IN THE UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

In re: **WESCO AIRCRAFT HOLDINGS, INC.**, *et al.*, Debtors.[1]	Chapter 11 Case No. 23-90611 (MI) (Jointly Administered) Adv. Pro. No. 23-03091 (MI)
WESCO AIRCRAFT HOLDINGS, INC., *et al.*, Plaintiffs, *v.* **SSD INVESTMENTS LTD.**, *et al.*, Defendants.	
WESCO AIRCRAFT HOLDINGS, INC., *et al.*, Plaintiffs, v. **SSD INVESTMENTS LTD.,** *et al.*, Defendants.	
SSD INVESTMENTS LTD., *et al.*, Counterclaim Plaintiffs, v. **WESCO AIRCRAFT HOLDINGS, INC.,** *et al.*, Counterclaim Defendants.	
LANGUR MAIZE, L.L.C., Crossclaim Plaintiff, v. **PLATINUM EQUITY ADVISORS, LLC,** *et al.*, Crossclaim Defendants.	
LANGUR MAIZE, L.L.C., Third-Party Plaintiff, v. **UNNAMED PLATINUM FUNDS c/o PLATINUM EQUITY ADVISORS, LLC**, *et al.*, Third-Party Defendants.	
LANGUR MAIZE, L.L.C., Counterclaim Plaintiff, v. **WESCO AIRCRAFT HOLDINGS, INC.**, *et al.*, Counterclaim Defendants.	

[1] The Debtors operate under the trade name Incora and have previously used the trade names Wesco, Pattonair, Haas, and Adams Aviation. A complete list of the Debtors in these chapter 11 cases, with each one's federal tax identification number and the address of its principal office, is available on the website of the Debtors' noticing agent at http://www.kccllc.net/Incora/. The service address for each of the Debtors in these cases is 2601 Meacham Blvd., Ste. 400, Fort Worth, TX 76137.

THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS'
WITNESS AND EXHIBIT LIST FOR MAY 3, 2024

The Official Committee of Unsecured Creditors in the above-captioned case (the "**Committee**"), hereby submits this list of witnesses and exhibits (the "**Witness and Exhibit List**") for the trial (the "**Trial**") to be held on May 3, 2024, at 10:30 a.m. (Central), before the Honorable Marvin Isgur, United States Bankruptcy Judge, 515 Rusk Street, Courtroom 4, Houston, Texas 77002.

The Committee designates the following witnesses and exhibits that may be offered at Trial:

WITNESSES

1. Joseph Denham
2. Any expert(s) to address issues raised by outstanding standing motions to be tried as part of Adversary Proceeding
3. Any witness listed, offered, or called by any other party
4. Any witness necessary to authenticate a document
5. Any witness required for rebuttal or impeachment

EXHIBITS[2]

Exhibit No.	ECF No.	Description	Offered	Objection	Admitted	Date
UCC-92		Excel spreadsheet listing trading data for 2024 Secured from 12/28/21 to 4/29/2022 from FINRA and Bloomberg. (WESCO_UCC00000002)				N/A
UCC-93		AAR Corp 8K Dec 21 (WESCO_UCC00000003-17)				12/21/2021
UCC-94		AAR Corp 10Q 3Q22 (WESCO_UCC00000018-49)				3/22/2022

[2] The exhibits and list of witnesses in this Witness and Exhibit List supplement the Committee's previously filed witness and exhibit lists. For ease of reference, the Committee is omitting exhibit nos. UCC-1 – UCC-91. A full list of previously filed exhibits can be found in *The Official Committee of Unsecured Creditors' Fourth Supplemental Witness and Exhibit List for Trial that Started on January 25, 2024* [Docket No. 776].

UCC-95		AAR Corp. – 8K Q1'22 Report (WESCO_UCC00000050-61)				9/23/2021
UCC-96		AAR Corp. 8-K – Q2'22 Report (WESCO_UCC00000062-73)				12/21/2021
UCC-97		AAR Corp. 8-K – Q4'21 Report (WESCO_UCC00000074-87)				7/20/2021
UCC-98		AAR Corp. 8-K – Q3'22 Report (WESCO_UCC00000088-101)				3/22/2022
UCC-99		AAR Corp. 2021 10-K (WESCO_UCC00000102-223)				7/20/2021
UCC-100		AAR Corp. Q1'22 10-Q (WESCO_UCC00000224-269)				9/23/2021
UCC-101		AAR Corp. Q2'22 10-Q – (WESCO_UCC00000270-317)				12/21/2021
UCC-102		Barnes Group Inc. – 8K Q1'21 Report (WESCO_UCC00000317-334)				4/30/2021
UCC-103		Barnes Group Inc. – 8-K Q2'21 Report (WESCO_UCC00000335-353)				7/30/2021
UCC-104		Barnes Group Inc. – 8K Q3'21 Report (WESCO_UCC00000354-372)				10/29/2021
UCC-105		Barnes Group Inc. – Q4'21 Report (WESCO_UCC00000373-384)				2/18/2022
UCC-106		Barnes Group Inc. 2021 10K (WESCO_UCC00000385-545)				2/22/2022
UCC-107		Barnes Group Inc. Q1'21 10-Q (WESCO_UCC00000546-603)				4/30/2021
UCC-108		Barnes Group Inc. Q2'21 10-Q (WESCO_UCC00000604-665)				7/30/2021
UCC-109		Barnes Group Inc. Q3'21 10-Q (WESCO_UCC00000666-728)				10/29/2021
UCC-110		Curtiss-Wright Corp. - Q1'22 8-K Report (WESCO_UCC00000729-747)				3/31/2022
UCC-111		Curtiss-Wright Corp. – Q2'22 8K Report (WESCO_UCC00000748-767)				8/3/2022
UCC-112		Curtiss-Wright Corp. – Q3'22 10-Q (WESCO_UCC00000768-821)				11/3/2022

UCC-113		Curtiss-Wright Corp. - Q4'22 8-K Report (WESCO_UCC00000822-844)				2/21/2023
UCC-114		Curtiss-Wright Corp. 8-K Q3'22 Report (WESCO_UCC00000845-867)				11/2/2022
UCC-115		Curtiss-Wright Corp. 2022 10-K (WESCO_UCC00000868-1011)				2/22/2023
UCC-116		Curtiss-Wright Corp. Q1'22 10-Q (WESCO_UCC00001012-1057)				5/5/2022
UCC-117		Curtiss-Wright Corp. Q2'22 10-Q (WESCO_UCC00001058-1109)				8/4/2022
UCC-118		Genuine Parts & Co. 2021 10K (WESCO_UCC00001110-1248)				2/12/2022
UCC-119		Genuine Parts Co. Q1'21 10-Q (WESCO_UCC00001249-1285)				4/22/2021
UCC-120		Genuine Parts Co. Q2'21 10-Q (WESCO_UCC00001286-1328)				7/22/2021
UCC-121		Genuine Parts Co. Q3'21 10-Q (WESCO_UCC00001329-1369)				10/21/2021
UCC-122		Kaman 10K 2021 (WESCO_UCC00001370-1503)				2/24/2022
UCC-123		Kaman Corp. – 8-K Q1'21 Report (WESCO_UCC00001504-1523)				5/4/2021
UCC-124		Kaman Corp. – 8-K Q2'21 Report (WESCO_UCC00001524-1545)				8/5/2021
UCC-125		Kaman Corp. – 8-K Q3'21 Report (WESCO_UCC00001546-1565)				11/2/2021
UCC-126		Kaman Corp. – 8-K Q4'21 (WESCO_UCC00001566-1589)				2/24/2022
UCC-127		Kaman Corp. – Q1'21 10-Q (WESCO_UCC00001590-1655)				5/4/2021
UCC-128		Kaman Corp. – Q2'21 10-Q (WESCO_UCC00001656-1726)				8/5/2021
UCC-129		Kaman Corp. – Q3'21 10-Q (WESCO_UCC00001727-1799)				11/2/2021

UCC-130		PowerPoint Presentation regarding Kaman: J.P. Morgan Industrials Conference (WESCO_UCC00001800-1827)				3/17/2022
UCC-131		Moog 10Q Q1'22 (WESCO_UCC00001828-1876)				1/28/2022
UCC-132		MOOG FY22 Q1 Supplemental (WESCO_UCC00001877-1880)				1/28/2022
UCC-133		Moog, Inc. – Q2'21 10-Q (WESCO_UCC00001881-1939)				4/30/2021
UCC-134		Moog, Inc. – Q3'21 10-Q (WESCO_UCC00001940-2000)				7/30/2021
UCC-135		Moog, Inc. 2021 10-K (WESCO_UCC00002001-2138)				11/15/2021
UCC-136		Moog Press Release (WESCO_UCC00002139)				1/28/2022
UCC-137		Moog Q1 Press Release (WESCO_UCC00002140-2148)				1/28/2022
UCC-138		MSC Industrial Direct Co., Inc. Q1'22 10-Q – (WESCO_UCC00002149-2182)				12/22/2021
UCC-139		MSC Industrial Direct Co., Inc. Q2'21 10-Q (WESCO_UCC00002183-2221)				4/7/2021
UCC-140		MSC Industrial Direct Co., Inc. Q3'21 10-Q (WESCO_UCC00002222-2262)				7/7/2021
UCC-141		MSC Industrial Direct Co., Inc.2021 10-K (WESCO_UCC00002140-2343)				10/20/2021
UCC-142		Q1'22 10Q_MSC Industrial Direct Co (WESCO_UCC00002344-2377)				12/22/2021
UCC-143		Triumph Group Inc. – 8-K Q1'22 Report (WESCO_UCC00002378-2394)				8/4/2021
UCC-144		Triumph Group Inc. – 8-K Q2'22 Report (WESCO_UCC00002395-2413)				11/9/2021
UCC-145		Triumph Group Inc. – 8-K Q3'22 Report (WESCO_UCC00002414-2429)				2/9/2022
UCC-146		Triumph Group Inc. – 8-K Q4'21 Report (WESCO_UCC00002430-2445)				5/20/2021

UCC-147		Triumph Group Inc. – 2021 10-K (WESCO_UCC00002446-2566)				5/20/2021
UCC-148		Triumph Group Inc. – Q1'22 10-Q (WESCO_UCC00002567-2618)				8/4/2021
UCC-149		Triumph Group Inc. – Q2'22 10-Q (WESCO_UCC00002619-2686)				11/8/2021
UCC-150		Triumph Group Inc. – Q3'22 10-Q (WESCO_UCC00002687-2745)				2/8/2022
UCC-151		W.W. Grainger Inc. - Q1'21 10-Q (WESCO_UCC00002746-2787)				4/30/2021
UCC-152		W.W. Grainger Inc. Q2'21 10-Q (WESCO_UCC00002788-2837)				7/30/2021
UCC-153		W.W. Grainger Inc. Q3'21 10-Q (WESCO_UCC00002838-2892)				10/29/2021
UCC-154		WW Grainger 10K FY2021 (WESCO_UCC00002893-2970)				2/23/2022
UCC-155		RBC Capital Markets report titled "AAR Corp: Fiscal3Q22 reflects steady improvement, management sees FY23 top-line inflection." (WESCO_UCC00002971-87)				3/22/2022
UCC-156		Truist report titled "AAR Corp. (AIR): Strong Margin Performance; USM Inflection Appears to be Coming into Focus." (WESCO_UCC00002988-96)				12/20/2022
UCC-157		Truist report titled "AAR Corp. (AIR): Previewing F3Q22 Results; Look for Modest Topline Headwinds." (WESCO_UCC00002997-3005)				3/14/2022
UCC-158		Oppenheimer report titled, "Barnes Group Inc." (WESCO_UCC00003006-19)				4/29/2022
UCC-159		Truist report titled, "Barnes Group Inc. (B)" (WESCO_UCC00003020-29)				4/29/2022
UCC-160		UBS report titled, "Barnes Group Inc" (WESCO_UCC00003030)				2/21/2022
UCC-161		Truist report titled, "Curtiss-Wright Corporation (CW)" (WESCO_UCC00003031-40)				2/24/2022

UCC-162		UBS report titled, "Curtiss-Wright Corp" (WESCO_UCC00003041)				2/24/2022
UCC-163		William Blair report titled, "Curtiss-Wright Corporation" (WESCO_UCC00003042-55)				2/24/2022
UCC-164		CSG-CIMB report titled, "Genuine Parts Company (GPC-NYSE)" (WESCO_UCC00003056-68)				3/28/2022
UCC-165		Guggenheim report titled, "GPC – 4Q21 Recap – Auto & Industrial Organic Growth Outlook Positive, Margin Outlook More Muted – Remain NEUTRAL" (WESCO_UCC00003069-74)				2/22/2022
UCC-166		JPMorgan report titled, "Genuine Parts Company" (WESCO_UCC00003075-87)				2/18/2022
UCC-167		Raymond James report titled, "Genuine Parts Company (GPC-NYSE)" (WESCO_UCC00003088-96)				3/28/2022
UCC-168		Wedbush report titled, "Genuine Parts Company (GPC)" (WESCO_UCC00003097-3108)				2/18/2022
UCC-169		JPMorgan report titled, "Kaman Corp: The $600mn Question" (WESCO_UCC00003109-118)				8/13/2019
UCC-170		JPMorgan report titled, "Kaman Corp: First look at Q4 Earnings" (WESCO_UCC00003119-126)				2/24/2022
UCC-171		JPMorgan report titled, "Kaman Corp: JPM Industrials Conference Takeaway" (WESCO_UCC00003127-133)				3/16/2022
UCC-172		JPMorgan report titled, "Kaman Corp: First look at Q1 Earnings" (WESCO_UCC00003134-140)				5/02/2022
UCC-173		JPMorgan report titled, "Kaman Corp: Touching Up Estimates For Better Margins" (WESCO_UCC00003141-151)				11/10/2021
UCC-174		Truist report titled, "Moog Inc. (MOG.A)" (WESCO_UCC00003152-160)				1/28/2022
UCC-175		Truist report titled, "Moog Inc. (MOG.A)" (WESCO_UCC00003161-169)				4/29/2022

UCC-176		Jefferies report titled, “MSC Industrial” (WESCO_UCC00003170-179)				12/22/2021
UCC-177		JPMorgan report titled, “MSC Industrial Direct” (WESCO_UCC00003180-189)				1/14/2022
UCC-178		Loop Capital Markets report titled, “MSC Industrial Direct Co., Inc. (MSM - $8397)” (WESCO_UCC00003190-200)				12/22/2021
UCC-179		Raymond James report titled, “MSC Industrial Direct Co., Inc. (MSM-NYSE): Company Brief” (WESCO_UCC00003201-208)				1/06/2021
UCC-180		Raymond_James report titled, “MSC Industrial Direct Co., Inc. (MSM-NYSE): Company Brief” (WESCO_UCC00003209-217)				12/22/2021
UCC-181		Raymond_James report titled, “MSC Industrial Direct Co., Inc. (MSM-NYSE): Company Comment” (WESCO_UCC00003218-233)				12/22/2021
UCC-182		Barclays report titled, “Triumph Group Inc” (WESCO_UCC00003234-3243)				2/09/2022
UCC-183		Jefferies report titled, “Triumph Group, Inc.” (WESCO_UCC00003244-3271)				2/13/2022
UCC-184		Jefferies report titled, “Triumph Group, Inc.” (WESCO_UCC00003272-3295)				2/05/2023
UCC-185		Jefferies report titled, “Triumph Group, Inc.” (WESCO_UCC00003296-3310)				3/02/2023
UCC-186		JPMorgan report titled, “Triumph Group” (WESCO_UCC00003311-3319)				2/09/2022
UCC-187		Truist report titled, “Triumph Group, Inc. (TGI)” (WESCO_UCC00003320-3328)				5/18/2022
UCC-188		JPMorgan report titled, “WW Grainger” (WESCO_UCC00003329-3339)				2/11/2022
UCC-189		Oppenheimer report titled, “W.W. Grainger, Inc.” (WESCO_UCC00003340-3351)				3/15/2022
UCC-190		Raymond_James report titled, “W.W. Grainger, Inc. (GWW-NYSE)” (WESCO_UCC00003352-3366)				2/30/2022

UCC-191		RBC Capital Markets report titled, "W.W. Grainger, Inc." (WESCO_UCC00003367-3380)				2/04/2022
UCC-192		UBS report titled, "W.W. Grainger Inc." (WESCO_UCC00003381)				2/03/2022
UCC-193		Wolfe Research report titled, "W.W. Grainger (GWW)" (WESCO_UCC00003382-3400)				4/19/2022
UCC-194		Excel spreadsheet titled, "(Regional Risk Premium) Revenue by Geography Q1'22 (2024.02.29)" (WESCO_UCC00003401)				2/29/2024
UCC-195		Excel spreadsheet titled, "2.1.1.2 E.4 PEO Incora Geography P&L, Adj EBITDA, & CF 2022 Monthly" (WESCO_UCC00003402) **FILED UNDER SEAL**				N/A
UCC-196		Screen Capture titled, "Equity Risk Premium Bloomberg" (WESCO_UCC00003403)				3/28/2022
UCC-197		Damodaran (NYU) Corporate Marginal Tax Rates – By Country (WESCO_UCC00003404-3407)				1/2024
UCC-198		Excel spreadsheet titled, "Regional_Risk_Premium_by_Country" (WESCO_UCC00003408)				N/A
UCC-199		Screen Capture titled, "Equity Risk Premium Kroll" (WESCO_UCC00003409)				N/A
UCC-200		Screen Capture titled, "Risk Free Rate Kroll" (WESCO_UCC00003410)				N/A
UCC-201		Screen Capture titled, "Size Premium Kroll" (WESCO_UCC00003411)				N/A
UCC-202		Congressional Budget Office, Long-Term Implications of the 2021 Future Years Defense Program, September 2020 (WESCO_UCC00003412-3434)				9/2020
UCC-203		Congressional Budget Office, The Long Term Budget Outlook, July 2022 (WESCO_UCC00003435-3503)				7/2022

UCC-204		FAA Aerospace Forecast Fiscal Years 2022-2042 (WESCO_UCC00003504-3647)				6/28/2022
UCC-205		CVC article titled, "Proposed sale of Ontic for $1,365 million to CVC Fund VII" (WESCO_UCC00003648-3652)				7/30/2019
UCC-206		Fitch Ratings article titled, "Fitch Affirms TransDigm at 'B' on Announcement of Esterline Acquisition" (WESCO_UCC00003653-3663)				10/11/2018
UCC-207		Presentation titled, "TransDigm's Acquisition of Esterline Technologies" (WESCO_UCC00003664-3672)				10/10/2018
UCC-208		Reuters article titled, "Esterline Technologies exploring potential sale – sources" (WESCO_UCC00003673-3682)				7/20/2018
UCC-209		JefferiesLLC Equity Research: TRANS(digm) forming Into Deal Close (WESCO_UCC00003683-3702)				11/21/2018
UCC-210		Business Wire article titled, "Kaman Completes Sale of Distribution Segment to Littlejohn & Co." (WESCO_UCC00003703)				8/26/2019
UCC-211		Kaman Investor Presentation: Sale of Distribution (WESCO_UCC00003704-3713)				6/26/2019
UCC-212		Mergermarket article titled, "Ontic sale result of PE-heavy auction, sources say" (WESCO_UCC00003714-3715)				8/08/2019
UCC-213		PRNewsire article titled, "TransDigm to Acquire Esterline Technologies in $4 Billion All Cash Transaction" (WESCO_UCC00003716-3721)				10/10/2018
UCC-214		Esterline 10K Filed Nov-2018 (WESCO_UCC00003722-3819)				11/21/2018
UCC-215		Esterline Schedule 14A (WESCO_UCC00003820-3956)				11/07/2018
UCC-216		KLX - Definitive Merger Agreement (WESCO_UCC00003957-4287)				7/25/2018
UCC-217		KLX Aerospace Schedule 14A (WESCO_UCC00004288-4605)				6/26/2018

UCC-218		Merger Agreement Esterline (WESCO_UCC00004606-4730)				10/09/2018
UCC-219		Wesco Aircraft Holdings, Inc Schedule 14A (WESCO_UCC00004731-4999) **FILED UNDER SEAL**				9/13/2019
UCC-220		PowerPoint Presentation regarding Incora Noteholder Presentation (WESCO_UCC00005000-5040) **FILED UNDER SEAL**				3/2023
UCC-221		PowerPoint Presentation regarding Incora Cleansing Presentation (WESCO_UCC00005041-5057) **FILED UNDER SEAL**				3/29/2022
UCC-222		PowerPoint Presentation regarding Incora Business Plan Overview (WESCO_UCC00005058-5080) **FILED UNDER SEAL**				2/26/2024
UCC-223		Excel spreadsheet titled, "Business_Plan_Output_Wesco_2004_0041404" (WESCO_UCC00005081) **FILED UNDER SEAL**				N/A
UCC-224		ECF No. 13, Declaration of Raymond Carney in Support of Chapter 11 Petitions and First Day Motions (WESCO_UCC00005082-5170)				6/01/2023
UCC-225		Excel spreadsheet titled, "Preservation_Case_Wesco_2004_0041384" (WESCO_UCC00005071) **FILED UNDER SEAL**				N/A
UCC-226		Excel spreadsheet titled, "Project Boost_Diligence (S&U March 2022)" (WESCO_UCC00005072) **FILED UNDER SEAL**				N/A
UCC-227		Feb. 20, 2022 Board Meeting Minutes for Wolverine Intermediate Holding Corporation and associated materials WESCO_QE_2004_00031864 (WESCO_UCC00005073-5094) **FILED UNDER SEAL**				2/20/2022

