01093).*	Previously Filed
Exhibit 10.26	Kaman Corporation Amended and Restated Deferred Compensation Plan (incorporated by reference to Exhibit 10d to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002, File No. 333-66179), as amended by an amendment thereto filed with the SEC on March 5, 2004 (incorporated by reference to Exhibit 10d to the Company's Annual report on Form 10-K for the fiscal year ended December 31, 2003 File No. 333-66179), and an amendment thereto filed with the SEC on August 3, 2004 (incorporated by reference to Exhibit 10(a) to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2004, File No. 333-66179).*	Previously Filed

Exhibit 10.27	Kaman Corporation Post-2004 Deferred Compensation Plan (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, dated February 28, 2008, File No. 000-01093), as amended by the First Amendment thereto filed with the SEC on February 27, 2012 (incorporated by reference to Exhibit 10d(ii) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011, File No. 001-35419), the Second Amendment thereto (incorporated by reference to Exhibit 10.20 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013, File No. 001-35419), the Third Amendment thereto (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K dated November 21, 2014, File No. 001-35419) and the Fourth Amendment thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated June 13, 2016, File No. 001-35419) and the Fifth Amendment thereto (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K dated November 16, 2021, File No. 001-35419).*	Previously Filed
Exhibit 10.28	Amended and Restated Executive Employment Agreement between Kaman Corporation and Neal J. Keating, originally dated as of August 7, 2007 and amended and restated as of November 11, 2008 (incorporated by reference to Exhibit 10g(xviii) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008, File No. 000-01093), as amended by Amendment No. 1 thereto dated January 1, 2010 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, dated February 23, 2010, File No. 000-01093), Amendment No. 2 thereto dated September 17, 2010 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, dated September 20, 2010, File No. 000-01093), and Amendment No. 3 thereto dated November 18, 2014 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, dated November 21, 2014, File No. 000-01093), and Amendment No. 4 thereto dated April 14, 2021 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated April 16, 2021, File No. 001-35419).**	Previously Filed
Exhibit 10.29	Transition and Retirement Agreement, dated as of August 20, 2020 by and between Neal J. Keating and the Company (incorporated by reference to Exhibit 10.2 to the Company's current Report on Form 8-K, dated August 21, 2020, File No. 000-35419).*	Previously Filed
Exhibit 10.30	Executive Employment Agreement, dated as of August 20, 2020, by and between Ian K. Walsh and the Company (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, dated August 21, 2020, File No. 000-35419).*	Previously Filed
Exhibit 10.31	Executive Employment Agreement between Kaman Corporation and Robert D. Starr, dated as of November 18, 2014 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated November 21, 2014, File No. 001-35419) as amended by Amendment No. 1 thereto dated July 8, 2021 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated July 8, 2021, File No. 001-35419).*	Previously Filed
Exhibit 10.32	Retirement and Consulting Letter Agreement, dated as of August 20, 2020, by and between Richard R. Barnhart and the Company (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K, dated August 21, 2020, File No. 001-35419).	Previously Filed
Exhibit 10.33	Form of Amended and Restated Change in Control Agreement by and between the Company and certain of its executive officers (to wit: Messrs. Walsh, Lisle and Coogan) (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated April 22, 2016, File No. 001-35419).*	Previously Filed
Exhibit 10.34	Garden Leave and General Release Agreement, effective as of October 31, 2019, by and between Kaman Corporation and Paul M. Villani. (incorporated by reference to Exhibit 10.30 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2019, File No. 001-35419).*	Previously Filed
Exhibit 10.35	Retention and Special Assistance Agreement, effective April 10, 2020, by and between the Company and John J. Tedone (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated April 16, 2020, File No. 001-35419)*	Previously Filed

Exhibit 10.36	Retirement and Consulting Agreement, dated as of November 16, 2020, by and between Gregory T. Troy and the Company (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated November 18, 2020, File No. 001-35419).*	Previously Filed
Exhibit 10.37	Letter Agreement, dated May 8, 2017, between Bank of America, N.A. and Kaman Corporation, regarding the Capped Call Transaction (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K dated May 12, 2017, File No. 001-35419).	Previously Filed
Exhibit 10.38	Letter Agreement, dated May 8, 2017, between JPMorgan Chase Bank, National Association, London Branch and Kaman Corporation, regarding the Capped Call Transaction (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K dated May 12, 2017, File No. 001-35419).	Previously Filed
Exhibit 10.39	Letter Agreement, dated May 8, 2017 between UBS AG, London Branch and Kaman Corporation, regarding the Capped Call Transaction (incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K dated May 12, 2017, File No. 001-35419).	Previously Filed
Exhibit 10.40	Letter Agreement, dated May 22, 2017, between Bank of America, N.A. and Kaman Corporation, regarding the Additional Capped Call Transaction (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated May 25, 2017, File No. 001-35419).	Previously Filed
Exhibit 10.41	Letter Agreement, dated May 22, 2017, between JPMorgan Chase Bank, National Association, London Branch and Kaman Corporation, regarding the Additional Capped Call Transaction (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K dated May 25, 2017, File No. 001-35419).	Previously Filed
Exhibit 10.42	Letter Agreement, dated May 22, 2017, between UBS AG, London Branch and Kaman Corporation, regarding the Additional Capped Call Transaction (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K dated May 25, 2017, File No. 001-35419).	Previously Filed
Exhibit 10.43	Second Amended and Restated Credit and Guaranty Agreement, dated as of December 13, 2019, by and among Kaman Corporation, RWG Germany GmbH, Kaman Lux Holding, S.à r.l and the other subsidiary borrowers from time to time party thereto, the Lenders from time to time party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent and as Collateral Agent (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated December 18, 2019, File No. 001-35419), as amended by Amendment No. 1 thereto, dated as of December 8, 2021 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated December 9, 2021, File No. 001-35419)..	Previously Filed
Exhibit 10.44	Transition Services Agreement, dated as of August 26, 2019, by and among Kaman Corporation, LJ KAI Blocker, Inc., LJ KFP Blocker, Inc. and LJ KIT Blocker, Inc., and Kaman Industrial Technologies Corporation (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated August 26, 2019, File No. 001-35419).	Previously Filed
Exhibit 10.45	Form of Trademark, Trade Name and Domain Name License Agreement, dated as of August 26, 2019, between Kaman Corporation and certain Licensees (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K dated August 26, 2019, File No. 001-35419); and Schedule identifying agreements substantially identical to the form of Trademark, Trade Name and Domain Name License Agreement filed as Exhibit 10.39 hereto (incorporated by reference to Exhibit 10.2(a) to the Company's Current Report on Form 8-K dated August 26, 2019, File No. 001-35419).	Previously Filed
Exhibit 21	<u>List of Subsidiaries</u>	Filed Herewith
Exhibit 23	<u>Consent of PricewaterhouseCoopers LLP, the Company's current independent registered public accounting firm.</u>	Filed Herewith
Exhibit 24	<u>Power of attorney under which this report was signed on behalf of certain directors.</u>	Filed Herewith