UCC-228		Mar. 24, 2022 Board Meeting Minutes for Wolverine Intermediate Holding Corporation and associated materials WESCO_QE_UCC_2004_00032032 (WESCO_UCC00005085-5114) **FILED UNDER SEAL**				3/24/2022
UCC-229		Moody's Investors Report titled, "Sector In-Depth: Corporates – North America" (WESCO_UCC00005115-5132)				10/06/2022
UCC-230		S&P Global Report titled, "Industry Top Trends 2022: Aerospace and Defense" (WESCO_UCC00005133-5145)				1/25/2022
UCC-231		FINRA Fixed Income Data for 2027 Notes (Denham Exhibit 11)				4/26/2024
UCC-232		Expert Report of Joseph Denham **FILED UNDER SEAL**				2/29/2024
UCC-233		Trial Demonstrative 1 **FILED UNDER SEAL**				N/A
UCC-234		Trial Demonstrative 2 **FILED UNDER SEAL**				N/A
UCC-235		Trial Demonstrative 3 **FILED UNDER SEAL**				N/A
UCC-236		Trial Demonstrative 4 **FILED UNDER SEAL**				N/A
UCC-237		Trial Demonstrative 5 **FILED UNDER SEAL**				N/A
UCC-238		Trial Demonstrative 6 **FILED UNDER SEAL**				N/A
UCC-239		Trial Demonstrative 7 **FILED UNDER SEAL**				N/A
UCC-240		Trial Demonstrative 8 **FILED UNDER SEAL**				N/A
UCC-241		Trial Demonstrative 9 **FILED UNDER SEAL**				N/A
UCC-242		Trial Demonstrative 10 **FILED UNDER SEAL**				N/A

UCC-243		Trial Demonstrative 11 **FILED UNDER SEAL**				N/A
UCC-244		Trial Demonstrative 12 **FILED UNDER SEAL**				N/A
UCC-245		Trial Demonstrative 13 **FILED UNDER SEAL**				N/A
UCC-246		Trial Demonstrative 14 **FILED UNDER SEAL**				N/A
UCC-247		Trial Demonstrative 15 **FILED UNDER SEAL**				N/A
UCC-248		Trial Demonstrative 16 **FILED UNDER SEAL**				N/A
UCC-249		Trial Demonstrative 17 **FILED UNDER SEAL**				N/A
UCC-250		Trial Demonstrative 18 **FILED UNDER SEAL**				N/A
UCC-251		Trial Demonstrative 19 **FILED UNDER SEAL**				N/A
UCC-252		Trial Demonstrative 20 **FILED UNDER SEAL**				N/A
UCC-253		Trial Demonstrative 21 **FILED UNDER SEAL**				N/A
UCC-254		Trial Demonstrative 22 **FILED UNDER SEAL**				N/A
UCC-255		Trial Demonstrative 23 **FILED UNDER SEAL**				N/A
		Any pleading on file in these cases				
		Any exhibits listed, designated, or offered by any other party				
		Any exhibits necessary for rebuttal				

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The Committee reserves the right to modify, amend or supplement this Witness and Exhibit List and to offer any exhibit on any other parties' exhibit list. The Committee reserves the right to ask the Court to take judicial notice of pleadings, orders, transcripts, and/or other documents filed in or in connection with these Cases, and to offer rebuttal exhibits. Designation of any exhibit above does not waive any objections the Committee may have to any exhibit listed on any other party's exhibit list.

Dated: May 1, 2024

Respectfully submitted,

MCDERMOTT WILL & EMERY LLP

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- *and –*

MORRISON & FOERSTER, LLP

Lorenzo Marinuzzi (admitted *pro hac vice*)
Theresa A. Foudy (admitted *pro hac vice*)
Michael Birnbaum (admitted *pro hac vice*)
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Counsel to the Official Committee of Unsecured Creditors

CERTIFICATE OF SERVICE

I certify that on May 1, 2024, I caused a copy of the foregoing document to be served by the Electronic Case Filing System for the United States Bankruptcy Court for the Southern District of Texas.

/s/ Charles R. Gibbs
Charles R. Gibbs

Exhibit 92

To be Produced Natively

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of Earliest Event Reported): **December 21, 2021**

AAR CORP.

(Exact name of registrant as specified in its charter)

Delaware	**1-6263**	**36-2334820**
(State of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

One AAR Place
1100 N. Wood Dale Road
Wood Dale, Illinois 60191
(Address and Zip Code of Principal Executive Offices)

Registrant's telephone number, including area code: **(630) 227-2000**

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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, $1.00 par value	**AIR**	**New York Stock Exchange** **Chicago Stock Exchange**

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§ 230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§ 240.12b-2 of this chapter).

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. ¨

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Item 2.02 Results of Operations and Financial Condition

On December 21, 2021, AAR CORP. (the "Company") issued a press release announcing financial results for the second quarter ended November 30, 2021. A copy of the Company's press release is attached hereto as Exhibit 99.1.

The information furnished under Item 2.02 of this Current Report on Form 8-K and the exhibit attached hereto shall not be deemed to be "filed" for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that section. It may only be incorporated by reference in another filing under the Exchange Act or Securities Act of 1933, as amended, if such subsequent filing specifically references this Form 8-K.

Item 9.01 Financial Statements and Exhibits.

(d) *Exhibits*.

Exhibit No.	Description
99.1	Press Release issued by AAR CORP. dated December 21, 2021.
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

EXHIBIT INDEX

Exhibit No.	Description
99.1	AAR CORP. Press Release dated December 21, 2021
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: December 21, 2021

AAR CORP.

By:

/s/ SEAN M. GILLEN

Sean M. Gillen
Vice President and Chief Financial Officer
(Principal Financial Officer)

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Exhibit 99.1

AAR REPORTS SECOND QUARTER FISCAL YEAR 2022 RESULTS

- Second quarter sales of $437 million, up 8% over the prior year
- Second quarter GAAP diluted earnings per share from continuing operations of $0.58 compared to $0.41 in Q2 FY2021
- Adjusted diluted earnings per share from continuing operations of $0.53, up 71% from $0.31 in Q2 FY2021
- Second quarter cash flow from operating activities from continuing operations of $16 million
- Announced $150 million share repurchase program

WOOD DALE, ILLINOIS (December 21, 2021) — AAR CORP. (NYSE: AIR) today reported second quarter Fiscal Year 2022 consolidated sales of $436.6 million and income from continuing operations of $20.8 million, or $0.58 per diluted share. For the second quarter of the prior year, the Company reported sales of $403.6 million and income from continuing operations of $14.4 million, or $0.41 per diluted share. Our adjusted diluted earnings per share from continuing operations in the second quarter of Fiscal Year 2022 were $0.53 compared to $0.31 in the second quarter of the prior year.

Consolidated second quarter sales increased 8% over the prior year quarter. Our consolidated sales to commercial customers increased 33% over the prior year quarter due to the recovery in the commercial market from the impact of COVID-19. Our consolidated sales to government customers decreased 15% primarily related to the level of program activity for the modification and sale of two C-40 aircraft to the U.S. Marine Corps in the prior year quarter.

Sales to commercial customers were 59% of consolidated sales compared to 48% in the prior year's quarter primarily reflecting the recovery in the commercial market from the impact of COVID-19.

Gross profit margins increased from 17.2% in the prior year quarter to 18.0% in the current quarter and adjusted gross profit margin increased from 13.9% to 16.7%, primarily due to the favorable impact from our actions to reduce costs and increase our operating efficiency.

Selling, general and administrative expenses increased from \$43.4 million to \$47.1 million mainly due to restoration of temporary compensation reductions which had been in place last year. Selling, general and administrative expenses remained flat as a percent of sales at 10.8% with the favorable impact from our cost reduction actions offsetting the compensation restoration.

Operating margin increased from 5.4% in the prior year quarter to 6.9% in the current quarter and adjusted operating margin increased from 4.0% to 6.1%, as a result of our actions to reduce costs and increase our operating efficiency. Sequentially, our adjusted operating margin increased from 5.5% in the first quarter to 6.1% in the current quarter primarily due to strong performance on long-term programs.

“While the global recovery in commercial air travel continues to be uneven due to COVID-19 variants and associated travel restrictions, we continue to drive strong performance. We delivered our fifth straight quarter of adjusted operating margin improvement and are now exceeding pre-pandemic levels. We expect this improvement to continue as our higher margin parts activities fully recover,” said John M. Holmes, President and Chief Executive Officer of AAR CORP.

During the quarter, we announced a five-year renewal of our power-by-the-hour component pool and repair support program for flydubai’s fleet of 33 Boeing 737NG aircraft. We also announced a sustainability initiative in partnership with Fortress Transportation and Infrastructure Investors where we will jointly contribute a percentage of all used serviceable material sales from our CFM56-5B and -7B partnership to acquire verified carbon offsets and grant them to the purchasing customers. This new initiative highlights the environmental benefits of recycling serviceable material as airlines around the world seek ways to reduce their overall carbon footprint.

Subsequent to the end of the quarter, we were awarded a firm fixed price, indefinite delivery/indefinite quantity contract from the Air Force to support United States Air Forces in Europe (USAFE) F-16 aircraft. This \$365 million, ten-year contract provides for F-16 depot work as well as Service Life Extension Program modifications and maintenance.

Holmes continued, “These new business wins demonstrate the strength of our aviation services offering. The USAFE award is particularly exciting as we have been supporting F-16 aircraft for decades and this win takes our involvement with this widely used platform to a new level given the long-term and comprehensive nature of this program. Additionally, in partnership with Fortress, we are leading the aftermarket industry in Environmental, Social and Governance (ESG) initiatives while delivering value to our customers.”

Net interest expense for the quarter was $0.4 million compared to $1.3 million last year. Average diluted share count increased from 35.0 million to 35.6 million in the current year quarter. During the quarter, we re-paid our Canadian term loan of $24.7 million using proceeds from our credit facility.

Cash flow provided by operating activities from continuing operations was $15.9 million during the current quarter. Excluding our accounts receivable financing program, our cash flow provided by operating activities from continuing operations was $25.9 million in the current quarter. Over the last six quarters, our cash flow provided by operating activities from continuing operations has totaled $141.9 million.

Holmes concluded, “Throughout the pandemic, we have demonstrated our ability to drive consistent cash flows. This has resulted in an exceptionally strong balance sheet, which allows us to continue to invest in our business while returning capital to shareholders. In addition to deploying capital to fund our continued growth, we will also return capital to shareholders through our $150 million share repurchase program, which we announced today and will commence this quarter.”

Conference Call Information

AAR will hold its quarterly conference call at 3:45 p.m. CT on December 21, 2021. The conference call can be accessed by calling 866-802-4322 from inside the U.S. or +1-703-639-1319 from outside the U.S. A replay of the conference call will also be available by calling 855-859-2056 from inside the U.S. or +1-404-537-3406 from outside the U.S. (access code 8483239). The replay will be available from 7:15 p.m. CT on December 21, 2021 until 10:59 p.m. CT on December 27, 2021.

About AAR

AAR is a global aerospace and defense aftermarket solutions company with operations in over 20 countries. Headquartered in the Chicago area, AAR supports commercial and government customers through two operating segments: Aviation Services and Expeditionary Services. AAR's Aviation Services include parts supply; OEM solutions; integrated solutions; maintenance, repair, overhaul; and engineering. AAR's Expeditionary Services include mobility systems operations. Additional information can be found at www.aarcorp.com.

Contact: Dylan Wolin – Vice President, Strategic & Corporate Development and Treasurer | (630) 227-2017 | dylan.wolin@aarcorp.com

This press release contains certain statements relating to future results, which are forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995, which reflect management's expectations about future conditions, including but not limited to (i) the ability to continue to drive strong performance, (ii) our expectations regarding the continued improvement in our adjusted operating margin and our higher margin parts activities to fully recover, (iii) the continued strength of our aviation services offering, (iv) the ability to lead the aftermarket industry in Environmental, Social and Governance (ESG) initiatives while delivering value to our customers, (v) our ability to continue to drive strong cash flows, (vi) maintaining an exceptionally strong balance sheet to allow us to continue to invest in our business while returning capital to shareholders, and (vii) our expectation that we will continue to deploy capital into each of our parts, repair and government activities.

Forward-looking statements often address our expected future operating and financial performance and financial condition, or sustainability targets, goals, commitments, and other business plans, and often may also be identified because they contain words such as "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "likely," "may," "might," "plan," "potential," "predict," "project," "seek," "should," "target," "will," "would," or similar expressions and the negatives of those terms.

These forward-looking statements are based on the beliefs of Company management, as well as assumptions and estimates based on information available to the Company as of the dates such assumptions and estimates are made, and are subject to certain risks and uncertainties that could cause actual results to differ materially from historical results or those anticipated, depending on a variety of factors, including: (i) factors that adversely affect the commercial aviation industry; (ii) the continued impact of the COVID-19 pandemic on air travel, worldwide commercial activity and our and our customers' ability to source parts and components; (iii) a reduction in the level of sales to the branches, agencies and departments of the U.S. government and their contractors (which were 44.7% of total sales in fiscal 2021); (iv) non-compliance with laws and regulations relating to the formation, administration and performance of our U.S. government contracts; (v) cost overruns and losses on fixed-price contracts; (vi) nonperformance by subcontractors or suppliers; (vii) changes in or non-compliance with laws and regulations that may affect certain of our aviation and government and defense related activities that are subject to licensing, certification and other regulatory requirements imposed by the FAA, the U.S. State Department and other regulatory agencies, both domestic and foreign; (viii) a reduction in outsourcing of maintenance activity by airlines; (ix) a shortage of the skilled personnel on whom we depend to operate our business, or work stoppages; (x) competition from other companies, including original equipment manufacturers, some of which have greater financial resources than we do; (xi) financial and operational risks arising as a result of operating internationally; (xii) inability to integrate acquisitions effectively and execute our operational and financial plan related to the acquisitions; (xiii) inability to recover our costs due to fluctuations in market values for aviation products and equipment caused by various factors, including reductions in air travel, airline bankruptcies, consolidations and fleet reductions; (xiv) asset impairment charges we may be required to recognize to reflect the non-recoverability of our assets or lowered expectations regarding businesses we have acquired; (xv) limitations on our ability to access the debt and equity capital markets or to draw down funds under loan agreements; (xvi) non-compliance with restrictive and financial covenants contained in certain of our loan agreements, and government funding received under the CARES Act; (xvii) restrictions on paying, or failure to maintain or pay dividends; (xviii) exposure to product liability and property claims that may be in excess of our liability insurance coverage; (xix) threats to our systems technology from equipment failures' cyber and other security y breaches or other disruptions; (xx) the costs of compliance, and liability for non-compliance, with environmental regulations, including future requirements regarding climate change; and (xxi) a need to make significant capital expenditures to keep pace with technological developments in our industry. Should one or more of those risks or uncertainties materialize adversely, or should underlying assumptions or estimates prove incorrect, actual results may vary materially from those described. Those events and uncertainties are difficult or impossible to predict accurately and many are beyond our control.

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For a discussion of these and other risks and uncertainties, refer to our Annual Report on Form 10-K, Part I, "Item 1A, Risk Factors" and our Quarterly Reports on Form 10-Q. These events and uncertainties are difficult or impossible to predict accurately and many are beyond the Company's control. The risks described in these reports are not the only risks we face, as additional risks and uncertainties are not currently known or foreseeable or impossible to predict accurately or risks that are beyond the Company's control or deemed immaterial may materially adversely affect our business, financial condition or results of operations in future periods. We assume no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

AAR CORP. and Subsidiaries

Condensed Consolidated Statements of Operations *(In millions except per share data - unaudited)*	**Three Months Ended November 30,**		**Six Months Ended November 30,**	
	2021	2020	**2021**	2020
Sales	**$ 436.6**	$ 403.6	**$ 891.7**	$ 804.4
Cost and expenses:				
Cost of sales	**358.2**	334.1	**748.7**	686.3
Provision for doubtful accounts	**0.8**	4.4	**0.8**	4.4
Selling, general and administrative	**47.1**	43.4	**96.4**	88.7
Loss from joint ventures	**(0.4)**	(0.1)	**(0.6)**	(0.2)
Operating income	**30.1**	21.6	**45.2**	24.8
Loss on sale of business	**(1.3)**	—	**(1.3)**	(19.5)
Interest expense, net	**(0.4)**	(1.3)	**(1.1)**	(2.9)
Other income (expense), net	**0.3**	(0.7)	**1.0**	(0.5)
Income from continuing operations before income tax expense	**28.7**	19.6	**43.8**	1.9
Income tax expense	**7.9**	5.2	**11.8**	1.4
Income from continuing operations	**20.8**	14.4	**32.0**	0.5
Income (Loss) from discontinued operations	**—**	(6.2)	**0.3**	(6.8)
Net income (loss)	**$ 20.8**	$ 8.2	**$ 32.3**	$ (6.3)
Earnings per share – Basic:				
Earnings from continuing operations	**$ 0.59**	$ 0.41	**$ 0.90**	$ 0.01
Loss from discontinued operations	**—**	(0.18)	**0.01**	(0.20)
Earnings per share – Basic	**$ 0.59**	$ 0.23	**$ 0.91**	$ (0.19)
Earnings per share – Diluted:				
Earnings from continuing operations	**$ 0.58**	$ 0.41	**$ 0.89**	$ 0.01
Loss from discontinued operations	**—**	(0.18)	**0.01**	(0.19)
Earnings per share – Diluted	**$ 0.58**	$ 0.23	**$ 0.90**	$ (0.18)
Share Data:				
Weighted average shares outstanding – Basic	**35.1**	34.9	**35.1**	34.9
Weighted average shares outstanding – Diluted	**35.6**	35.0	**35.6**	35.0

AAR CORP. and Subsidiaries

Condensed Consolidated Balance Sheets *(In millions)*	November 30, 2021 (unaudited)	May 31, 2021
ASSETS		
Cash and cash equivalents	**$ 42.7**	$ 51.8
Restricted cash	**3.7**	8.4
Accounts receivable, net	**192.1**	166.7
Contract assets	**68.5**	71.9
Inventories, net	**531.7**	540.6
Rotable assets and equipment on or available for lease	**53.9**	50.4
Assets of discontinued operations	**17.9**	19.5
Other current assets	**36.2**	27.7
Total current assets	**946.7**	937.0
Property, plant, and equipment, net	**106.2**	120.0
Operating lease right-of-use assets, net	**76.3**	75.8
Goodwill and intangible assets, net	**120.9**	123.8
Rotable assets supporting long-term programs	**173.6**	184.3
Other non-current assets	**105.9**	98.8
Total assets	**$ 1,529.6**	$ 1,539.7
LIABILITIES AND EQUITY		
Accounts payable and accrued liabilities	**$ 301.0**	$ 301.4
Liabilities of discontinued operations	**19.2**	35.4
Total current liabilities	**320.2**	336.8
Long-term debt	**103.2**	133.7
Operating lease liabilities	**60.5**	59.9
Other liabilities and deferred income	**38.7**	34.9
Total liabilities	**522.6**	565.3
Equity	**1,007.0**	974.4
Total liabilities and equity	**1,529.6**	$ 1,539.7

AAR CORP. and Subsidiaries

Condensed Consolidated Statements of Cash Flows *(In millions – unaudited)*	**Three Months Ended November 30, 2021**	**Three Months Ended November 30, 2020**	**Six Months Ended November 30, 2021**	**Six Months Ended November 30, 2020**
Cash flows provided from operating activities:				
Net income (loss)	$ **20.8**	$ 8.2	$ **32.3**	$ (6.3)
Loss (Income) from discontinued operations	**—**	6.2	**(0.3)**	6.8
Income from continuing operations	**20.8**	14.4	**32.0**	0.5
Adjustments to reconcile income from continuing operations to net cash provided from operating activities				
Depreciation and intangible amortization	**8.9**	9.2	**17.8**	18.2
Amortization of stock-based compensation	**1.6**	1.8	**4.7**	4.5
Provision for doubtful accounts	**0.8**	4.4	**0.8**	4.4
Loss on sale of business	**1.3**	—	**1.3**	19.5
Contract termination and restructuring costs	**—**	—	**—**	2.2
Impairment charges	**0.6**	1.2	**2.9**	7.0
Changes in certain assets and liabilities:				
Accounts receivable	**(11.7)**	(7.5)	**(26.2)**	(4.8)
Contract assets	**6.0**	(7.4)	**3.2**	(7.5)
Inventories	**(6.4)**	11.4	**8.0**	30.2
Rotable assets supporting long-term programs	**0.9**	(1.9)	**1.8**	(0.9)
Accounts payable and accrued liabilities	**(4.3)**	34.1	**(1.4)**	9.0
Payroll Support Program deferred credit	**—**	(17.2)	**—**	23.6
Deferred revenue on long-term programs	**2.7**	(42.5)	**0.7**	(60.4)
Other	**(5.3)**	27.6	**(12.2)**	21.9
Net cash provided from operating activities – continuing operations	**15.9**	27.6	**33.4**	67.4
Net cash provided from (used in) operating activities – discontinued operations	**0.4**	(1.0)	**(14.2)**	(1.9)
Net cash provided from operating activities	**16.3**	26.6	**19.2**	65.5
Cash flows provided from (used in) investing activities:				
Property, plant and equipment expenditures	**(3.8)**	(2.7)	**(6.0)**	(6.0)
Proceeds from termination of life insurance policies	**—**	10.0	**—**	10.0
Other	**6.0**	—	**3.3**	1.6
Net cash provided from (used in) investing activities	**2.2**	7.3	**(2.7)**	5.6
Cash flows used in financing activities:				
Repayments on borrowings, net	**(24.7)**	(35.0)	**(29.7)**	(381.3)
Cash dividends	**—**	—	**—**	(0.1)
Other	**0.1**	—	**(0.4)**	(1.5)
Net cash used in financing activities	**(24.6)**	(35.0)	**(30.1)**	(382.9)
Effect of exchange rate changes on cash	**(0.1)**	—	**(0.2)**	0.1
Decrease in cash and cash equivalents	**(6.2)**	(1.1)	**(13.8)**	(311.7)
Cash, cash equivalents, and restricted cash at beginning of period	**52.6**	114.1	**60.2**	424.7
Cash, cash equivalents, and restricted cash at end of period	$ **46.4**	$ 113.0	$ **46.4**	$ 113.0

AAR CORP. and Subsidiaries

Sales By Business Segment *(In millions - unaudited)*	**Three Months Ended November 30,**		**Six Months Ended November 30,**	
	2021	2020	**2021**	2020
Aviation Services	**$ 419.3**	$ 385.0	**$ 854.9**	$ 748.6
Expeditionary Services	**17.3**	18.6	**36.8**	55.8
	$ 436.6	$ 403.6	**$ 891.7**	$ 804.4

Gross Profit by Business Segment *(In millions- unaudited)*	**Three Months Ended November 30,**		**Six Months Ended November 30,**	
	2021	2020	**2021**	2020
Aviation Services	**$ 74.0**	$ 66.8	**$ 134.9**	$ 111.4
Expeditionary Services	**4.4**	2.7	**8.1**	6.7
	$ 78.4	$ 69.5	**$ 143.0**	$ 118.1

Adjusted income from continuing operations, adjusted diluted earnings per share from continuing operations, adjusted sales, adjusted cost of goods sold, adjusted gross profit margin, adjusted selling, general, and administrative expenses, adjusted cash flow from provided by (used in) operating activities from continuing operations, adjusted EBITDA, and net debt are "non-GAAP financial measures" as defined in Regulation G of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). We believe these non-GAAP financial measures are relevant and useful for investors as they illustrate our actual operating performance unaffected by the impact of certain items. When reviewed in conjunction with our GAAP results and the accompanying reconciliations, we believe these non-GAAP financial measures provide additional information that is useful to gain an understanding of the factors and trends affecting our business and provide a means by which to compare our operating performance against that of other companies in the industries we compete. These non-GAAP measures should be considered as a supplement to, and not as a substitute for, or superior to, the corresponding measures calculated in accordance with GAAP. Adjusted EBITDA is income from continuing operations before interest income (expense), other income (expense), income taxes, depreciation and amortization, stock-based compensation and items of an unusual nature including but not limited to business divestitures, workforce actions, subsidies and costs, impairment charges, facility consolidation and repositioning costs, investigation and remediation compliance costs, and significant customer events such as early terminations, contract restructurings, forward loss provisions and bankruptcies.

Pursuant to the requirements of Regulation G of the Exchange Act, we are providing the following tables that reconcile the above mentioned non-GAAP financial measures to the most directly comparable GAAP financial measures:

Adjusted Income from Continuing Operations [(a)] *(In millions - unaudited)*	**Three Months Ended November 30,**		**Six Months Ended November 30,**	
	2021	2020	**2021**	2020
Income from continuing operations	**$ 20.8**	$ 14.4	**$ 32.0**	$ 0.5
Investigation and remediation compliance costs	**0.6**	2.1	**0.7**	3.1
Loss on sale of business	**1.0**	—	**1.0**	14.8
Contract termination/restructuring costs and loss provisions, net	**(3.3)**	3.3	**1.7**	5.1
Customer bankruptcy and credit charges	**0.7**	1.0	**0.7**	1.1
Asset impairment charges	**0.5**	1.0	**2.2**	5.4
Government COVID-related subsidies	**(1.9)**	(14.2)	**(2.1)**	(22.6)
Facility consolidation and repositioning costs	**0.1**	0.3	**0.2**	1.8
Severance and furlough costs	**0.5**	2.4	**1.2**	6.9
Recognition of foreign currency translation adjustments	**0.2**	—	**0.2**	—
Strategic financing evaluation costs	**—**	0.6	**—**	0.8
Adjusted income from continuing operations	**$ 19.2**	$ 10.9	**$ 37.8**	$ 16.9

(a) All adjustments are presented net of applicable income taxes.

Adjusted Diluted Earnings per Share from Continuing Operations [a] *(In millions - unaudited)*	**Three Months Ended November 30,**		**Six Months Ended November 30,**	
	2021	2020	**2021**	2020
Diluted earnings per share from continuing operations	**$ 0.58**	$ 0.41	**$ 0.89**	$ 0.01
Investigation and remediation compliance costs	**0.01**	0.06	**0.02**	0.09
Loss on sale of business	**0.03**	—	**0.03**	0.42
Contract termination/restructuring costs and loss provisions, net	**(0.09)**	0.10	**0.05**	0.15
Customer bankruptcy and credit charges	**0.02**	0.04	**0.02**	0.04
Asset impairment charges	**0.01**	0.02	**0.06**	0.15
Government COVID-related subsidies	**(0.05)**	(0.41)	**(0.06)**	(0.65)
Facility consolidation and repositioning costs	**0.01**	0.01	**0.01**	0.05
Severance and furlough costs	**0.01**	0.07	**0.03**	0.20
Strategic financing evaluation costs	**—**	0.01	**—**	0.02
Adjusted diluted earnings per share from continuing operations	**$ 0.53**	$ 0.31	**$ 1.05**	$ 0.48

[a] All adjustments are presented net of applicable income taxes.

Adjusted Gross Profit Margin *(In millions - unaudited)*	**Three Months Ended**		
	November 30, 2021	August 31, 2021	November 30, 2020
Sales	**$ 436.6**	$ 455.1	$ 403.6
Contract termination/restructuring costs, net	**(2.5)**	1.0	(2.3)
Customer bankruptcy and credit charges	**—**	—	0.4
Adjusted sales	**$ 434.1**	$ 456.1	$ 401.7
Cost of sales	**$ 358.2**	$ 390.5	$ 334.1
Contract termination/restructuring costs and loss provisions, net	**1.9**	(5.7)	(3.3)
Government COVID-related subsidies, net	**2.5**	0.3	18.1
Facility consolidation and repositioning costs	**(0.1)**	(0.1)	(0.4)
Asset impairment charges	**(0.6)**	(2.3)	(1.2)
Severance and furlough costs	**(0.5)**	(0.1)	(1.5)
Adjusted cost of sales	**$ 361.4**	$ 382.6	$ 345.8
Adjusted gross profit margin	**16.7%**	16.1%	13.9%

Adjusted Operating Margin *(In millions - unaudited)*	**Three Months Ended**			
	November 30, 2021	August 31, 2021	November 30, 2020	November 30, 2019
Adjusted sales	**$ 434.1**	$ 456.1	$ 401.7	$ 560.9
Operating income	**$ 30.1**	$ 15.1	$ 21.6	$ 28.1
Investigation and remediation costs	**0.8**	0.2	2.8	2.4
Contract termination/restructuring costs and loss provisions, net	**(4.4)**	6.7	4.5	—
Customer bankruptcy and credit charges	**1.0**	—	1.3	—
Government COVID-related subsidies	**(2.5)**	(0.3)	(18.7)	—
Facility consolidation and repositioning costs	**0.1**	0.1	0.4	—
Asset impairment charges	**0.6**	2.3	1.2	—
Severance and furlough costs	**0.8**	0.9	2.2	0.9
Strategic financing evaluation costs	**—**	—	0.7	—
Adjusted operating income	**$ 26.5**	$ 25.0	$ 16.0	$ 31.4
Adjusted operating margin	**6.1%**	5.5%	4.0%	5.6%

Adjusted Cash Provided by Operating Activities from Continuing Operations *(In millions - unaudited)*	**Three Months Ended November 30,**		**Six Months Ended November 30,**	
	2021	2020	**2021**	2020
Cash provided by operating activities from continuing operations	**$ 15.9**	$ 27.6	**$ 33.4**	$ 67.4
Amounts outstanding on accounts receivable financing program:				
Beginning of period	**30.2**	55.7	**38.6**	74.3
End of period	**(20.2)**	(48.9)	**(20.2)**	(48.9)
Adjusted cash provided by operating activities from continuing operations	**$ 25.9**	$ 34.4	**$ 51.8**	$ 92.8

Adjusted EBITDA *(In millions - unaudited)*	**Three Months Ended November 30,**		**Six Months Ended November 30,**		**Year Ended May 31,**
	2021	2020	**2021**	2020	2021
Net income (loss)	**$ 20.8**	$ 8.2	**$ 32.3**	$ (6.3)	$ 35.8
Loss (Income) from discontinued operations	**—**	6.2	**(0.3)**	6.8	10.5
Income tax expense	**7.9**	5.2	**11.8**	1.4	18.2
Other (income) expense, net	**(0.3)**	0.7	**(1.0)**	0.5	(4.3)
Interest expense, net	**0.4**	1.3	**1.1**	2.9	4.8
Depreciation and intangible amortization	**8.9**	9.2	**17.8**	18.2	36.3
Investigation and remediation compliance costs	**0.8**	2.8	**1.0**	4.1	4.4
Loss on sale of business	**1.3**	—	**1.3**	19.5	20.2
Asset impairment charges	**0.6**	1.2	**2.9**	7.0	7.0
Contract termination/restructuring costs and loss provisions, net	**(4.4)**	4.5	**2.3**	6.7	9.3
Customer bankruptcy and credit charges	**1.0**	1.3	**1.0**	1.5	4.9
Government COVID-related subsidies, net	**(2.5)**	(18.7)	**(2.8)**	(29.8)	(56.2)
Facility consolidation and repositioning costs	**0.1**	0.4	**0.2**	2.4	4.5
Severance and furlough costs	**0.8**	2.2	**1.7**	8.2	9.0
Strategic financing evaluation costs	**—**	0.7	**—**	1.0	1.0
Stock-based compensation	**1.6**	1.8	**4.7**	4.5	9.2
Adjusted EBITDA	**$ 37.0**	$ 27.0	**$ 74.0**	$ 48.6	$ 114.6

Net Debt *(In millions- unaudited)*	**November 30, 2021**	**November 30, 2020**
Total debt	**$ 104.5**	$ 222.1
Less: Cash and cash equivalents	**(42.7)**	(110.0)
Net debt	**$ 61.8**	$ 112.1

Net Debt to Adjusted EBITDA *(In millions - unaudited)*	
Adjusted EBITDA for the year ended May 31, 2021	**$ 114.6**
Less: Adjusted EBITDA for the six months ended November 30, 2020	**(48.6)**
Plus: Adjusted EBITDA for the six months ended November 30, 2021	**74.0**
Adjusted EBITDA for the twelve months ended November 30, 2021	**$ 140.0**
Net debt at November 30, 2021	**$ 61.8**
Net debt to Adjusted EBITDA	**0.44**

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

FORM 10-Q

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

For the Quarterly Period Ended February 28, 2022

or

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

For the transition period from to

Commission File No. **1-6263**

AAR CORP.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**36-2334820** (I.R.S. Employer Identification No.)
One AAR Place, 1100 N. Wood Dale Road **Wood Dale, Illinois** (Address of principal executive offices)	**60191** (Zip Code)

(630) 227-2000
(Registrant's telephone number, including area code)
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, $1.00 par value	**AIR**	**New York Stock Exchange** **Chicago Stock Exchange**

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 check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T 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 the 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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of February 28, 2022 there were 35,196,677 shares of the registrant's Common Stock, $1.00 par value per share, outstanding.

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AAR CORP. and Subsidiaries
Quarterly Report on Form 10-Q
For the Quarter Ended February 28, 2022
Table of Contents

Item 1 – Financial Statements

AAR CORP. and Subsidiaries
Condensed Consolidated Balance Sheets
As of February 28, 2022 and May 31, 2021
(In millions, except share data)

ASSETS

	February 28, 2022 (Unaudited)	May 31, 2021
Current assets:		
Cash and cash equivalents	$ 40.6	$ 51.8
Restricted cash	2.4	8.4
Accounts receivable, less allowances of $17.5 and $16.4, respectively	209.3	166.7
Contract assets	68.8	71.9
Inventories	535.2	540.6
Rotable assets and equipment on or available for short-term lease	53.6	50.4
Assets of discontinued operations	17.0	19.5
Other current assets	50.3	27.7
Total current assets	977.2	937.0
Property, plant and equipment, net of accumulated depreciation of $258.4 and $260.2 respectively	106.9	120.0
Other assets:		
Goodwill and intangible assets, net	121.0	123.8
Operating lease right-of-use assets, net	73.2	75.8
Rotable assets supporting long-term programs	171.1	184.3
Other non-current assets	102.6	98.8
	467.9	482.7
	$ 1,552.0	$ 1,539.7

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

AAR CORP. and Subsidiaries
Condensed Consolidated Balance Sheets
As of February 28, 2022 and May 31, 2021
(In millions, except share data)

LIABILITIES AND EQUITY

	February 28, 2022 (Unaudited)	May 31, 2021
Current liabilities:		
Accounts payable	$ 140.8	$ 127.2
Accrued liabilities	157.4	148.3
Deferred revenue	26.8	25.9
Liabilities of discontinued operations	18.1	35.4
Total current liabilities	343.1	336.8
Long-term debt	103.3	133.7
Operating lease liabilities	57.9	59.9
Other liabilities	30.0	34.9
	191.2	228.5
Equity:		
Preferred stock, $1.00 par value, authorized 250,000 shares; none issued	—	—
Common stock, $1.00 par value, authorized 100,000,000 shares; issued 45,300,786 shares at cost	45.3	45.3
Capital surplus	481.4	479.8
Retained earnings	796.5	741.7
Treasury stock, 10,104,109 and 9,925,551 shares at cost, respectively	(285.4)	(274.1)
Accumulated other comprehensive loss	(20.1)	(18.3)
Total equity	1,017.7	974.4
	$ 1,552.0	$ 1,539.7

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

AAR CORP. and Subsidiaries
Condensed Consolidated Statements of Income
For the Three and Nine Months Ended February 28, 2022 and 2021
(Unaudited)
(In millions, except share data)

	Three Months Ended February 28, 2022	Three Months Ended February 28, 2021	Nine Months Ended February 28, 2022	Nine Months Ended February 28, 2021
Sales:				
Sales from products	$ 275.1	$ 227.1	$ 789.2	$ 696.5
Sales from services	177.1	183.2	554.7	518.2
	452.2	410.3	1,343.9	1,214.7
Cost and operating expenses:				
Cost of products	217.8	179.8	637.5	578.6
Cost of services	154.0	144.5	483.0	432.0
Provision for doubtful accounts	0.1	1.4	0.9	5.8
Selling, general and administrative	48.9	44.9	145.3	133.6
	420.8	370.6	1,266.7	1,150.0
Loss from joint ventures	(1.1)	—	(1.7)	(0.2)
Operating income	30.3	39.7	75.5	64.5
Loss on sale of business	—	—	(1.3)	(19.5)
Other income, net	1.1	4.4	2.1	3.9
Interest expense	(0.6)	(1.1)	(1.8)	(4.1)
Interest income	—	0.1	0.1	0.2
Income from continuing operations before provision for income taxes	30.8	43.1	74.6	45.0
Provision for income taxes	8.2	12.0	20.0	13.4
Income from continuing operations	22.6	31.1	54.6	31.6
Income (Loss) from discontinued operations, net of tax	(0.1)	(3.0)	0.2	(9.8)
Net income	$ 22.5	$ 28.1	$ 54.8	$ 21.8
Earnings per share – basic:				
Earnings from continuing operations	$ 0.64	$ 0.88	$ 1.54	$ 0.90
Income (Loss) from discontinued operations	—	(0.09)	0.01	(0.28)
Earnings per share – basic	$ 0.64	$ 0.79	$ 1.55	$ 0.62
Earnings per share – diluted:				
Earnings from continuing operations	$ 0.63	$ 0.87	$ 1.52	$ 0.89
Income (Loss) from discontinued operations	—	(0.08)	0.01	(0.28)
Earnings per share – diluted	$ 0.63	$ 0.79	$ 1.53	$ 0.61

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

AAR CORP. and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income
For the Three and Nine Months Ended February 28, 2022 and 2021
(Unaudited)
(In millions)

	Three Months Ended February 28,		Nine Months Ended February 28,	
	2022	2021	2022	2021
Net income	$ 22.5	$ 28.1	$ 54.8	$ 21.8
Other comprehensive income (loss), net of tax:				
Currency translation adjustments	(0.5)	0.2	(5.0)	2.5
Pension and other post-retirement plans, net of tax of $0.7 and $0.1 for the three months ended February 28, 2022 and 2021, respectively, and $0.8 and $(0.3) for the nine months ended February 28, 2022 and 2021, respectively	2.6	0.4	3.2	(0.3)
Other comprehensive income (loss), net of tax	2.1	0.6	(1.8)	2.2
Comprehensive income	$ 24.6	$ 28.7	$ 53.0	$ 24.0

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

AAR CORP. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
For the Nine Months Ended February 28, 2022 and 2021
(Unaudited)
(In millions)

	Nine Months Ended February 28, 2022	Nine Months Ended February 28, 2021
Cash flows provided from operating activities:		
Net income	$ 54.8	$ 21.8
Less: (Income) Loss from discontinued operations	(0.2)	9.8
Income from continuing operations	54.6	31.6
Adjustments to reconcile income from continuing operations to net cash provided from operating activities:		
Depreciation and intangible amortization	25.5	27.1
Stock-based compensation	5.8	6.8
Provision for doubtful accounts	0.9	5.8
Deferred tax provision	(1.5)	(2.7)
Loss from joint ventures	1.7	0.2
Loss on sale of business	1.3	19.5
Customer contract termination costs	—	2.2
Impairment charges	2.9	7.0
Changes in certain assets and liabilities:		
Accounts receivable	(44.1)	(22.5)
Contract assets	2.9	(16.8)
Inventories	4.6	51.2
Prepaid expenses and other current assets	(22.7)	46.7
Rotable assets supporting long-term programs	1.4	4.2
Accounts payable	14.1	(7.1)
Accrued and other liabilities	3.1	12.4
Deferred revenue on long-term programs	2.5	(72.6)
Other	(3.4)	(8.0)
Net cash provided from operating activities - continuing operations	49.6	85.0
Net cash used in operating activities - discontinued operations	(14.5)	(2.4)
Net cash provided from operating activities	35.1	82.6
Cash flows provided from (used in) investing activities:		
Property, plant and equipment expenditures	(10.2)	(8.6)
Proceeds from termination of life insurance policies	—	10.0
Proceeds from asset disposals	7.3	—
Investments in joint ventures	(4.0)	—
Other	—	0.9
Net cash provided from (used in) investing activities	(6.9)	2.3
Cash flows used in financing activities:		
Short-term borrowings, net	(5.0)	(405.0)
Repayment of long-term borrowings	(24.7)	—
Purchase of treasury stock	(20.2)	
Proceeds from Payroll Support Program note	—	8.7
Cash dividends	—	(0.1)
Stock compensation activity	4.6	(0.8)
Net cash used in financing activities	(45.3)	(397.2)
Effect of exchange rate changes on cash	(0.1)	0.2
Decrease in cash and cash equivalents	(17.2)	(312.1)
Cash, cash equivalents, and restricted cash at beginning of period	60.2	424.7
Cash, cash equivalents, and restricted cash at end of period	$ 43.0	$ 112.6

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

AAR CORP. and Subsidiaries
Condensed Consolidated Statements of Changes in Equity
For the Three and Nine Months Ended February 28, 2022 and 2021
(Unaudited)
(In millions)

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance, May 31, 2021	$ 45.3	$ 479.8	$ 741.7	$ (274.1)	$ (18.3)	$ 974.4
Net income	—	—	11.5	—	—	11.5
Stock option activity	—	1.1	—	0.2	—	1.3
Restricted stock activity	—	(1.0)	—	2.3	—	1.3
Other comprehensive loss, net of tax	—	—	—	—	(0.3)	(0.3)
Balance, August 31, 2021	$ 45.3	$ 479.9	$ 753.2	$ (271.6)	$ (18.6)	$ 988.2
Net income	—	—	20.8	—	—	20.8
Stock option activity	—	0.9	—	—	—	0.9
Restricted stock activity	—	0.7	—	—	—	0.7
Other comprehensive loss, net of tax	—	—	—	—	(3.6)	(3.6)
Balance, November 30, 2021	$ 45.3	$ 481.5	$ 774.0	$ (271.6)	$ (22.2)	$ 1,007.0
Net income	—	—	22.5	—	—	22.5
Stock option activity	—	(0.4)	—	6.4	—	6.0
Restricted stock activity	—	0.3	—	—	—	0.3
Repurchase of shares	—	—	—	(20.2)	—	(20.2)
Other comprehensive income, net of tax	—	—	—	—	2.1	2.1
Balance, February 28, 2022	$ 45.3	$ 481.4	$ 796.5	$ (285.4)	$ (20.1)	$ 1,017.7

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance, May 31, 2020	$ 45.3	$ 478.6	$ 706.0	$ (282.7)	$ (44.6)	$ 902.6
Net loss	—	—	(14.5)	—	—	(14.5)
Cash dividends	—	—	(0.1)	—	—	(0.1)
Stock option activity	—	0.5	—	0.5	—	1.0
Restricted stock activity	—	(6.0)	—	6.1	—	0.1
Other comprehensive income, net of tax	—	—	—	—	1.5	1.5
Balance, August 31, 2020	$ 45.3	$ 473.1	$ 691.4	$ (276.1)	$ (43.1)	$ 890.6
Net income	—	—	8.2	—	—	8.2
Stock option activity	—	1.1	—	0.1	—	1.2
Restricted stock activity	—	0.9	—	(0.3)	—	0.6
Other comprehensive income, net of tax	—	—	—	—	0.1	0.1
Balance, November 30, 2020	$ 45.3	$ 475.1	$ 699.6	$ (276.3)	$ (43.0)	$ 900.7
Net income	—	—	28.1	—	—	28.1
Stock option activity	—	1.0	—	0.9	—	1.9
Restricted stock activity	—	1.3	—	(0.2)	—	1.1
Other comprehensive income, net of tax	—	—	—	—	0.6	0.6
Balance, February 28, 2021	$ 45.3	$ 477.4	$ 727.7	$ (275.6)	$ (42.4)	$ 932.4

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

Note 1 – Basis of Presentation

AAR CORP. and its subsidiaries are referred to herein collectively as “AAR,” “Company,” “we,” “us,” or “our,” unless the context indicates otherwise. The accompanying Condensed Consolidated Financial Statements include the accounts of AAR and its subsidiaries after elimination of intercompany accounts and transactions.