Exhibit 31.1	<u>Certification of Chief Executive Officer Pursuant to Rule 13a-14 under the Securities and Exchange Act of 1934.</u>	Filed Herewith
Exhibit 31.2	<u>Certification of Chief Financial Officer Pursuant to Rule 13a-14 under the Securities and Exchange Act of 1934.</u>	Filed Herewith
Exhibit 32.1	<u>Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>	Filed Herewith
Exhibit 32.2	<u>Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>	Filed Herewith
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document	Filed Herewith
101.SCH	Inline XBRL Taxonomy Extension Schema	Filed Herewith
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase	Filed Herewith
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase	Filed Herewith
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase	Filed Herewith
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase	Filed Herewith
104	Cover Page Interactive Data File, formatted in iXBRL and contained in Exhibit 101	Filed Herewith

* Management contract or compensatory plan

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LEADERSHIP

KAMAN CORPORATION

CORPORATE LEADERSHIP

Ian K. Walsh

President and Chief Executive Officer

Russell J. Bartlett†

Senior Vice President and Chief Operating Officer

James G. Coogan

Senior Vice President and Chief Financial Officer

Shawn G. Lisle

Senior Vice President, General Counsel and Assistant Secretary

Darlene R. Smith†

President, Kaman Air Vehicles and Kaman Precision Products

Lisa A. Barry

Vice President - Financial Planning and Analysis

Emily Bretas-Romano

Assistant Secretary

Rafael Z. Cohen

Vice President and Chief Information Officer

Jairaj Chetnani

Vice President - Corporate Development and Treasurer

Richard C. Forsberg

Vice President and Chief Ethics & Compliance Officer

John Michelin

Vice President - Tax

Megan A. Morgan

Vice President - Human Resources and Chief Human Resources Officer

Michael J. Morneau

Vice President - Finance

Kristen M. Samson

Vice President and Chief Marketing Officer

Richard S. Smith, Jr.

Vice President, Deputy General Counsel and Secretary

Rebecca F. Stath

Vice President and Controller

Jamie M. Vincent

Assistant Controller

† Denotes Segment Lead

DIRECTORS

Ian K. Walsh

Chairman, Kaman Corporation

Aisha M. Barry^{2,3}

President, Advanced Sterilization Products, Fortive Corporation

E. Reeves Callaway III^{3,4}

Founder, President and Chief Executive Officer, The Callaway Companies

A. William Higgins^{1,3,4}

President and Chief Executive Officer, Albany International Corporation

Scott E. Kuechle^{1,2*}

Executive Vice President and Chief Financial Officer, Retired Goodrich Corporation

Michelle J. Lohmeier^{2,4}

Strategic Advisor to the CEO, Retired Spirit AeroSystems, Inc.

George E. Minnich^{1,2,4*}

Senior Vice President and Chief Financial Officer, Retired ITT Corporation

Jennifer M. Pollino^{1*,3*}

Lead Independent Director; Executive Coach and Consultant, JMPollino LLC and Executive Vice President – Human Resources and Communications, Retired, Goodrich Corporation

STANDING COMMITTEE ASSIGNMENTS

¹ Corporate Governance

² Audit

³ Compensation

⁴ Finance

* Denotes Chairmanship

CORPORATE HEADQUARTERS

Kaman Corporation
1332 Blue Hills Avenue
Bloomfield, Connecticut 06002
(860) 243-7100

STOCK LISTING

Kaman Corporation's common stock is traded on the New York Stock Exchange under the symbol KAMN.

INVESTOR RELATIONS CONTACT

Kary Bare
Director, Investor Relations
860-243-7485
kary.bare@kaman.com

ANNUAL MEETING

The Annual Meeting of Shareholders is scheduled to be held on Wednesday, April 20, 2022 at 9:00 am local time at the offices of the Company, 1332 Blue Hills Avenue, Bloomfield, Connecticut, 06002.

TRANSFER AGENT

Computershare
P.O. Box 505000
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(877) 373-6374
www.computershare.com/investor

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Louisville, KY 40202

KAMN
LISTED
NYSE



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