We have prepared these statements without audit, pursuant to the rules and regulations of the United States Securities and Exchange Commission (“SEC”). The Condensed Consolidated Balance Sheet as of May 31, 2021 has been derived from audited financial statements. To prepare the financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”), management has made a number of estimates and assumptions relating to the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities. Actual results could differ from those estimates. Certain information and note disclosures, normally included in comprehensive financial statements prepared in accordance with GAAP, have been condensed or omitted pursuant to such rules and regulations of the SEC. These Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended May 31, 2021.

In the opinion of management, the Condensed Consolidated Financial Statements reflect all adjustments (which consist only of normal recurring adjustments) necessary to present fairly the Condensed Consolidated Balance Sheet of AAR CORP. and its subsidiaries as of February 28, 2022, the Condensed Consolidated Statements of Income and Condensed Consolidated Statements of Comprehensive Income for the three- and nine-month periods ended February 28, 2022 and 2021, the Condensed Consolidated Statements of Cash Flows for the nine-month periods ended February 28, 2022 and 2021, and the Condensed Consolidated Statements of Changes in Equity for the three- and nine-month periods ended February 28, 2022 and 2021. The results of operations for such interim periods are not necessarily indicative of the results for the full year.

Note 2 – Discontinued Operations

During the third quarter of fiscal 2018, we decided to pursue the sale of our Contractor-Owned, Contractor-Operated (“COCO”) business previously included in our Expeditionary Services segment. Due to this strategic shift, the assets, liabilities, and results of operations of our COCO business have been reported as discontinued operations for all periods presented. Unless otherwise noted, amounts and disclosures throughout these Notes to Condensed Consolidated Financial Statements relate to our continuing operations.

In the fourth quarter of fiscal 2020, we completed the sale of the last operating contract of the COCO business shortly after government approval. Our continuing involvement in the COCO business is limited to the lease of certain aircraft which is an obligation of the acquirer of this contract. The assets and liabilities of our discontinued operations are primarily comprised of right-of-use assets and lease-related liabilities.

Note 3 – Sale of Composites Business

On August 31, 2020, we completed the sale of our aerostructures and aerospace products operations located in Clearwater, Florida and Sacramento, California (“Composites”). The Composites business was formerly included in our Expeditionary Services segment.

We recognized a loss on the sale of the Composites business of $19.5 million in the first quarter of fiscal 2021. In the fourth quarter of fiscal 2021, the post-closing working capital adjustment was finalized resulting in an additional loss of $0.7 million. The sale also included contingent consideration of up to $6.5 million based on the achievement of sales targets over a three-year period subsequent to the sale. We recognized a charge of $1.3 million in the three-month period ended November 30, 2021 to reflect the fair value of the contingent consideration at zero as it is unlikely the sales targets will be achieved.

Note 4 – Revenue Recognition

Revenue is measured based on the consideration specified in a contract with a customer, and excludes any sales incentives and amounts collected on behalf of third parties. We recognize revenue when we satisfy a performance obligation by transferring control over a product or service to a customer.

Our unit of accounting for revenue recognition is a performance obligation included in our customer contracts. A performance obligation reflects the distinct good or service that we must transfer to a customer. At contract inception, we evaluate if the contract should be accounted for as a single performance obligation or if the contract contains multiple performance obligations. In some cases, our contract with the customer is considered one performance obligation as it includes factors such as the good or service being provided is significantly integrated with other promises in the contract, the service provided significantly modifies or customizes another good or service or the good or service is highly interdependent or interrelated. If the contract has more than one performance obligation, we determine the standalone price of each distinct good or service underlying each performance obligation and allocate the transaction price based on their relative standalone selling prices.

The transaction price of a contract, which can include both fixed and variable amounts, is allocated to each performance obligation identified. Some contracts contain variable consideration, which could include incremental fees or penalty provisions related to performance. Variable consideration that can be reasonably estimated based on current assumptions and historical information is included in the transaction price at the inception of the contract but limited to the amount that is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Variable consideration that cannot be reasonably estimated is recorded when known.

Our performance obligations are satisfied over time as work progresses or at a point in time based on transfer of control of products and services to our customers. The majority of our sales from products are recognized at a point in time upon transfer of control to the customer, which generally occurs upon shipment. In connection with certain sales of products, we also provide logistics services, which include inventory management, replenishment, and other related services. The price of such services is generally included in the price of the products delivered to the customer, and revenues are recognized upon delivery of the product, at which point the customer has obtained control of the product. We do not account for these services separate from the related product sales as the services are inputs required to fulfill part orders received from customers.

For our performance obligations that are satisfied over time, we measure progress in a manner that depicts the performance of transferring control to the customer. As such, we utilize the input method of cost-to-cost to recognize revenue over time as this depicts when control of the promised goods or services is transferred to the customer. Revenue is recognized based on the relationship of actual costs incurred to date to the estimated total cost at completion of the performance obligation. We are required to make certain judgments and estimates, including estimated revenues and costs, as well as inflation and the overall profitability of the arrangement. Key assumptions involved include future labor costs and efficiencies, overhead costs, and ultimate timing of product delivery. Differences may occur between the judgments and estimates made by management and actual program results. For contracts that are deemed to be loss contracts, we establish forward loss reserves for total estimated costs that are in excess of total estimated consideration in the period in which they become known.

When contracts are modified, we consider whether the modification either creates new or changes the existing enforceable rights and obligations. Contract modifications that are for goods or services that are not distinct from the existing contract, due to the significant integration with the original goods or services provided, are accounted for as if they were part of that existing contract with the effect of the contract modification recognized as an adjustment to revenue on a cumulative catch-up basis. When the modifications include additional performance obligations that are distinct, they are accounted for as a new contract and performance obligation, which are recognized prospectively.

Changes in estimates and assumptions related to our arrangements accounted for using the cost-to-cost method are recorded using the cumulative catch-up method of accounting. These changes are primarily adjustments to the estimated profitability for our long-term programs where we provide component inventory management and/or repair services.

(Dollars in millions, except per share amounts)

For the three-month period ended February 28, 2022, we recognized a favorable cumulative catch-up adjustment of $2.5 million. For the three-month period ended February 28, 2021, we recognized favorable and (unfavorable) cumulative catch-up adjustments of $4.1 million and $(2.1) million, respectively, or $2.0 million on a net basis.

For the nine-month period ended February 28, 2022, we recognized favorable and (unfavorable) cumulative catch-up adjustments of $10.7 million and $(3.3) million, respectively. For the nine-month period ended February 28, 2021, we recognized favorable and (unfavorable) cumulative catch-up adjustments of $6.9 million and $(2.1) million, respectively. When considering these adjustments on a net basis, we recognized net favorable adjustments of $7.4 million and $4.8 million in the nine-month periods ended February 28, 2022 and 2021, respectively.

Under most of our U.S. government contracts, if the contract is terminated for convenience, we are entitled to payment for items delivered and fair compensation for work performed, the costs of settling and paying other claims, and a reasonable profit on the costs incurred or committed.

We have elected to use certain practical expedients permitted under ASU No. 2014-09, *Revenue from Contracts with Customers*. Shipping and handling fees and costs incurred associated with outbound freight after control over a product has transferred to a customer are accounted for as a fulfillment cost and are included in Cost of sales on our Condensed Consolidated Statements of Income, and are not considered a performance obligation to our customers. Our reported sales on our Condensed Consolidated Statements of Income are net of any sales or related non-income taxes. We also utilize the "as invoiced" practical expedient in certain cases where performance obligations are satisfied over time and the invoiced amount corresponds directly with the value we are providing to the customer.

Contract Assets and Liabilities

The timing of revenue recognition, customer billings, and cash collections results in a contract asset or contract liability at the end of each reporting period. Contract assets consist of costs incurred where revenue recognized over time using the cost-to-cost model exceeds the amounts billed to customers. Contract liabilities include advance payments and billings in excess of revenue recognized. Certain customers make advance payments prior to the satisfaction of our performance obligations on the contract. These amounts are recorded as contract liabilities until such performance obligations are satisfied, either over time as costs are incurred or at a point in time when deliveries are made. Contract assets and contract liabilities are determined on a contract-by-contract basis.

Net contract assets and liabilities are as follows:

	February 28, 2022	May 31, 2021	Change
Contract assets – current	$ 68.8	$ 71.9	$ (3.1)
Contract assets – non-current	22.4	21.6	0.8
Contract liabilities:			
Deferred revenue – current	(26.8)	(25.9)	(0.9)
Deferred revenue on long-term contracts	(8.7)	(5.4)	(3.3)
Net contract assets	$ 55.7	$ 62.2	$ (6.5)

Contract assets – non-current is reported within Other non-current assets and Deferred revenue on long-term contracts is reported within Other liabilities on our Condensed Consolidated Balance Sheets. Changes in contract assets and contract liabilities primarily result from the timing difference between our performance of services and payments from customers.

During the three-month period ended August 31, 2020, we terminated a commercial power-by-the-hour ("PBH") customer contract which resulted in a charge of $2.2 million. During the three-month period ended February 28, 2021, we recognized a loss contract charge of $3.5 million related to a certain PBH contract accounted for as a long-term contract using the cost-to-cost input method for revenue recognition.

(Dollars in millions, except per share amounts)

One of our PBH customers notified us in June 2021 that the customer would terminate its contract with us earlier than we originally anticipated. In conjunction with the early termination, we recognized a charge of $5.2 million in the three-month period ended August 31, 2021, which included a reduction in contract assets and revenue of $1.0 million and the establishment of loss reserves of $4.2 million. As of February 28, 2022, our Condensed Consolidated Balance Sheet included remaining loss reserves of $0.9 million classified in Accrued liabilities.

During fiscal 2020, we established forward loss reserves for a certain PBH contract where total estimated costs are in excess of the total estimated consideration over the remainder of the contract. As of February 28, 2022, our Condensed Consolidated Balance Sheet included remaining forward loss reserves of $1.5 million classified in Accrued liabilities.

To support our PBH customer contracts, we previously entered into an agreement with a component repair facility to outsource a portion of the component repair and overhaul services. The agreement included certain minimum repair volume guarantees, which we have not met due to the impact of COVID-19 on commercial passenger aircraft flight hours. During fiscal 2021, we recognized a $4.5 million charge to reflect our estimated obligation over the remainder of the agreement for not achieving the minimum volume guarantees. During the three-month period ended August 31, 2021, we recognized a $1.7 million charge to increase the obligation reflecting the revised estimated shortfall on the minimum volume guarantee. As of February 28, 2022, our Condensed Consolidated Balance Sheet included remaining loss reserves of $4.6 million with $1.5 million classified as current in Accrued liabilities and $3.1 million classified as long-term in Other liabilities.

Changes in our deferred revenue were as follows for the three- and nine-month periods ended February 28, 2022 and 2021:

	Three Months Ended February 28,		Nine Months Ended February 28,	
	2022	2021	2022	2021
Deferred revenue at beginning of period	$ (42.7)	$ (48.4)	$ (31.3)	$ (99.2)
Revenue deferred	(81.9)	(61.7)	(204.0)	(184.7)
Revenue recognized	82.4	72.4	187.4	248.5
Other	6.7	(0.6)	12.4	(2.9)
Deferred revenue at end of period	$ (35.5)	$ (38.3)	$ (35.5)	$ (38.3)

Remaining Performance Obligations

As of February 28, 2022, we had approximately $825 million of remaining performance obligations, also referred to as firm backlog, which excludes unexercised contract options and potential orders under our indefinite-delivery, indefinite-quantity (IDIQ) contracts. We expect that approximately 40% of this backlog will be recognized as revenue over the next 12 months with approximately 35% of the remainder recognized over the next three years. The amount of remaining performance obligations that are expected to be recognized as revenue beyond 12 months, primarily relates to our long-term programs where we provide component inventory management and/or repair services.

(Dollars in millions, except per share amounts)

Disaggregation of Revenue

Sales across the major customer markets for each of our reportable segments for the three- and nine-month periods ended February 28, 2022 and 2021 were as follows:

	Three Months Ended February 28,		Nine Months Ended February 28,	
	2022	2021	2022	2021
Aviation Services:				
Commercial	$ 264.0	$ 204.7	$ 788.2	$ 566.5
Government and defense	174.0	185.0	504.7	571.8
	$ 438.0	$ 389.7	$ 1,292.9	$ 1,138.3
Expeditionary Services:				
Commercial	$ 1.0	$ 3.1	$ 1.8	$ 10.8
Government and defense	13.2	17.5	49.2	65.6
	$ 14.2	$ 20.6	$ 51.0	$ 76.4

Sales by geographic region for the three- and nine-month periods ended February 28, 2022 and 2021 were as follows:

	Three Months Ended February 28,		Nine Months Ended February 28,	
	2022	2021	2022	2021
Aviation Services:				
North America	$ 324.2	$ 318.2	$ 1,013.0	$ 927.1
Europe/Africa	50.1	49.0	162.5	145.7
Other	63.7	22.5	117.4	65.5
	$ 438.0	$ 389.7	$ 1,292.9	$ 1,138.3
Expeditionary Services:				
North America	$ 14.2	$ 20.3	$ 50.8	$ 73.6
Europe/Africa	—	0.2	0.2	2.6
Other	—	0.1	—	0.2
	$ 14.2	$ 20.6	$ 51.0	$ 76.4

(Dollars in millions, except per share amounts)

Note 5 – Accounts Receivable

Financial instruments that potentially subject us to concentrations of market or credit risk consist principally of trade receivables. While our trade receivables are diverse and represent a number of entities and geographic regions, the majority are with the U.S. government and its contractors and entities in the aviation industry. The composition of our accounts receivable is as follows:

	February 28, 2022	May 31, 2021
U.S. Government contracts:		
Trade receivables	$ 33.6	$ 24.1
Unbilled receivables	16.9	25.2
	50.5	49.3
All other customers:		
Trade receivables	144.7	104.9
Unbilled receivables	14.1	12.5
	158.8	117.4
	$ 209.3	$ 166.7

Note 6 – Restructuring and Impairment Costs

During the nine-month period ended February 28, 2021, we incurred severance and furlough-related costs of $8.3 million, which were included as a component of Cost of sales and Selling, general and administrative on our Condensed Consolidated Statements of Income.

In accordance with ASC 360, *Property, Plant and Equipment*, we are required to test for impairment of long-lived assets whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable from its undiscounted cash flows. We utilize certain assumptions to estimate future undiscounted cash flows, including demand for our services, future market conditions and trends, business development pipeline of opportunities, current and future lease rates, lease terms, and residual values.

In light of declines in commercial airline volumes and commercial program contract terminations in fiscal 2020 and 2021, we evaluated future cash flows related to certain rotable assets supporting long-term programs and recognized asset impairment charges of $5.8 million in the three-month period ended August 31, 2020.

In conjunction with the early termination notice we received in June 2021 from one of our PBH customers, we evaluated future cash flows related to the rotable assets supporting that fleet type and recognized asset impairment charges of $2.3 million in the three-month period ended August 31, 2021.

Note 7 – Accounting for Stock-Based Compensation

Restricted Stock

In the three-month period ended August 31, 2021, as part of our annual long-term stock incentive compensation, we granted 43,010 shares of performance-based restricted stock and 50,845 shares of time-based restricted stock to eligible employees. The grant date fair value per share for these shares was $37.74 (the closing price on the grant date). We also granted 32,307 shares of time-based restricted stock to members of the Board of Directors with a grant date fair value per share of $42.56 (the closing price on the grant date).

Expense charged to operations for restricted stock during each of the three-month periods ended February 28, 2022 and 2021 was $0.2 million and $1.2 million, respectively, and $2.9 million and $3.9 million during the nine-month periods ended February 28, 2022 and 2021, respectively.

(Dollars in millions, except per share amounts)

Stock Options

In July 2021, as part of our annual long-term stock incentive compensation, we granted 143,745 stock options to eligible employees at an exercise price of $37.74 and grant date fair value of $13.36. The fair value of stock options was estimated using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	0.8 %
Expected volatility of common stock	41.6 %
Dividend yield	0.8 %
Expected option term in years	5.3

The total intrinsic value of stock options exercised during the nine-month periods ended February 28, 2022 and 2021 was $4.3 million and $0.5 million, respectively. Expense charged to operations for stock options during the three-month periods ended February 28, 2022 and 2021 was $0.8 million and $1.1 million, respectively, and during the nine-month periods ended February 28, 2022 and 2021 was $2.9 million and $2.9 million, respectively.

Note 8 – Inventories

The summary of inventories is as follows:

	February 28, 2022	May 31, 2021
Aircraft and engine parts, components and finished goods	$ 451.0	$ 468.4
Raw materials and parts	61.4	53.0
Work-in-process	22.8	19.2
	$ 535.2	$ 540.6

During the three-month period ended November 30, 2020, we decided to exit a product line in our engineering operations and recognized a $1.2 million charge to reserve against the remaining inventory.

Note 9 – Supplemental Cash Flow Information

	Nine Months Ended February 28,	
	2022	2021
Interest paid	$ 1.0	$ 3.6
Income taxes paid	14.1	6.9
Income tax refunds received	3.8	8.0

Note 10 – Sale of Receivables

On February 23, 2018, we entered into a Purchase Agreement with Citibank N.A. (“Purchaser”) for the sale, from time to time, of certain accounts receivable due from certain customers (as amended to the date hereof, the “Purchase Agreement”). Under the Purchase Agreement, the maximum amount of receivables sold is limited to $150 million and Purchaser may, but is not required to, purchase the eligible receivables we offer to sell. The current term of the Purchase Agreement runs through February 22, 2023, however, the Purchase Agreement may also be terminated earlier under certain circumstances. The term of the Purchase Agreement shall be automatically extended for one-year terms unless either party provides advance notice that they do not intend to extend the term.

We have no retained interests in the sold receivables, other than limited recourse obligations in certain circumstances, and only perform collection and administrative functions for the Purchaser. We account for these receivable transfers as sales under ASC 860, *Transfers and Servicing*, and de-recognize the sold receivables from our Condensed Consolidated Balance Sheet.

During the nine-month periods ended February 28, 2022 and 2021, we sold $225.5 million and $346.0 million, respectively, of receivables under the Purchase Agreement and remitted $246.1 million and $371.9 million, respectively, to the Purchaser on their behalf. As of February 28, 2022 and May 31, 2021, we had collected cash of $2.4 million and $8.4 million, respectively, which was not yet remitted to the Purchaser as of those dates and was classified as Restricted cash on our Condensed Consolidated Balance Sheets.

We recognize discounts on the sale of our receivables and other fees related to the Purchase Agreement in Other expense, net on our Condensed Consolidated Statements of Income. We incurred discounts on the sale of our receivables of $0.1 million and $0.1 million during the three-month periods ended February 28, 2022 and 2021, respectively, and $0.2 million and $0.3 million during the nine-month periods ended February 28, 2022 and 2021, respectively.

Note 11 – Government Subsidies

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was enacted in the U.S. in response to the COVID-19 pandemic. The CARES Act includes provisions relating to refundable payroll tax credits, deferral of the employer portion of certain payroll taxes, net operating loss carrybacks, and other areas. The payroll tax deferral requires that the deferred payroll taxes be paid over two years, with the first half or $6.2 million paid in December 2021 and the other half to be paid by December 31, 2022. As of February 28, 2022, we have deferred payroll taxes of $6.2 million which are included in Accrued liabilities on our Condensed Consolidated Balance Sheet.

During the three-month period ended August 31, 2020, we received $57.2 million from the U.S. Treasury Department through the Payroll Support Program under the CARES Act. This funding included a $48.5 million cash grant which was to be used exclusively for the continuation of payment of employee wages, salaries and benefits for employees of certain maintenance, repair, and overhaul ("MRO") facilities. The grant was recognized as contra-expense on our Condensed Consolidated Statement of Income as the eligible wages, salaries and benefits were incurred. In fiscal 2021, we recognized the full amount of the grant as contra-expense within Cost of sales and Selling, general and administrative expenses of $47.5 million and $1.0 million, respectively.

The remaining funding of $8.7 million was a low interest 10-year senior unsecured promissory note ("Promissory Note") which included interest at a rate per annum equal to the sum of (i) 1.0% for the first five years, and the applicable secured overnight financing rate plus 2.0% in years six through ten plus (ii) in kind interest of 3.0% for the first five years and increasing by 1.0% each year over the remaining term. The Promissory Note was pre-payable at par at any time and we re-paid the Promissory Note in full during the fourth quarter of fiscal 2021. Certain corporate restrictions continue to apply to us which include restrictions on employee compensation. The restrictions previously applicable to us relating to dividends, stock repurchases, and certain workforce actions have lapsed.

Other countries have enacted legislation similar to the CARES Act to provide relief and stimulus measures to assist companies in mitigating the financial impact from COVID-19 and supporting their employees. Our foreign subsidiaries recognized subsidies of $1.0 million and $1.2 million during the three-months ended February 28, 2022 and 2021, respectively, and $3.4 million and $6.1 million during the nine-months ended February 28, 2022 and 2021, respectively, from foreign governments which have been deducted from the related expenses on our Condensed Consolidated Statements of Income.

(Dollars in millions, except per share amounts)

Note 12 – Financing Arrangements

A summary of the carrying amount of our debt is as follows:

	February 28, 2022	May 31, 2021
Revolving Credit Facility expiring September 25, 2024 with interest payable monthly	$ 104.5	$ 109.5
Term loan due November 1, 2021 with interest payable monthly	—	25.7
Total debt	104.5	135.2
Debt issuance costs, net	(1.2)	(1.5)
Long-term debt	$ 103.3	$ 133.7

At February 28, 2022, our debt had a fair value that approximates its carrying value and is classified as Level 2 in the fair value hierarchy.

On October 18, 2017, we entered into a Credit Agreement with the Canadian Imperial Bank of Commerce, as lender (the “Credit Agreement”). The Credit Agreement provided a Canadian $31 million term loan with the proceeds used to fund the acquisition of two MRO facilities in Canada from Premier Aviation. The term loan was paid in full at the expiration of the Credit Agreement on November 1, 2021.

We maintain a Revolving Credit Facility with various financial institutions, as lenders, and Bank of America, N.A., as administrative agent for the lenders, which provides the Company an aggregate revolving credit commitment of $600 million and matures September 25, 2024. Under certain circumstances, we have the ability to request, but our lenders are not required to grant, an increase to the revolving credit commitment by an aggregate amount of up to $300 million, not to exceed $900 million in total. Borrowings under the Revolving Credit Facility bear interest at the offered Eurodollar Rate plus 87.5 to 175 basis points based on certain financial measurements if a Eurodollar Rate loan, or at the offered fluctuating Base Rate plus 0 to 75 basis points based on certain financial measurements if a Base Rate loan.

Borrowings outstanding under the Revolving Credit Facility at February 28, 2022 were $104.5 million and there were approximately $11.4 million of outstanding letters of credit, which reduced the availability of this facility to $484.1 million.

Our financing arrangements also require us to comply with leverage and interest coverage ratios, maintain a minimum net working capital level, and comply with certain affirmative and negative covenants, including those relating to financial reporting and notification, payment of indebtedness, cash dividends, taxes and other obligations, compliance with applicable laws, and limitations on additional liens, indebtedness, acquisitions, investments and disposition of assets. The Revolving Credit Facility also requires our significant domestic subsidiaries, and any subsidiaries that guarantee our other indebtedness, to provide a guarantee of payment under the Revolving Credit Facility. At February 28, 2022, we were in compliance with the financial and other covenants in our financing agreements.

Note 13 – Other Non-current Assets

Investments in Joint Ventures

Our investments in joint ventures include $13.5 million for our 40% ownership interest in a joint venture in India to develop and operate an airframe maintenance facility. The facility received certain regulatory approvals and commenced airframe maintenance operations in the second quarter of fiscal 2022.

The investment balance as of February 28, 2022 includes $9.3 million related to the guarantee liability recognized in conjunction with our guarantee of 40% of the Indian joint venture’s debt. The Indian joint venture is accounted for using the equity method. In addition, each of the partners in the Indian joint venture has a loan to the joint venture proportionate to its equity ownership. Our loan to the Indian joint venture under this arrangement was $3.2 million as of February 28, 2022.

In the fourth quarter of fiscal 2020, we made the decision to exit our joint venture which operates a landing gear wheel and brake repair and overhaul facility in Malaysia. In conjunction with the decision to exit the joint venture, we recognized an impairment charge of $1.9 million reflecting the anticipated net proceeds from our investment. In the third quarter of fiscal 2022, we decided to pursue a shutdown of the joint venture and recognized an additional impairment charge and related shutdown costs of $0.5 million which is reported in Loss from joint ventures on the Consolidated Statement of Income.

License Fees

In June 2011, we entered into a ten-year agreement with Unison Industries ("Unison") to be the exclusive worldwide aftermarket distributor for Unison's electrical components, sensors, switches and other systems for aircraft and industrial uses. In June 2020, we entered into an extension and expansion of our agreement with Unison including a new termination date of December 31, 2031, an initial $25.0 million license fee paid in June 2020 to Unison, and annual license fees at a fixed percentage of our net sales of Unison products. The June 2020 payment of $25.0 million was capitalized and is being amortized on a straight-line basis over the term of the new agreement.

Split-Dollar Life Insurance Arrangements

We previously entered into split-dollar life insurance agreements to benefit certain former executives and officers. Under the terms of the arrangements, we made premium payments on the individuals' behalf, and we retained a collateral interest in the policies generally to the extent of the premiums we previously paid.

During the second quarter of fiscal 2021, certain split-dollar life insurance agreements were terminated and we received $12.0 million for reimbursement of both the life insurance premiums we previously paid and a portion of our prior tax payments made on the individuals' behalf related to their imputed income on the policies. The reimbursement of the premiums paid of $10.0 million has been classified as cash flow from investing activities with the remainder included in cash flow from operating activities as it represents the reimbursement of a portion of the taxes previously paid and expensed. In the second quarter of fiscal 2021, we recognized a benefit of $1.3 million in Selling, general and administrative expenses on the Condensed Consolidated Statement of Income for the net recovery of the taxes previously paid on behalf of the individuals.

Note 14 – Earnings per Share

The computation of basic earnings per share is based on the weighted average number of common shares outstanding during each period. The computation of diluted earnings per share is based on the weighted average number of common shares outstanding during the period plus, when their effect is dilutive, incremental shares consisting of shares subject to stock options and shares issuable upon vesting of restricted stock awards.

In accordance with ASC 260-10-45, *Share-Based Payment Arrangements and Participating Securities and the Two-Class Method*, our unvested restricted stock awards are deemed participating securities since these shares are entitled to participate in dividends declared on common shares. During periods of net income, the calculation of earnings per share for common stock excludes income attributable to unvested restricted stock awards from the numerator and excludes the dilutive impact of those shares from the denominator. During periods of net loss, no effect is given to the participating securities because they do not share in the losses of the Company.

(Dollars in millions, except per share amounts)

A reconciliation of the computations of basic and diluted earnings per share information for the three- and nine-month periods ended February 28, 2022 and 2021 is as follows:

	Three Months Ended February 28,		Nine Months Ended February 28,	
	2022	2021	2022	2021
Basic and Diluted EPS:				
Income from continuing operations	$ 22.6	$ 31.1	$ 54.6	$ 31.6
Less income attributable to participating shares	(0.2)	(0.2)	(0.4)	(0.2)
Income from continuing operations attributable to common shareholders	22.4	30.9	54.2	31.4
Income (Loss) from discontinued operations attributable to common shareholders	(0.1)	(3.0)	0.2	(9.8)
Net income attributable to common shareholders for earnings per share	$ 22.3	$ 27.9	$ 54.4	$ 21.6
Weighted Average Shares:				
Weighted average common shares outstanding – basic	35.1	35.0	35.3	35.0
Additional shares from the assumed exercise of stock options	0.6	0.5	0.5	0.2
Weighted average common shares outstanding – diluted	35.7	35.5	35.8	35.2
Earnings per share – basic:				
Earnings from continuing operations	$ 0.64	$ 0.88	$ 1.54	$ 0.90
Income (Loss) from discontinued operations	—	(0.09)	0.01	(0.28)
Earnings per share - basic	$ 0.64	$ 0.79	$ 1.55	$ 0.62
Earnings per share – diluted:				
Earnings from continuing operations	$ 0.63	$ 0.87	$ 1.52	$ 0.89
Income (Loss) from discontinued operations	—	(0.08)	0.01	(0.28)
Earnings per share - diluted	$ 0.63	$ 0.79	$ 1.53	$ 0.61

The potential dilutive effect of 247,000 and 653,000 shares relating to stock options was excluded from the computation of weighted average common shares outstanding – diluted for the three-month periods ended February 28, 2022 and 2021, respectively, as the shares would have been anti-dilutive. The potential dilutive effect of 771,000 and 1,187,000 shares relating to stock options was excluded from the computation of weighted average common shares outstanding - diluted for the nine-month periods ended February 28, 2022 and 2021, respectively.

(Dollars in millions, except per share amounts)

Note 15 – Accumulated Other Comprehensive Loss

Changes in our accumulated other comprehensive loss ("AOCL") by component for the three- and nine-month periods ended February 28, 2022 and 2021 were as follows:

	Currency Translation Adjustments	Pension Plans	Total
Balance at December 1, 2021	$ (0.6)	$ (21.6)	$ (22.2)
Other comprehensive income before reclassifications	(0.5)	2.2	1.7
Amounts reclassified from AOCL	—	0.4	0.4
Total other comprehensive income (loss)	(0.5)	2.6	2.1
Balance at February 28, 2022	$ (1.1)	$ (19.0)	$ (20.1)
Balance at December 1, 2020	$ 0.3	$ (43.3)	$ (43.0)
Other comprehensive loss before reclassifications	0.2	0.2	0.4
Amounts reclassified from AOCL	—	0.2	0.2
Total other comprehensive income	0.2	0.4	0.6
Balance at February 28, 2021	$ 0.5	$ (42.9)	$ (42.4)

	Currency Translation Adjustments	Pension Plans	Total
Balance at June 1, 2021	$ 3.9	$ (22.2)	$ (18.3)
Other comprehensive income before reclassifications	(5.0)	2.2	(2.8)
Amounts reclassified from AOCL	—	1.0	1.0
Total other comprehensive income (loss)	(5.0)	3.2	(1.8)
Balance at February 28, 2022	$ (1.1)	$ (19.0)	$ (20.1)
Balance at June 1, 2020	$ (2.0)	$ (42.6)	$ (44.6)
Other comprehensive loss before reclassifications	2.5	(1.0)	1.5
Amounts reclassified from AOCL	—	0.7	0.7
Total other comprehensive income (loss)	2.5	(0.3)	2.2
Balance at February 28, 2021	$ 0.5	$ (42.9)	$ (42.4)

Note 16 – Business Segment Information

Consistent with how our chief operating decision making officer (our Chief Executive Officer) evaluates performance and the way we are organized internally, we report our activities in two reportable segments: *Aviation Services* comprised of supply chain and MRO activities and *Expeditionary Services* comprised of manufacturing activities.

The Aviation Services segment consists of aftermarket support and services offerings that provide spare parts and maintenance support for aircraft operated by our commercial and government/defense customers. Sales in the Aviation Services segment are derived from the sale and lease of a wide variety of new, overhauled and repaired engine and airframe parts and components to the commercial aviation and government and defense markets. We provide customized inventory supply chain management, performance-based logistics programs, customer fleet management and operations, and aircraft component repair management services. The segment also includes repair, maintenance and overhaul of aircraft, landing gear and components. Cost of sales consists principally of the cost of product, direct labor, and overhead.

(Dollars in millions, except per share amounts)

The Expeditionary Services segment consists of primarily manufacturing operations with sales derived from the design and manufacture of pallets, shelters, and containers used to support the U.S. military's requirements for a mobile and agile force, including engineering, design, and system integration services for specialized command and control systems. Cost of sales consists principally of the cost of material to manufacture products, direct labor and overhead.

The accounting policies for the segments are the same as those described in Note 1 of Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended May 31, 2021.

Our chief operating decision making officer (our Chief Executive Officer) evaluates performance based on our segments and utilizes gross profit as a primary profitability measure. Gross profit is calculated by subtracting cost of sales from sales. The assets and certain expenses related to corporate activities are not allocated to the segments.

Selected financial information for each segment is as follows:

	Three Months Ended February 28,		Nine Months Ended February 28,	
	2022	2021	2022	2021
Sales:				
Aviation Services	$ 438.0	$ 389.7	$ 1,292.9	$ 1,138.3
Expeditionary Services	14.2	20.6	51.0	76.4
	$ 452.2	$ 410.3	$ 1,343.9	$ 1,214.7

	Three Months Ended February 28,		Nine Months Ended February 28,	
	2022	2021	2022	2021
Gross profit:				
Aviation Services	$ 77.9	$ 82.5	$ 212.8	$ 193.9
Expeditionary Services	2.5	3.5	10.6	10.2
	$ 80.4	$ 86.0	$ 223.4	$ 204.1

The following table reconciles segment gross profit to income from continuing operations before provision for income taxes:

	Three Months Ended February 28,		Nine Months Ended February 28,	
	2022	2021	2022	2021
Segment gross profit	$ 80.4	$ 86.0	$ 223.4	$ 204.1
Selling, general and administrative	(48.9)	(44.9)	(145.3)	(133.6)
Loss from joint ventures	(1.1)	—	(1.7)	(0.2)
Provision for doubtful accounts	(0.1)	(1.4)	(0.9)	(5.8)
Loss on sale of business	—	—	(1.3)	(19.5)
Other income, net	1.1	4.4	2.1	3.9
Interest expense	(0.6)	(1.1)	(1.8)	(4.1)
Interest income	—	0.1	0.1	0.2
Income from continuing operations before provision for income taxes	$ 30.8	$ 43.1	$ 74.6	$ 45.0

Note 17 – Legal Proceedings

We are not a party to any material pending legal proceeding (including any governmental or environmental proceeding) other than routine litigation incidental to our business, except for the following:

Department of Justice Investigation

As previously reported, the U.S. Department of Justice ("DoJ"), acting through the U.S. Attorney's Office for the Southern District of Illinois, conducted an investigation of AAR Airlift Group, Inc. ("Airlift"), a wholly-owned subsidiary of AAR CORP., under the federal civil False Claims Act ("FCA"). The investigation related to Airlift's performance of several contracts awarded by the U.S. Transportation Command ("TRANSCOM") concerning the operations and maintenance of rotary-wing and fixed-wing aircraft in Afghanistan and Africa, as well as several U.S. Navy contracts. In June 2018, the DoJ informed Airlift that part of the investigation was precipitated by a lawsuit filed under the qui tam provisions of the FCA by a former employee of Airlift.

In June 2021, Airlift and the DoJ reached an agreement to settle the FCA investigation and related matters for approximately $11.5 million which concluded the DoJ investigation into Airlift's contracts with TRANSCOM and the U.S. Navy. As part of the settlement, Airlift and AAR did not admit any wrongdoing.

We recognized charges of $11.0 million in discontinued operations in fiscal 2021 related to this agreement and related matters. As of May 31, 2021, our reserve was $12.7 million and payment for the entire matter was made in the first quarter of fiscal 2022.

Self-Reporting of Potential Foreign Corrupt Practices Act Violations

The Company retained outside counsel to investigate possible violations of the Company's Code of Conduct, the U.S. Foreign Corrupt Practices Act, and other applicable laws, relating to the Company's activities in Nepal and South Africa. Based on these investigations, in fiscal 2019, we self-reported these matters to the DoJ, the U.S. Securities and Exchange Commission and the UK Serious Fraud Office. The Company is fully cooperating with the reviews by these agencies, although we are unable at this time to predict what action, if any, they may take.

Russian Bankruptcy Litigation

During calendar years 2016 and 2017, certain of the Company's subsidiaries purchased four engines from VIM-AVIA Airlines, LLC ("VIM-AVIA"), a company organized in Russia. Subsequent to the purchase of the engines, VIM-AVIA declared bankruptcy in Russian courts, and shortly thereafter the receiver of the VIM-AVIA bankruptcy estate and one of the major creditors of VIM-AVIA filed a claw-back action against our subsidiaries alleging that the contracts entered into with VIM-AVIA in the 2016-2017 timeframe were invalid. The claw-back action alleges that our subsidiaries owe the VIM-AVIA bankruptcy estate approximately $13 million, the alleged fair market value of the four engines at the time of sale.

The Company strongly disputes all claims asserted in the claw-back action, believes it has meritorious defenses, and is vigorously defending itself in the Russian court system. However, in late February 2022, with the developments in the Russia/Ukraine conflict, the U.S. and its North Atlantic Treaty Organization allies imposed a range of sanctions and export controls on Russian entities and individuals. These sanctions and export controls have resulted in heightened tensions between the United States and Russia and a hostile business and legal environment for foreign companies in Russia. As a result, we now believe that a loss related to this matter is reasonably possible, rather than remote, although we are not able to estimate the range of possible losses at this time.

General Overview

We report our activities in two reportable segments: *Aviation Services* comprised of supply chain and maintenance, repair, and overhaul ("MRO") activities and *Expeditionary Services* comprised of manufacturing activities.

The Aviation Services segment consists of aftermarket support and services offerings that provide spare parts and maintenance support for aircraft operated by our commercial and government/defense customers. Sales in the Aviation Services segment are derived from the sale and lease of a wide variety of new, overhauled and repaired engine and airframe parts and components to the commercial aviation and government and defense markets. We provide customized inventory supply chain management, performance-based logistics programs, customer fleet management and operations, and aircraft component repair management services. The segment also includes repair, maintenance and overhaul of aircraft, landing gear and components. Cost of sales consists principally of the cost of product, direct labor, and overhead.

The Expeditionary Services segment consists of primarily manufacturing operations with sales derived from the design and manufacture of pallets, shelters, and containers used to support the U.S. military's requirements for a mobile and agile force including engineering, design, and system integration services for specialized command and control systems. Cost of sales consists principally of the cost of material to manufacture products, direct labor and overhead.

Our chief operating decision making officer (our Chief Executive Officer) evaluates performance based on our segments and utilizes gross profit as a primary profitability measure. Gross profit is calculated by subtracting cost of sales from sales. The assets and certain expenses related to corporate activities are not allocated to the segments.

The accounting policies for the segments are the same as those described in Note 1 of Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended May 31, 2021.

Business Trends and Outlook

Consolidated sales for the third quarter of fiscal 2022 increased $41.9 million or 10.2% over the prior year quarter primarily due to an increase in sales of $48.3 million or 12.4% in our Aviation Services segment. Consolidated sales to commercial customers increased $57.2 million or 27.5% over the prior year quarter due to the continued recovery in commercial passenger air traffic. Our consolidated sales to government customers decreased $15.3 million or 7.6% primarily due to less volume across certain U.S. Government contracts.

Over the long-term, we expect to see strength in our Aviation Services segment given its offerings of value-added services to both commercial and government and defense customers. We believe long-term commercial and government growth trends are favorable. As we continue to experience recovery and growth in our operations, our long-term strategy continues to emphasize investing in the business and capitalizing on opportunities in those markets.

Both our commercial and government businesses are subject to the economic environment, impact of COVID-19 and related variants, public policy decisions or other factors that could adversely impact our business, financial condition or results of operations in the future. A recent example of this was the U.S. Government's decision to withdraw all U.S. Department of State personnel presence in Afghanistan. In conjunction with the U.S. exit from Afghanistan, we concluded our activities in country under our WASS and U.S. Department of Defense contracts. The operations related to our activities in Afghanistan contributed revenue of $67 million in fiscal 2021.

We are also monitoring developments in Ukraine and Russia as well as the related export controls and financial and economic sanctions imposed on certain industry sectors, including the aviation sector, and parties in Russia by the U.S., the U.K., the European Union and others. Although we do not presently foresee direct material adverse effects upon our business, the short- and long-term worldwide implications of the Russian/Ukraine conflict are difficult to predict at this time. Factors such as increased energy costs, embargos on flights from Russian airlines, and sanctions on Russian companies could impact the global economy and aviation sector in particular. Our sales to customers in Russia and Ukraine were $3.8 million in fiscal 2021 or 0.2% of consolidated sales.

Results of Operations

Three- and Nine-Month Periods Ended February 28, 2022

Sales and gross profit for our two business segments for the three- and nine-months ended February 28, 2022 and 2021 were as follows:

	Three Months Ended February 28,			Nine Months Ended February 28,		
	2022	2021	% Change	2022	2021	% Change
Sales:						
Aviation Services						
Commercial	$ 264.0	$ 204.7	29.0 %	$ 788.2	$ 566.5	39.1 %
Government and defense	174.0	185.0	(5.9)%	504.7	571.8	(11.7)%
	$ 438.0	$ 389.7	12.4 %	$ 1,292.9	$ 1,138.3	13.6 %
Expeditionary Services						
Commercial	$ 1.0	$ 3.1	(67.7)%	$ 1.8	$ 10.8	(83.3)%
Government and defense	13.2	17.5	(24.6)%	49.2	65.6	(25.0)%
	$ 14.2	$ 20.6	(31.1)%	$ 51.0	$ 76.4	(33.2)%

	Three Months Ended February 28,			Nine Months Ended February 28,		
	2022	2021	% Change	2022	2021	% Change
Gross Profit (Loss):						
Aviation Services						
Commercial	$ 53.3	$ 51.2	4.1 %	$ 128.4	$ 105.4	21.8 %
Government and defense	24.6	31.3	(21.4)%	84.4	88.5	(4.6)%
	$ 77.9	$ 82.5	(5.6)%	$ 212.8	$ 193.9	9.7 %
Expeditionary Services						
Commercial	$ —	$ 0.1	*nm*	$ —	$ (1.1)	*nm*
Government and defense	2.5	3.4	(26.5)%	10.6	11.3	(6.2)%
	$ 2.5	$ 3.5	(28.6)%	$ 10.6	$ 10.2	3.9 %

nm – Percentage change is not meaningful.

Three Month Period Ended February 28, 2022

Aviation Services Segment

Sales in the Aviation Services segment increased $48.3 million or 12.4% over the prior year period due to a $59.3 million or 29.0% increase in sales to commercial customers. The increase in sales to commercial customers was primarily attributable to increased sales of $22.0 million in our new parts distribution activities and $19.6 million in our MRO activities as commercial passenger air traffic continues to recover from the impact of COVID-19.

During the third quarter of fiscal 2022, sales in this segment to government and defense customers decreased $11.0 million or 5.9%, from the prior year period. The decrease in sales to government customers was primarily attributable to reduced volume on program activity including the wind-down of Afghanistan activities which decreased $9.9 million from the prior year period.

Changes in estimates and assumptions related to our arrangements accounted for using the cost-to-cost method are recorded using the cumulative catch-up method of accounting. In the third quarter of fiscal 2022, we had a favorable cumulative catch-up adjustment of $2.5 million compared to net favorable cumulative catch-up adjustments of $2.0 million in the prior year quarter. These adjustments primarily relate to our long-term, power-by-the-hour programs where we provide component inventory management and repair services as well as certain long-term government programs.

Cost of sales in Aviation Services increased $52.9 million, or 17.2%, over the prior year period. The prior year period included higher benefits from government workforce subsidies such as the Payroll Support Program in the CARES Act and other subsidies provided by foreign governments. We recognized a benefit of $0.9 million in cost of sales during the third quarter of fiscal 2022 related to the government subsidies compared to $24.1 million in the prior year quarter.

Gross profit in the Aviation Services segment decreased $4.6 million, or 5.6%, from the prior year period. Gross profit on sales to commercial customers increased $2.1 million, or 4.1%, over the prior year period primarily due to the COVID-19 recovery discussed above. The gross profit margin on sales to commercial customers decreased to 20.2% from 25.0% in the prior year period, primarily from the benefit of government workforce subsidies.

Gross profit on sales to government and defense customers decreased $6.7 million, or 21.4%, from the prior year period. Gross profit margin on sales to government and defense customers decreased to 14.1% from 16.9% in the prior year period, primarily driven by the mix of products and services provided on long-term government programs.

Expeditionary Services Segment

Sales in the Expeditionary Services segment decreased $6.4 million, or 31.1%, from the prior year period primarily due to reduced volume for our mobility products. Gross profit in the Expeditionary Services segment decreased $1.0 million, or 28.6%, from the prior period primarily due to mix of sales across mobility product lines including pallets, containers, and shelters. Gross profit margin increased to 17.6% from 17.0% in the prior year period primarily as a result of the mix of sales.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased $4.0 million, or 8.9%, over the prior year period primarily due to investments to support the sales growth as our commercial activities continue the recovery from the impact of COVID-19. As a percent of sales, selling, general and administrative expenses decreased to 10.8% from 10.9% in the prior year period as the benefit from our actions to reduce both our fixed and variable cost structure in light of the reduced volumes from COVID-19 more than offset the investments to support sales growth.

Income Taxes

Our effective income tax rate for continuing operations was 26.6% for the third quarter of fiscal 2022 compared to 27.8% in the prior year period. The prior year period included tax expense of $0.5 million related to tax provision to federal income tax return filing differences.

Discontinued Operations

Loss from discontinued operations was $0.1 million in the third quarter of fiscal 2022 compared to a loss of $3.0 million in the prior year period. The loss in the prior year period was attributable to a $4.2 million increase in our reserve to reflect the tentative agreement with the U.S. Department of Justice to settle their investigation of our Contractor-Owned, Contractor-Operated ("COCO") business under the federal civil False Claims Act.

Nine Month Period Ended February 28, 2022

Aviation Services Segment

Sales in the Aviation Services segment increased $154.6 million, or 13.6%, over the prior year period due to a $221.7 million, or 39.1%, increase in sales to commercial customers. The increase in sales to commercial customers was primarily attributable to increased sales of $67.2 million in our MRO activities and $64.9 million related to new parts distribution activities as commercial passenger air traffic continues to recover from the impact of COVID-19. In addition, sales increased $56.5 million in our aftermarket parts trading activities which included whole asset sales of $34.0 million during the nine-month period ended February 28, 2022 compared to $14.0 million in the prior year period.

During the nine-month period ended February 28, 2022, sales in this segment to government and defense customers decreased $67.1 million, or 11.7%, from the prior year period. This decrease was primarily attributable to the timing of activities for the C-40 aircraft we are delivering to the Naval Air Systems Command in support of the U.S. Marine Corps. The prior year period included sales of $39.5 million related to the installation of engines on the aircraft while no engine installation activities occurred in fiscal 2022.

During the nine-month period ended February 28, 2022, we had net favorable cumulative catch-up adjustments of $7.4 million compared to $4.8 million in the prior year period. These adjustments primarily relate to our long-term, power-by-the-hour programs where we provide component inventory management and repair services as well as certain long-term government programs.

Cost of sales in Aviation Services increased $135.7 million, or 14.4%, over the prior year period which was in line with the sales increase discussed above.

Gross profit in the Aviation Services segment increased $18.9 million, or 9.7%, over the prior year period. Gross profit on sales to commercial customers increased $23.0 million, or 21.8%, over the prior year period primarily due to the COVID-19 recovery discussed above. In addition, gross profit was unfavorably impacted in the nine-month period ended February 28, 2021 due to asset impairment charges of $7.0 million and facility consolidation and repositioning costs of $2.4 million. These items were more than offset by a benefit of $52.3 million in government workforce subsidies from the Payroll Support Program in the CARES Act and other subsidies provided by foreign governments. Gross profit margin on sales to commercial customers decreased to 16.3% from 18.6% in the prior year period primarily due to the impact of the subsidies in the prior year period more than offsetting the volume recovery in fiscal 2022.

Gross profit on sales to government and defense customers decreased $4.1 million, or 4.6%, from the prior year primarily driven by primarily driven by the mix of products and services provided on long-term government programs. Gross profit margin on sales to government and defense customers increased to 16.7% from 15.5% in the prior year period primarily as a result of the mix of sales.

Expeditionary Services Segment

Sales in the Expeditionary Services segment decreased $25.4 million, or 33.2%, from the prior year period primarily due to reduced volume for our mobility products. Gross profit in the Expeditionary Services segment increased $0.4 million, or 3.9%, over the prior period primarily due to the divestiture of our composites manufacturing business which was not profitable prior to its divestiture on August 31, 2020. Gross profit margin increased to 20.8% from 13.4% in the prior year period primarily as a result of the divestiture.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased $11.7 million, or 8.8%, over the prior year period primarily due to investments to support the sales growth as our commercial activities continue the recovery from the impact of COVID-19. As a percent of sales, selling, general and administrative expenses decreased to 10.8% from 11.0% in the prior year period as the benefit from our actions to reduce both our fixed and variable cost structure in light of the reduced volumes from COVID-19 more than offset the investments to support sales growth.

Income Taxes

Our effective income tax rate for continuing operations was 26.8% for the nine-month period ended February 28, 2022 compared to 29.8% in the prior year period. The prior year period included unfavorable stock compensation items of $0.8 million compared to favorable stock compensation benefits of $0.7 million in the current year period.

Discontinued Operations

Income from discontinued operations was $0.2 million in the nine-month period ended February 28, 2022 compared to a loss of $9.8 million in the prior year period. The loss in the prior year period was attributable to a $11.0 million increase in our legal reserve discussed above.

Liquidity, Capital Resources and Financial Position

Our operating activities are funded and commitments met through the generation of cash from operations. In addition to operations, our current capital resources include an unsecured Revolving Credit Facility and an accounts receivable financing program. Periodically, we may also raise capital through common stock and debt financings in the public or private markets. We continually evaluate various financing arrangements, including the issuance of common stock or debt, which would allow us to improve our liquidity position and finance future growth on commercially reasonable terms. Our continuing ability to borrow from our lenders and issue debt and equity securities to the public and private markets in the future may be negatively affected by a number of factors, including the overall health of the credit markets, general economic conditions, airline industry conditions, geo-political events, and our operating performance. Our ability to generate cash from operations is influenced primarily by our operating performance and changes in working capital.

At February 28, 2022, our liquidity and capital resources included working capital of $634.1 million inclusive of cash of $43.0 million.

We maintain a Revolving Credit Facility with various financial institutions, as lenders, and Bank of America, N.A., as administrative agent for the lenders, which provides the Company an aggregate revolving credit commitment of $600 million and matures September 25, 2024. Under certain circumstances, we have the ability to request, but our lenders are not required to grant, an increase to the revolving credit commitment by an aggregate amount of up to $300 million, not to exceed $900 million in total.

Borrowings under the Revolving Credit Facility bear interest at the offered Eurodollar Rate plus 87.5 to 175 basis points based on certain financial measurements if a Eurodollar Rate loan, or at the offered fluctuating Base Rate plus 0 to 75 basis points based on certain financial measurements if a Base Rate loan.

Borrowings outstanding under the Revolving Credit Facility at February 28, 2022 were $104.5 million and there were approximately $11.4 million of outstanding letters of credit, which reduced the availability of this facility to $484.1 million. There are no other terms or covenants limiting the availability of this facility.

In the first quarter of fiscal 2021, we received $57.2 million from the U.S. Treasury Department through the Payroll Support Program under the CARES Act. This funding included a $48.5 million cash grant, which was to be used exclusively for the continuation of payment of employee wages, salaries and benefits for employees of certain MRO facilities, and a low interest 10-year senior unsecured promissory note of $8.7 million. In fiscal 2021, we recognized the full amount of the grant as contra-expense within Cost of sales and Selling, general and administrative expenses. The Promissory Note was re-paid in full during the fourth quarter of fiscal 2021.

As of February 28, 2022, we also had other financing arrangements that did not limit our availability on the Revolving Credit Facility, including outstanding letters of credit of $11.6 million and foreign lines of credit of $10.1 million.

On October 18, 2017, we entered into a Credit Agreement with the Canadian Imperial Bank of Commerce, as lender (the “Credit Agreement”). The Credit Agreement provided a Canadian $31 million term loan with the proceeds used to fund the acquisition of two MRO facilities in Canada from Premier Aviation. The term loan was paid in full at the expiration of the Credit Agreement on November 1, 2021.

We maintain a Purchase Agreement with Citibank N.A. (“Purchaser”) for the sale, from time to time, of certain accounts receivable due from certain customers (as amended to the date hereof, the “Purchase Agreement”). Under the Purchase Agreement, the maximum amount of receivables sold is limited to $150 million and Purchaser may, but is not required to, purchase the eligible receivables we offer to sell. The current term of the Purchase Agreement runs through February 22, 2022, however, the Purchase Agreement may also be terminated earlier under certain circumstances. The term of the Purchase Agreement shall be automatically extended for one-year terms unless either party provides advance notice that they do not intend to extend the term.

We have no retained interests in the sold receivables, other than limited recourse obligations in certain circumstances, and only perform collection and administrative functions for the Purchaser. We account for these receivable transfers as sales under ASC 860, *Transfers and Servicing*, and de-recognize the sold receivables from our Condensed Consolidated Balance Sheets.

During the nine-month periods ended February 28, 2022 and 2021, we sold $225.5 million and $346.0 million, respectively, of receivables under the Purchase Agreement and remitted $246.1 million and $371.9 million, respectively, to the Purchaser on their behalf. As of February 28, 2022 and May 31, 2021, we had collected cash of $2.4 million and $8.4 million, respectively, which was not yet remitted to the Purchaser as of those dates and was classified as Restricted cash on our Condensed Consolidated Balance Sheets.

At February 28, 2022, we were in compliance with all financial and other covenants under our financing arrangements.

On December 16, 2021, our Board of Directors authorized a renewal of our stock repurchase program in which we may repurchase up to $150 million of our common stock with no expiration date. The timing and amount of repurchases are subject to prevailing market conditions and other considerations, including our liquidity and acquisition and other investment opportunities. During the three-month period ended February 28, 2022, we repurchased 0.5 million shares for $20.2 million. We plan to fully utilize the authorization by December 31, 2023.

Cash Flows from Operating Activities

Net cash provided by operating activities–continuing operations was $49.6 million in the nine-month period ended February 28, 2022 compared to cash provided of $85.0 million in the prior year period. The decrease from the prior period of $35.4 million was primarily attributable to a greater reduction in inventory levels in the prior year period and the proceeds of a $48.5 million grant from the Payroll Support Program of the CARES Act. These items were partially offset by a $25 million license fee paid to Unison Industries in the prior year period for our expanded and extended exclusive distribution agreement.

Cash Flows from Investing Activities

Net cash used in investing activities was $6.9 million during the nine-month period ended February 28, 2022 compared to a cash provided of $2.3 million in the prior year period. The decrease over the prior period was primarily related to proceeds of $10.0 million from the termination of split-dollar life insurance policies in the prior year period.

Cash Flows from Financing Activities

Net cash used in financing activities was $45.3 million during the nine-month period ended February 28, 2022 compared to $397.2 million in the prior year period. The prior year period included the repayment of our additional draw down on our Revolving Credit Facility. These funds were originally drawn in late fiscal 2020 as a precautionary measure in light of the economic and market uncertainty presented by COVID-19. The current year period included $20.2 million for the repurchase of 0.5 million shares in conjunction with our recently announced stock repurchase program.

Critical Accounting Policies and Significant Estimates

We make a number of significant estimates, assumptions and judgments in the preparation of our financial statements. See *Management's Discussion and Analysis of Financial Condition and Results of Operations* in our Annual Report on Form 10-K for the fiscal year ended May 31, 2021 for a discussion of our critical accounting policies. There have been no significant changes to the application of our critical accounting policies during fiscal 2022.

Forward-Looking Statements

This report contains certain forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on beliefs of our management, as well as assumptions and estimates based on information available to us as of the dates such assumptions and estimates are made, and are subject to certain risks and uncertainties that could cause actual results to differ materially from historical results or those anticipated, depending on a variety of factors, including those factors set forth under Part I, Item 1A in our Annual Report on Form 10-K for the fiscal year ended May 31, 2021. Should one or more of those risks or uncertainties materialize adversely, or should underlying assumptions or estimates prove incorrect, actual results may vary materially from those described. Those events and uncertainties are difficult or impossible to predict accurately and many are beyond our control. We assume no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

Item 3 — Quantitative and Qualitative Disclosures About Market Risk

Our exposure to market risk includes fluctuating interest rates under our credit agreements, changes in foreign exchange rates, and credit losses on accounts receivable. See Note 1 of Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended May 31, 2021 for a discussion of accounts receivable exposure.

Foreign Currency Risk. Revenues and expenses of our foreign operations are translated at average exchange rates during the period, and balance sheet accounts are translated at period-end exchange rates. Balance sheet translation adjustments are excluded from the results of operations and are recorded in stockholders' equity as a component of accumulated other comprehensive loss. A hypothetical 10 percent devaluation of the U.S. dollar against foreign currencies would not have had a material impact on our financial position or continuing operations for the quarter ended February 28, 2022.

Interest Rate Risk. Refer to the section Quantitative and Qualitative Disclosures about Market Risk in our Annual Report on Form 10-K for the fiscal year ended May 31, 2021. There were no significant changes during the quarter ended February 28, 2022.

Item 4 — Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As required by Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of February 28, 2022. This evaluation was carried out under the supervision and with participation of our Chief Executive Officer and our Chief Financial Officer. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures. Therefore, effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective as of February 28, 2022, ensuring that information required to be disclosed in the reports that are filed under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported in a timely manner.

There were no changes in our internal control over financial reporting during the quarter ended February 28, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1 – Legal Proceedings

The information in Note 17 to the Condensed Consolidated Financial Statements contained in Part I, Item 1 of this Quarterly Report on Form 10-Q is incorporated herein by reference. There are no matters which constitute material pending legal proceedings to which we are a party other than those incorporated into this item by reference from Note 17 to our Condensed Consolidated Financial Statements for the quarter ended February 28, 2022 contained in this Quarterly Report on Form 10-Q.

Item 1A — Risk Factors

There is no material change in the information reported under Part I-Item 1A "Risk Factors" contained in our Annual Report on Form 10-K for the fiscal year ended May 31, 2021.

Item 2 — Unregistered Sales of Equity Securities and Use of Proceeds

(c) The following table provides information about purchases we made during the quarter ended February 28, 2022 of equity securities that are registered by us pursuant to Section 12 of the Exchange Act:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [1]	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs [1]
12/1/2021 – 12/31/2021	114,954	$ 38.73	114,954	$ 145,545,523
1/1/2022 – 1/31/2022	277,285	40.85	277,285	134,211,711
2/1/2022 – 2/28/2022	108,000	40.41	108,000	129,844,763
Total	500,239	$ 40.27	500,239	

[1] On December 21, 2021, our Board of Directors announced it had authorized a renewal of our stock repurchase program providing for the repurchase of up to $150 million of our common stock, with no expiration date.

Item 6 — Exhibits

The exhibits to this report are listed on the following index:

Exhibit No.	Description		Exhibits
10.	Material Contracts	10.1	Amendment dated December 23, 2021 to Purchase Agreement dated as of February 23, 2018 by and among AAR CORP., as seller representative and servicer, the sellers time to time party thereto, and Citibank, N.A., as buyer (filed herewith).
31.	Rule 13a-14(a)/15(d)-14(a) Certifications	31.1	Section 302 Certification dated March 22, 2022 of John M. Holmes, President and Chief Executive Officer of Registrant (filed herewith).
		31.2	Section 302 Certification dated March 22, 2022 of Sean M. Gillen, Vice President and Chief Financial Officer of Registrant (filed herewith).
32.	Section 1350 Certifications	32.1	Section 906 Certification dated March 22, 2022 of John M. Holmes, President and Chief Executive Officer of Registrant (filed herewith).
		32.2	Section 906 Certification dated March 22, 2022 of Sean M. Gillen, Vice President and Chief Financial Officer of Registrant (filed herewith).
101.	Interactive Data File	101	The following materials from the Registrant's Quarterly Report on Form 10-Q for the quarter ended February 28, 2022, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at February 28, 2022 and May 31, 2021, (ii) Condensed Consolidated Statements of Income for the three- and nine-months ended February 28, 2022 and 2021, (iii) Condensed Consolidated Statements of Comprehensive Income for the three- and nine-months ended February 28, 2022 and 2021, (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended February 28, 2022 and 2021, (v) Condensed Consolidated Statements of Changes in Equity for the three- and nine-months ended February 28, 2022 and 2021 (vi) Notes to Condensed Consolidated Financial Statements.**
104.	Cover Page Interactive Data File	104	Cover Page Interactive Data File (embedded within the Inline XBRL document and contained in Exhibit 101)

** Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AAR CORP.
(Registrant)

Date: March 22, 2022

/s/ SEAN M. GILLEN
Sean M. Gillen
Vice President and Chief Financial Officer
(Principal Financial Officer)

/s/ ERIC S. PACHAPA
Eric S. Pachapa
Vice President, Controller and Chief Accounting Officer
(Principal Accounting Officer)

Exhibit 99.1

AAR REPORTS FIRST QUARTER 2022 RESULTS

- First quarter sales of $455 million, up 14% over the prior year
- First quarter GAAP diluted earnings per share from continuing operations of $0.31 compared to a loss per share of $(0.40) in Q1 FY2021
- Adjusted diluted earnings per share from continuing operations of $0.52, up 206% from $0.17 in Q1 FY2021
- First quarter cash flow from operating activities from continuing operations of $18 million

WOOD DALE, ILLINOIS (September 23, 2021) — AAR CORP. (NYSE: AIR) today reported first quarter Fiscal Year 2022 consolidated sales of $455.1 million and income from continuing operations of $11.2 million, or $0.31 per diluted share. For the first quarter of the prior year, the Company reported sales of $400.8 million and loss from continuing operations of $13.9 million, or $0.40 per diluted share. Our adjusted diluted earnings per share from continuing operations in the first quarter of Fiscal Year 2022 were $0.52 compared to $0.17 in the first quarter of the prior year. Current quarter results included net pretax adjustments of $9.9 million, or $0.21 per share, primarily due to a previously disclosed customer contract termination and related asset impairment charges.

Consolidated first quarter sales increased 14% over the prior year quarter. Our consolidated sales to commercial customers increased 53% over the prior year quarter primarily due to the recovery in the commercial market from the impact of COVID-19. Our consolidated sales to government customers decreased 17% primarily related to timing as the prior year quarter included significant activity across both our U.S. Marine Corps C-40 and U.S. Air Force pallet contracts.

On a sequential basis, consolidated first quarter sales increased 4% over the fourth quarter. Our consolidated sales to commercial customers increased 17% over the fourth quarter while consolidated sales to government customers decreased 10%.

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Sales to commercial customers were 59% of consolidated sales compared to 44% in the prior year's quarter reflecting the recovery in the commercial market from the impact of COVID-19.

Subsequent to the end of the quarter, we announced several new contract awards including:

- Exclusive distribution agreement with Arkwin Industries covering its broad line of engine actuation and commercial aviation products, which complement our existing engine parts offerings
- Firm, fixed price contract from the Department of Energy's National Nuclear Security Administration for the conversion and delivery of a Boeing 737-700 aircraft
- Extension of our long-term, component support agreement with Volotea, a growing low-cost carrier in Spain, for its fleet of Airbus narrow body aircraft utilizing our logistics centers in Europe

"We had a very strong start to the year across our commercial business. We saw robust performance in our MRO operations and continued recovery in our parts activities. We also secured new government and commercial program contract awards while adding another exclusive new parts distribution agreement, which we expect to contribute to our long-term growth," said John M. Holmes, President and Chief Executive Officer of AAR CORP.

Gross profit margins increased from 12.1% in the prior year quarter to 14.2% in the current quarter and adjusted gross profit margin increased from 13.0% to 16.1%, primarily due to the favorable impact from our actions to reduce costs and increase our operating efficiency. Expeditionary Services profitability increased significantly from 10.8% to 19.0% reflecting the sale of the Composites business in the prior year quarter and improved execution in the Mobility business.

Selling, general and administrative expenses increased from $45.3 million to $49.3 million mainly due to restoration of temporary compensation reductions. Selling, general and administrative expenses as a percent of sales decreased from 11.3% to 10.8% due to the favorable impact from our cost reduction actions.

Operating margin increased from 0.8% in the prior year quarter to 3.3% in the current quarter and adjusted operating margin increased from 2.5% to 5.5%, primarily due to the favorable impact from our actions to reduce costs and increase our operating efficiency. Sequentially, our adjusted operating margin increased from 5.2% in the fourth quarter to 5.5% in the current quarter.

In conjunction with the U.S. exit from Afghanistan, we have concluded our activities in country under our WASS and U.S. Department of Defense contracts. The operations related to our activities in Afghanistan contributed revenue of $67 million in Fiscal 2021.

Holmes continued, “I am extremely proud of our WASS team and their work in Afghanistan. Our team played a vital role in helping to evacuate over 2,000 U.S. Embassy personnel over a 36 hour period. This was a very difficult operation in a challenging environment but all of our flights were completed successfully and once our mission was accomplished, all of our AAR team members were safely evacuated. We are very grateful for their service.”

Net interest expense for the quarter was $0.7 million compared to $1.6 million last year. Average diluted share count increased to 35.7 million from 35.0 million in the prior year quarter.

Cash flow provided by operating activities from continuing operations was $17.5 million during the current quarter compared to $39.8 million in the prior year quarter, which included $48.5 million related to our receipt of funding from the CARES Act through the Payroll Support Program. Excluding our accounts receivable financing program, our cash flow provided by operating activities from continuing operations was $25.9 million in the current quarter.

Holmes concluded, “Our continued focus on driving operating efficiency and working capital management led to another quarter of sequential margin improvement and strong cash flow. Looking forward, while the U.S. exit from Afghanistan will impact our government business in the near term, we are encouraged by the strong pipeline of offsetting government opportunities such as the recent contract award from the Department of Energy. In our commercial markets, the timing of the recovery has been impacted by the Delta variant, but as we continue to see demand increase, particularly in our parts activities, we expect continued growth and operating margin expansion.”

Conference Call Information

AAR will hold its quarterly conference call at 3:45 p.m. CT on September 23, 2021. The conference call can be accessed by calling 866-802-4322 from inside the U.S. or +1-703-639-1319 from outside the U.S. A replay of the conference call will also be available by calling 855-859-2056 from inside the U.S. or +1-404-537-3406 from outside the U.S. (access code 8294140). The replay will be available from 7:15 p.m. CT on September 23, 2021 until 10:59 p.m. CT on September 29, 2021.

About AAR

AAR is a global aerospace and defense aftermarket solutions company with operations in over 20 countries. Headquartered in the Chicago area, AAR supports commercial and government customers through two operating segments: Aviation Services and Expeditionary Services. AAR’s Aviation Services include parts supply; OEM solutions; integrated solutions; maintenance, repair, overhaul; and engineering. AAR’s Expeditionary Services include mobility systems operations. Additional information can be found at www.aarcorp.com.

AAR

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This press release contains certain statements relating to future results, which are forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995, which reflect management's expectations about future conditions, including but not limited to (i) the ability of our latest distribution, government and commercial programs contract awards to support continued long-term growth,(ii) the impact of our continued focus on driving operating efficiency and working capital management on sequential margin improvement and cash flow, (iii) the impact on our government business in the near term of the recent U.S. exit from Afghanistan, (iv) the impact of the strong pipeline of offsetting government opportunities on our future results and (v) our expectations regarding continued growth and operating margin expansion.

Forward-looking statements often address our expected future operating and financial performance and financial condition, or sustainability targets, goals, commitments, and other business plans, and often may also be identified because they contain words such as "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "likely," "may," "might," "plan," "potential," "predict," "project," "seek," "should," "target," "will," "would," or similar expressions and the negatives of those terms.

These forward-looking statements are based on the beliefs of Company management, as well as assumptions and estimates based on information available to the Company as of the dates such assumptions and estimates are made, and are subject to certain risks and uncertainties that could cause actual results to differ materially from historical results or those anticipated, depending on a variety of factors, including: (i) factors that adversely affect the commercial aviation industry; (ii) the continued impact of the COVID-19 pandemic on air travel, worldwide commercial activity and our and our customers' ability to source parts and components; (iii) a reduction in the level of sales to the branches, agencies and departments of the U.S. government and their contractors (which were 44.7% of total sales in fiscal 2021); (iv) non-compliance with laws and regulations relating to the formation, administration and performance of our U.S. government contracts; (v) cost overruns and losses on fixed-price contracts; (vi) nonperformance by subcontractors or suppliers; (vii) changes in or non-compliance with laws and regulations that may affect certain of our aviation and government and defense related activities that are subject to licensing, certification and other regulatory requirements imposed by the FAA, the U.S. State Department and other regulatory agencies, both domestic and foreign; (viii) a reduction in outsourcing of maintenance activity by airlines; (ix) a shortage of the skilled personnel on whom we depend to operate our business, or work stoppages; (x) competition from other companies, including original equipment manufacturers, some of which have greater financial resources than we do; (xi) financial and operational risks arising as a result of operating internationally; (xii) inability to integrate acquisitions effectively and execute our operational and financial plan related to the acquisitions; (xiii) inability to recover our costs due to fluctuations in market values for aviation products and equipment caused by various factors, including reductions in air travel, airline bankruptcies, consolidations and fleet reductions; (xiv) asset impairment charges we may be required to recognize to reflect the non-recoverability of our assets or lowered expectations regarding businesses we have acquired; (xv) limitations on our ability to access the debt and equity capital markets or to draw down funds under loan agreements; (xvi) non-compliance with restrictive and financial covenants contained in certain of our loan agreements, and government funding received under the CARES Act; (xvii) restrictions on paying, or failure to maintain or pay dividends; (xviii) exposure to product liability and property claims that may be in excess of our liability insurance coverage; (xix) threats to our systems technology from equipment failures' cyber and other security y breaches or other disruptions; (xx) the costs of compliance, and liability for non-compliance, with environmental regulations, including future requirements regarding climate change; and (xxi) a need to make significant capital expenditures to keep pace with technological developments in our industry. Should one or more of those risks or uncertainties materialize adversely, or should underlying assumptions or estimates prove incorrect, actual results may vary materially from those described. Those events and uncertainties are difficult or impossible to predict accurately and many are beyond our control.

For a discussion of these and other risks and uncertainties, refer to our Annual Report on Form 10-K, Part I, "Item 1A, Risk Factors" and our Quarterly Reports on Form 10-Q. These events and uncertainties are difficult or impossible to predict accurately and many are beyond the Company's control. The risks described in these reports are not the only risks we face, as additional risks and uncertainties are not currently known or foreseeable or impossible to predict accurately or risks that are beyond the Company's control or deemed immaterial may materially adversely affect our business, financial condition or results of operations in future periods. We assume no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

AAR CORP. and Subsidiaries

Consolidated Statements of Operations *(In millions except per share data - unaudited)*	Three Months Ended August 31, **2021**	Three Months Ended August 31, 2020
Sales	**$ 455.1**	$ 400.8
Cost and expenses:		
Cost of sales	**390.5**	352.2
Selling, general and administrative	**49.3**	45.3
Loss from joint ventures	**(0.2)**	(0.1)
Operating income	**15.1**	3.2
Loss on sale of business	**—**	(19.5)
Interest expense, net	**(0.7)**	(1.6)
Other income, net	**0.7**	0.2
Income (Loss) from continuing operations before income taxes	**15.1**	(17.7)
Income tax expense (benefit)	**3.9**	(3.8)
Income (Loss) from continuing operations	**11.2**	(13.9)
Income (Loss) from discontinued operations	**0.3**	(0.6)
Net income (loss)	**$ 11.5**	$ (14.5)
Earnings (Loss) per share – Basic		
Earnings (Loss) from continuing operations	**$ 0.32**	$ (0.40)
Earnings (Loss) from discontinued operations	**0.01**	(0.02)
Earnings (Loss) per share – Basic	**$ 0.33**	$ (0.42)
Earnings (Loss) per share – Diluted		
Earnings (Loss) from continuing operations	**$ 0.31**	$ (0.40)
Earnings (Loss) from discontinued operations	**0.01**	(0.02)
Earnings (Loss) per share – Diluted	**$ 0.32**	$ (0.42)
Share Data:		
Weighted average shares outstanding – Basic	**35.1**	34.9
Weighted average shares outstanding – Diluted	**35.7**	35.0

AAR CORP. and Subsidiaries

Consolidated Balance Sheets *(In millions)*	August 31, 2021 (unaudited)	May 31, 2021
ASSETS		
Cash and cash equivalents	$ 48.8	$ 51.8
Restricted cash	3.8	8.4
Accounts receivable, net	180.8	166.7
Contract assets	74.6	71.9
Inventories, net	525.8	540.6
Rotable assets and equipment on or available for lease	52.3	50.4
Assets of discontinued operations	19.2	19.5
Other current assets	39.6	27.7
Total current assets	944.9	937.0
Property, plant, and equipment, net	109.1	120.0
Operating lease right-of-use assets, net	73.6	75.8
Goodwill and intangible assets, net	122.1	123.8
Rotable assets supporting long-term programs	178.0	184.3
Other non-current assets	108.0	98.8
Total assets	$ 1,535.7	$ 1,539.7
LIABILITIES AND EQUITY		
Accounts payable and accrued liabilities	$ 304.0	$ 301.4
Liabilities of discontinued operations	20.2	35.4
Total current liabilities	324.2	336.8
Long-term debt	127.6	133.7
Operating lease liabilities	58.0	59.9
Other liabilities and deferred income	37.7	34.9
Total liabilities	547.5	565.3
Equity	988.2	974.4
Total liabilities and equity	$ 1,535.7	$ 1,539.7

AAR CORP. and Subsidiaries

Consolidated Statements of Cash Flows
(In millions – unaudited)

	Three Months Ended August 31, 2021	Three Months Ended August 31, 2020
Cash flows provided by operating activities:		
Net income (loss)	$ **11.5**	$ (14.5)
Less: (Income) Loss from discontinued operations	**(0.3)**	0.6
Income (Loss) from continuing operations	**11.2**	(13.9)
Adjustments to reconcile income (loss) from continuing operations to net cash provided by operating activities		
Depreciation and intangible amortization	**8.9**	9.0
Stock-based compensation	**3.1**	2.7
Loss on sale of business	**—**	19.5
Customer contract termination costs	**—**	2.2
Impairment charges	**2.3**	5.8
Changes in certain assets and liabilities:		
Accounts receivable	**(14.5)**	2.7
Contract assets	**(2.8)**	(0.1)
Inventories	**14.4**	18.8
Rotable assets supporting long-term programs	**0.9**	1.0
Accounts payable and accrued liabilities	**2.9**	(25.1)
Payroll Support Program deferred credit	**—**	40.8
Deferred revenue on long-term programs	**(2.0)**	(17.9)
Other	**(6.9)**	(5.7)
Net cash provided by operating activities – continuing operations	**17.5**	39.8
Net cash used in operating activities – discontinued operations	**(14.6)**	(0.9)
Net cash provided by operating activities	**2.9**	38.9
Cash flows used in investing activities:		
Property, plant and equipment expenditures	**(2.2)**	(3.3)
Other	**(2.7)**	1.6
Net cash used in investing activities – continuing operations	**(4.9)**	(1.7)
Cash flows used in financing activities:		
Short-term borrowings, net	**(5.0)**	(355.0)
Proceeds from Payroll Support Program note	**—**	8.7
Cash dividends	**—**	(0.1)
Other	**(0.5)**	(1.5)
Net cash used in financing activities – continuing operations	**(5.5)**	(347.9)
Effect of exchange rate changes on cash	**(0.1)**	0.1
Decrease in cash and cash equivalents	**(7.6)**	(310.6)
Cash, cash equivalents, and restricted cash at beginning of period	**60.2**	424.7
Cash, cash equivalents, and restricted cash at end of period	$ **52.6**	$ 114.1

<u>Sales By Business Segment</u>
(In millions - unaudited)

	Three Months Ended August 31,	
	2021	2020
Aviation Services	**$ 435.6**	$ 363.6
Expeditionary Services	**19.5**	37.2
	$ 455.1	$ 400.8

<u>Gross Profit by Business Segment</u>
(In millions- unaudited)

	Three Months Ended August 31,	
	2021	2020
Aviation Services	**$ 60.9**	$ 44.6
Expeditionary Services	**3.7**	4.0
	$ 64.6	$ 48.6

Adjusted income from continuing operations, adjusted diluted earnings per share from continuing operations, adjusted sales, adjusted cost of sales, adjusted gross profit margin, adjusted operating income, adjusted cash flow provided by operating activities from continuing operations, adjusted EBITDA, and net debt are “non-GAAP financial measures” as defined in Regulation G of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). We believe these non-GAAP financial measures are relevant and useful for investors as they illustrate our actual operating performance unaffected by the impact of certain items. When reviewed in conjunction with our GAAP results and the accompanying reconciliations, we believe these non-GAAP financial measures provide additional information that is useful to gain an understanding of the factors and trends affecting our business and provide a means by which to compare our operating performance against that of other companies in the industries we compete. These non-GAAP measures should be considered as a supplement to, and not as a substitute for, or superior to, the corresponding measures calculated in accordance with GAAP. Adjusted EBITDA is income from continuing operations before interest income (expense), other income (expense), income taxes, depreciation and amortization, stock-based compensation and items of an unusual nature including but not limited to business divestitures, workforce actions, subsidies and costs, impairment charges, facility consolidation and repositioning costs, investigation and remediation compliance costs, and significant customer events such as early terminations, contract restructurings, forward loss provisions and bankruptcies and credit charges.

Pursuant to the requirements of Regulation G of the Exchange Act, we are providing the following tables that reconcile the above mentioned non-GAAP financial measures to the most directly comparable GAAP financial measures:

Adjusted Income from Continuing Operations [(a)] *(In millions - unaudited)*	**Three Months Ended August 31,**	
	2021	2020
Income (Loss) from continuing operations	**$ 11.2**	$ (13.9)
Investigation and remediation compliance costs	**0.1**	1.0
Loss on sale of business	**—**	14.8
Asset impairment charges	**1.7**	4.4
Contract termination/restructuring costs and loss provisions, net	**5.0**	1.8
Customer bankruptcy and credit charges	**—**	0.1
Government COVID-related subsidies	**(0.2)**	(8.4)
Facility consolidation and repositioning costs	**0.1**	1.5
Severance and furlough costs	**0.7**	4.5
Strategic financing evaluation costs	**—**	0.2
Adjusted income from continuing operations	**$ 18.6**	$ 6.0

(a) All adjustments are presented net of applicable income taxes.

Adjusted Diluted Earnings per Share from Continuing Operations [(a)] *(In millions - unaudited)*	**Three Months Ended August 31,**	
	2021	2020
Diluted earnings (loss) per share from continuing operations	**$ 0.31**	$ (0.40)
Investigation and remediation compliance costs	**0.01**	0.03
Loss on sale of business	**—**	0.42
Asset impairment charges	**0.05**	0.13
Contract termination/restructuring costs and loss provisions, net	**0.14**	0.05
Government workforce subsidies	**(0.01)**	(0.24)
Facility consolidation and repositioning costs	**—**	0.04
Severance and furlough costs	**0.02**	0.13
Strategic financing evaluation costs	**—**	0.01
Adjusted diluted earnings per share from continuing operations	**$ 0.52**	$ 0.17

(a) All adjustments are presented net of applicable income taxes.

Adjusted Gross Profit Margin
(In millions - unaudited)

	Three Months Ended		
	August 31, 2021	May 31, 2021	August 31, 2020
Sales	**$ 455.1**	$ 437.6	$ 400.8
Contract termination/restructuring costs, net	**1.0**	(2.4)	1.9
Adjusted sales	**$ 456.1**	$ 435.2	$ 402.7
Cost of sales	**$ 390.5**	$ 365.8	$ 352.2
Contract termination/restructuring costs and loss provisions, net	**(5.7)**	(1.1)	(0.3)
Government COVID-related subsidies, net	**0.3**	1.4	10.1
Facility consolidation and repositioning costs	**(0.1)**	(2.1)	(2.0)
Asset impairment charges	**(2.3)**	—	(5.8)
Severance and furlough costs, net	**(0.1)**	(0.6)	(3.7)
Adjusted cost of sales	**$ 382.6**	$ 363.4	$ 350.5
Adjusted gross profit margin	**16.1%**	16.5%	13.0%

Adjusted Operating Margin
(In millions - unaudited)

	Three Months Ended		
	August 31, 2021	May 31, 2021	August 31, 2020
Adjusted sales	**$ 456.1**	$ 435.2	$ 402.7
Operating income	**$ 15.1**	$ 20.7	$ 3.2
Investigation and remediation costs	**0.2**	—	1.3
Contract termination/restructuring costs and loss provisions, net	**6.7**	(1.4)	2.2
Customer bankruptcy and credit charges	—	2.4	0.2
Government COVID-related subsidies, net	**(0.3)**	(1.8)	(11.1)
Facility consolidation and repositioning costs	**0.1**	2.1	2.0
Asset impairment charges	**2.3**	—	5.8
Severance and furlough costs, net	**0.9**	0.7	6.0
Strategic financing evaluation costs	—	—	0.3
Adjusted operating income	**$ 25.0**	$ 22.7	$ 9.9
Adjusted operating margin	**5.5%**	5.2%	2.5%

Adjusted Cash Provided By Operating Activities From Continuing Operations
(In millions - unaudited)

	Three Months Ended August 31,	
	2021	**2020**
Cash provided by operating activities from continuing operations	**$ 17.5**	$ 39.8
Amounts outstanding on accounts receivable financing program:		
Beginning of period	**38.6**	74.3
End of period	**(30.2)**	(55.7)
Adjusted cash provided by operating activities from continuing operations	**$ 25.9**	$ 58.4

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Adjusted EBITDA *(In millions - unaudited)*	Three Months Ended August 31, 2021	Three Months Ended August 31, 2020	Year Ended May 31, 2021
Net income (loss)	**$ 11.5**	$ (14.5)	$ 35.8
Loss (Income) from discontinued operations	**(0.3)**	0.6	10.5
Income tax expense (benefit)	**3.9**	(3.8)	18.2
Other income, net	**(0.7)**	(0.2)	(4.3)
Interest expense, net	**0.7**	1.6	4.8
Depreciation and intangible amortization	**8.9**	9.0	36.3
Investigation and remediation compliance costs	**0.2**	1.3	4.4
Loss on sale of business	**—**	19.5	20.2
Asset impairment charges	**2.3**	5.8	7.0
Contract termination/restructuring costs	**6.7**	2.2	9.3
Customer bankruptcy charges	**—**	0.2	4.9
Government COVID-related subsidies	**(0.3)**	(11.1)	(56.2)
Facility consolidation and repositioning costs	**0.1**	2.0	4.5
Severance and furlough costs	**0.9**	6.0	9.0
Strategic financing evaluation costs	**—**	0.3	1.0
Stock-based compensation	**3.1**	2.7	9.2
Adjusted EBITDA	**$ 37.0**	$ 21.6	$ 114.6

Net Debt *(In millions- unaudited)*	August 31, 2021	August 31, 2020
Total debt	**$ 129.0**	$ 257.0
Less: Cash and cash equivalents	**(48.8)**	(107.7)
Net debt	**$ 80.2**	$ 149.3

Net Debt to Adjusted EBITDA *(In millions - unaudited)*	
Adjusted EBITDA for the year ended May 31, 2021	**$ 114.6**
Less: Adjusted EBITDA for the three months ended August 31, 2020	**(21.6)**
Plus: Adjusted EBITDA for the three months ended August 31, 2021	**37.0**
Adjusted EBITDA for the twelve months ended August 31, 2021	**130.0**
Net debt at August 31, 2021	**$ 80.2**
Net debt to Adjusted EBITDA	**0.62**

Exhibit 99.1

AAR REPORTS SECOND QUARTER FISCAL YEAR 2022 RESULTS

- Second quarter sales of $437 million, up 8% over the prior year
- Second quarter GAAP diluted earnings per share from continuing operations of $0.58 compared to $0.41 in Q2 FY2021
- Adjusted diluted earnings per share from continuing operations of $0.53, up 71% from $0.31 in Q2 FY2021
- Second quarter cash flow from operating activities from continuing operations of $16 million
- Announced $150 million share repurchase program

WOOD DALE, ILLINOIS (December 21, 2021) — AAR CORP. (NYSE: AIR) today reported second quarter Fiscal Year 2022 consolidated sales of $436.6 million and income from continuing operations of $20.8 million, or $0.58 per diluted share. For the second quarter of the prior year, the Company reported sales of $403.6 million and income from continuing operations of $14.4 million, or $0.41 per diluted share. Our adjusted diluted earnings per share from continuing operations in the second quarter of Fiscal Year 2022 were $0.53 compared to $0.31 in the second quarter of the prior year.

Consolidated second quarter sales increased 8% over the prior year quarter. Our consolidated sales to commercial customers increased 33% over the prior year quarter due to the recovery in the commercial market from the impact of COVID-19. Our consolidated sales to government customers decreased 15% primarily related to the level of program activity for the modification and sale of two C-40 aircraft to the U.S. Marine Corps in the prior year quarter.

Sales to commercial customers were 59% of consolidated sales compared to 48% in the prior year's quarter primarily reflecting the recovery in the commercial market from the impact of COVID-19.

Gross profit margins increased from 17.2% in the prior year quarter to 18.0% in the current quarter and adjusted gross profit margin increased from 13.9% to 16.7%, primarily due to the favorable impact from our actions to reduce costs and increase our operating efficiency.

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Selling, general and administrative expenses increased from $43.4 million to $47.1 million mainly due to restoration of temporary compensation reductions which had been in place last year. Selling, general and administrative expenses remained flat as a percent of sales at 10.8% with the favorable impact from our cost reduction actions offsetting the compensation restoration.

Operating margin increased from 5.4% in the prior year quarter to 6.9% in the current quarter and adjusted operating margin increased from 4.0% to 6.1%, as a result of our actions to reduce costs and increase our operating efficiency. Sequentially, our adjusted operating margin increased from 5.5% in the first quarter to 6.1% in the current quarter primarily due to strong performance on long-term programs.

“While the global recovery in commercial air travel continues to be uneven due to COVID-19 variants and associated travel restrictions, we continue to drive strong performance. We delivered our fifth straight quarter of adjusted operating margin improvement and are now exceeding pre-pandemic levels. We expect this improvement to continue as our higher margin parts activities fully recover,” said John M. Holmes, President and Chief Executive Officer of AAR CORP.

During the quarter, we announced a five-year renewal of our power-by-the-hour component pool and repair support program for flydubai’s fleet of 33 Boeing 737NG aircraft. We also announced a sustainability initiative in partnership with Fortress Transportation and Infrastructure Investors where we will jointly contribute a percentage of all used serviceable material sales from our CFM56-5B and -7B partnership to acquire verified carbon offsets and grant them to the purchasing customers. This new initiative highlights the environmental benefits of recycling serviceable material as airlines around the world seek ways to reduce their overall carbon footprint.

Subsequent to the end of the quarter, we were awarded a firm fixed price, indefinite delivery/indefinite quantity contract from the Air Force to support United States Air Forces in Europe (USAFE) F-16 aircraft. This $365 million, ten-year contract provides for F-16 depot work as well as Service Life Extension Program modifications and maintenance.

Holmes continued, "These new business wins demonstrate the strength of our aviation services offering. The USAFE award is particularly exciting as we have been supporting F-16 aircraft for decades and this win takes our involvement with this widely used platform to a new level given the long-term and comprehensive nature of this program. Additionally, in partnership with Fortress, we are leading the aftermarket industry in Environmental, Social and Governance (ESG) initiatives while delivering value to our customers."

Net interest expense for the quarter was $0.4 million compared to $1.3 million last year. Average diluted share count increased from 35.0 million to 35.6 million in the current year quarter. During the quarter, we re-paid our Canadian term loan of $24.7 million using proceeds from our credit facility.

Cash flow provided by operating activities from continuing operations was $15.9 million during the current quarter. Excluding our accounts receivable financing program, our cash flow provided by operating activities from continuing operations was $25.9 million in the current quarter. Over the last six quarters, our cash flow provided by operating activities from continuing operations has totaled $141.9 million.

Holmes concluded, "Throughout the pandemic, we have demonstrated our ability to drive consistent cash flows. This has resulted in an exceptionally strong balance sheet, which allows us to continue to invest in our business while returning capital to shareholders. In addition to deploying capital to fund our continued growth, we will also return capital to shareholders through our $150 million share repurchase program, which we announced today and will commence this quarter."

Conference Call Information

AAR will hold its quarterly conference call at 3:45 p.m. CT on December 21, 2021. The conference call can be accessed by calling 866-802-4322 from inside the U.S. or +1-703-639-1319 from outside the U.S. A replay of the conference call will also be available by calling 855-859-2056 from inside the U.S. or +1-404-537-3406 from outside the U.S. (access code 8483239). The replay will be available from 7:15 p.m. CT on December 21, 2021 until 10:59 p.m. CT on December 27, 2021.

About AAR

AAR is a global aerospace and defense aftermarket solutions company with operations in over 20 countries. Headquartered in the Chicago area, AAR supports commercial and government customers through two operating segments: Aviation Services and Expeditionary Services. AAR's Aviation Services include parts supply; OEM solutions; integrated solutions; maintenance, repair, overhaul; and engineering. AAR's Expeditionary Services include mobility systems operations. Additional information can be found at www.aarcorp.com.

AAR

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This press release contains certain statements relating to future results, which are forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995, which reflect management's expectations about future conditions, including but not limited to (i) the ability to continue to drive strong performance, (ii) our expectations regarding the continued improvement in our adjusted operating margin and our higher margin parts activities to fully recover, (iii) the continued strength of our aviation services offering, (iv) the ability to lead the aftermarket industry in Environmental, Social and Governance (ESG) initiatives while delivering value to our customers, (v) our ability to continue to drive strong cash flows, (vi) maintaining an exceptionally strong balance sheet to allow us to continue to invest in our business while returning capital to shareholders, and (vii) our expectation that we will continue to deploy capital into each of our parts, repair and government activities.

Forward-looking statements often address our expected future operating and financial performance and financial condition, or sustainability targets, goals, commitments, and other business plans, and often may also be identified because they contain words such as "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "likely," "may," "might," "plan," "potential," "predict," "project," "seek," "should," "target," "will," "would," or similar expressions and the negatives of those terms.

These forward-looking statements are based on the beliefs of Company management, as well as assumptions and estimates based on information available to the Company as of the dates such assumptions and estimates are made, and are subject to certain risks and uncertainties that could cause actual results to differ materially from historical results or those anticipated, depending on a variety of factors, including: (i) factors that adversely affect the commercial aviation industry; (ii) the continued impact of the COVID-19 pandemic on air travel, worldwide commercial activity and our and our customers' ability to source parts and components; (iii) a reduction in the level of sales to the branches, agencies and departments of the U.S. government and their contractors (which were 44.7% of total sales in fiscal 2021); (iv) non-compliance with laws and regulations relating to the formation, administration and performance of our U.S. government contracts; (v) cost overruns and losses on fixed-price contracts; (vi) nonperformance by subcontractors or suppliers; (vii) changes in or non-compliance with laws and regulations that may affect certain of our aviation and government and defense related activities that are subject to licensing, certification and other regulatory requirements imposed by the FAA, the U.S. State Department and other regulatory agencies, both domestic and foreign; (viii) a reduction in outsourcing of maintenance activity by airlines; (ix) a shortage of the skilled personnel on whom we depend to operate our business, or work stoppages; (x) competition from other companies, including original equipment manufacturers, some of which have greater financial resources than we do; (xi) financial and operational risks arising as a result of operating internationally; (xii) inability to integrate acquisitions effectively and execute our operational and financial plan related to the acquisitions; (xiii) inability to recover our costs due to fluctuations in market values for aviation products and equipment caused by various factors, including reductions in air travel, airline bankruptcies, consolidations and fleet reductions; (xiv) asset impairment charges we may be required to recognize to reflect the non-recoverability of our assets or lowered expectations regarding businesses we have acquired; (xv) limitations on our ability to access the debt and equity capital markets or to draw down funds under loan agreements; (xvi) non-compliance with restrictive and financial covenants contained in certain of our loan agreements, and government funding received under the CARES Act; (xvii) restrictions on paying, or failure to maintain or pay dividends; (xviii) exposure to product liability and property claims that may be in excess of our liability insurance coverage; (xix) threats to our systems technology from equipment failures' cyber and other security y breaches or other disruptions; (xx) the costs of compliance, and liability for non-compliance, with environmental regulations, including future requirements regarding climate change; and (xxi) a need to make significant capital expenditures to keep pace with technological developments in our industry. Should one or more of those risks or uncertainties materialize adversely, or should underlying assumptions or estimates prove incorrect, actual results may vary materially from those described. Those events and uncertainties are difficult or impossible to predict accurately and many are beyond our control.

For a discussion of these and other risks and uncertainties, refer to our Annual Report on Form 10-K, Part I, "Item 1A, Risk Factors" and our Quarterly Reports on Form 10-Q. These events and uncertainties are difficult or impossible to predict accurately and many are beyond the Company's control. The risks described in these reports are not the only risks we face, as additional risks and uncertainties are not currently known or foreseeable or impossible to predict accurately or risks that are beyond the Company's control or deemed immaterial may materially adversely affect our business, financial condition or results of operations in future periods. We assume no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

AAR CORP. and Subsidiaries

Condensed Consolidated Statements of Operations *(In millions except per share data - unaudited)*	**Three Months Ended November 30,**		**Six Months Ended November 30,**	
	2021	2020	**2021**	2020
Sales	**$ 436.6**	$ 403.6	**$ 891.7**	$ 804.4
Cost and expenses:				
Cost of sales	**358.2**	334.1	**748.7**	686.3
Provision for doubtful accounts	**0.8**	4.4	**0.8**	4.4
Selling, general and administrative	**47.1**	43.4	**96.4**	88.7
Loss from joint ventures	**(0.4)**	(0.1)	**(0.6)**	(0.2)
Operating income	**30.1**	21.6	**45.2**	24.8
Loss on sale of business	**(1.3)**	—	**(1.3)**	(19.5)
Interest expense, net	**(0.4)**	(1.3)	**(1.1)**	(2.9)
Other income (expense), net	**0.3**	(0.7)	**1.0**	(0.5)
Income from continuing operations before income tax expense	**28.7**	19.6	**43.8**	1.9
Income tax expense	**7.9**	5.2	**11.8**	1.4
Income from continuing operations	**20.8**	14.4	**32.0**	0.5
Income (Loss) from discontinued operations	**—**	(6.2)	**0.3**	(6.8)
Net income (loss)	**$ 20.8**	$ 8.2	**$ 32.3**	$ (6.3)
Earnings per share – Basic:				
Earnings from continuing operations	**$ 0.59**	$ 0.41	**$ 0.90**	$ 0.01
Loss from discontinued operations	**—**	(0.18)	**0.01**	(0.20)
Earnings per share – Basic	**$ 0.59**	$ 0.23	**$ 0.91**	$ (0.19)
Earnings per share – Diluted:				
Earnings from continuing operations	**$ 0.58**	$ 0.41	**$ 0.89**	$ 0.01
Loss from discontinued operations	**—**	(0.18)	**0.01**	(0.19)
Earnings per share – Diluted	**$ 0.58**	$ 0.23	**$ 0.90**	$ (0.18)
Share Data:				
Weighted average shares outstanding – Basic	**35.1**	34.9	**35.1**	34.9
Weighted average shares outstanding – Diluted	**35.6**	35.0	**35.6**	35.0

AAR CORP. and Subsidiaries

Condensed Consolidated Balance Sheets *(In millions)*	**November 30, 2021** (unaudited)	**May 31, 2021**
ASSETS		
Cash and cash equivalents	**$ 42.7**	$ 51.8
Restricted cash	**3.7**	8.4
Accounts receivable, net	**192.1**	166.7
Contract assets	**68.5**	71.9
Inventories, net	**531.7**	540.6
Rotable assets and equipment on or available for lease	**53.9**	50.4
Assets of discontinued operations	**17.9**	19.5
Other current assets	**36.2**	27.7
Total current assets	**946.7**	937.0
Property, plant, and equipment, net	**106.2**	120.0
Operating lease right-of-use assets, net	**76.3**	75.8
Goodwill and intangible assets, net	**120.9**	123.8
Rotable assets supporting long-term programs	**173.6**	184.3
Other non-current assets	**105.9**	98.8
Total assets	**$ 1,529.6**	$ 1,539.7
LIABILITIES AND EQUITY		
Accounts payable and accrued liabilities	**$ 301.0**	$ 301.4
Liabilities of discontinued operations	**19.2**	35.4
Total current liabilities	**320.2**	336.8
Long-term debt	**103.2**	133.7
Operating lease liabilities	**60.5**	59.9
Other liabilities and deferred income	**38.7**	34.9
Total liabilities	**522.6**	565.3
Equity	**1,007.0**	974.4
Total liabilities and equity	**1,529.6**	$ 1,539.7

AAR CORP. and Subsidiaries

Condensed Consolidated Statements of Cash Flows *(In millions – unaudited)*	**Three Months Ended November 30,**		**Six Months Ended November 30,**	
	2021	2020	**2021**	2020
Cash flows provided from operating activities:				
Net income (loss)	**$ 20.8**	$ 8.2	**$ 32.3**	$ (6.3)
Loss (Income) from discontinued operations	**—**	6.2	**(0.3)**	6.8
Income from continuing operations	**20.8**	14.4	**32.0**	0.5
Adjustments to reconcile income from continuing operations to net cash provided from operating activities				
Depreciation and intangible amortization	**8.9**	9.2	**17.8**	18.2
Amortization of stock-based compensation	**1.6**	1.8	**4.7**	4.5
Provision for doubtful accounts	**0.8**	4.4	**0.8**	4.4
Loss on sale of business	**1.3**	—	**1.3**	19.5
Contract termination and restructuring costs	**—**	—	**—**	2.2
Impairment charges	**0.6**	1.2	**2.9**	7.0
Changes in certain assets and liabilities:				
Accounts receivable	**(11.7)**	(7.5)	**(26.2)**	(4.8)
Contract assets	**6.0**	(7.4)	**3.2**	(7.5)
Inventories	**(6.4)**	11.4	**8.0**	30.2
Rotable assets supporting long-term programs	**0.9**	(1.9)	**1.8**	(0.9)
Accounts payable and accrued liabilities	**(4.3)**	34.1	**(1.4)**	9.0
Payroll Support Program deferred credit	**—**	(17.2)	**—**	23.6
Deferred revenue on long-term programs	**2.7**	(42.5)	**0.7**	(60.4)
Other	**(5.3)**	27.6	**(12.2)**	21.9
Net cash provided from operating activities – continuing operations	**15.9**	27.6	**33.4**	67.4
Net cash provided from (used in) operating activities – discontinued operations	**0.4**	(1.0)	**(14.2)**	(1.9)
Net cash provided from operating activities	**16.3**	26.6	**19.2**	65.5
Cash flows provided from (used in) investing activities:				
Property, plant and equipment expenditures	**(3.8)**	(2.7)	**(6.0)**	(6.0)
Proceeds from termination of life insurance policies	**—**	10.0	**—**	10.0
Other	**6.0**	—	**3.3**	1.6
Net cash provided from (used in) investing activities	**2.2**	7.3	**(2.7)**	5.6
Cash flows used in financing activities:				
Repayments on borrowings, net	**(24.7)**	(35.0)	**(29.7)**	(381.3)
Cash dividends	**—**	—	**—**	(0.1)
Other	**0.1**	—	**(0.4)**	(1.5)
Net cash used in financing activities	**(24.6)**	(35.0)	**(30.1)**	(382.9)
Effect of exchange rate changes on cash	**(0.1)**	—	**(0.2)**	0.1
Decrease in cash and cash equivalents	**(6.2)**	(1.1)	**(13.8)**	(311.7)
Cash, cash equivalents, and restricted cash at beginning of period	**52.6**	114.1	**60.2**	424.7
Cash, cash equivalents, and restricted cash at end of period	**$ 46.4**	$ 113.0	**$ 46.4**	$ 113.0

AAR CORP. and Subsidiaries

Sales By Business Segment *(In millions - unaudited)*	Three Months Ended November 30,		Six Months Ended November 30,	
	2021	2020	**2021**	2020
Aviation Services	**$ 419.3**	$ 385.0	**$ 854.9**	$ 748.6
Expeditionary Services	**17.3**	18.6	**36.8**	55.8
	$ 436.6	$ 403.6	**$ 891.7**	$ 804.4

Gross Profit by Business Segment *(In millions- unaudited)*	Three Months Ended November 30,		Six Months Ended November 30,	
	2021	2020	**2021**	2020
Aviation Services	**$ 74.0**	$ 66.8	**$ 134.9**	$ 111.4
Expeditionary Services	**4.4**	2.7	**8.1**	6.7
	$ 78.4	$ 69.5	**$ 143.0**	$ 118.1

Adjusted income from continuing operations, adjusted diluted earnings per share from continuing operations, adjusted sales, adjusted cost of goods sold, adjusted gross profit margin, adjusted selling, general, and administrative expenses, adjusted cash flow from provided by (used in) operating activities from continuing operations, adjusted EBITDA, and net debt are "non-GAAP financial measures" as defined in Regulation G of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). We believe these non-GAAP financial measures are relevant and useful for investors as they illustrate our actual operating performance unaffected by the impact of certain items. When reviewed in conjunction with our GAAP results and the accompanying reconciliations, we believe these non-GAAP financial measures provide additional information that is useful to gain an understanding of the factors and trends affecting our business and provide a means by which to compare our operating performance against that of other companies in the industries we compete. These non-GAAP measures should be considered as a supplement to, and not as a substitute for, or superior to, the corresponding measures calculated in accordance with GAAP. Adjusted EBITDA is income from continuing operations before interest income (expense), other income (expense), income taxes, depreciation and amortization, stock-based compensation and items of an unusual nature including but not limited to business divestitures, workforce actions, subsidies and costs, impairment charges, facility consolidation and repositioning costs, investigation and remediation compliance costs, and significant customer events such as early terminations, contract restructurings, forward loss provisions and bankruptcies.

Pursuant to the requirements of Regulation G of the Exchange Act, we are providing the following tables that reconcile the above mentioned non-GAAP financial measures to the most directly comparable GAAP financial measures:

Adjusted Income from Continuing Operations [a] *(In millions - unaudited)*	Three Months Ended November 30,		Six Months Ended November 30,	
	2021	2020	**2021**	2020
Income from continuing operations	**$ 20.8**	$ 14.4	**$ 32.0**	$ 0.5
Investigation and remediation compliance costs	**0.6**	2.1	**0.7**	3.1
Loss on sale of business	**1.0**	—	**1.0**	14.8
Contract termination/restructuring costs and loss provisions, net	**(3.3)**	3.3	**1.7**	5.1
Customer bankruptcy and credit charges	**0.7**	1.0	**0.7**	1.1
Asset impairment charges	**0.5**	1.0	**2.2**	5.4
Government COVID-related subsidies	**(1.9)**	(14.2)	**(2.1)**	(22.6)
Facility consolidation and repositioning costs	**0.1**	0.3	**0.2**	1.8
Severance and furlough costs	**0.5**	2.4	**1.2**	6.9
Recognition of foreign currency translation adjustments	**0.2**	—	**0.2**	—
Strategic financing evaluation costs	**—**	0.6	**—**	0.8
Adjusted income from continuing operations	**$ 19.2**	$ 10.9	**$ 37.8**	$ 16.9

(a) All adjustments are presented net of applicable income taxes.

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Adjusted Diluted Earnings per Share from Continuing Operations [(a)] *(In millions - unaudited)*	**Three Months Ended November 30,**		**Six Months Ended November 30,**	
	2021	2020	**2021**	2020
Diluted earnings per share from continuing operations	**$ 0.58**	$ 0.41	**$ 0.89**	$ 0.01
Investigation and remediation compliance costs	**0.01**	0.06	**0.02**	0.09
Loss on sale of business	**0.03**	—	**0.03**	0.42
Contract termination/restructuring costs and loss provisions, net	**(0.09)**	0.10	**0.05**	0.15
Customer bankruptcy and credit charges	**0.02**	0.04	**0.02**	0.04
Asset impairment charges	**0.01**	0.02	**0.06**	0.15
Government COVID-related subsidies	**(0.05)**	(0.41)	**(0.06)**	(0.65)
Facility consolidation and repositioning costs	**0.01**	0.01	**0.01**	0.05
Severance and furlough costs	**0.01**	0.07	**0.03**	0.20
Strategic financing evaluation costs	**—**	0.01	**—**	0.02
Adjusted diluted earnings per share from continuing operations	**$ 0.53**	$ 0.31	**$ 1.05**	$ 0.48

(a) All adjustments are presented net of applicable income taxes.

Adjusted Gross Profit Margin *(In millions - unaudited)*	**Three Months Ended**		
	November 30, 2021	August 31, 2021	November 30, 2020
Sales	**$ 436.6**	$ 455.1	$ 403.6
Contract termination/restructuring costs, net	**(2.5)**	1.0	(2.3)
Customer bankruptcy and credit charges	**—**	—	0.4
Adjusted sales	**$ 434.1**	$ 456.1	$ 401.7
Cost of sales	**$ 358.2**	$ 390.5	$ 334.1
Contract termination/restructuring costs and loss provisions, net	**1.9**	(5.7)	(3.3)
Government COVID-related subsidies, net	**2.5**	0.3	18.1
Facility consolidation and repositioning costs	**(0.1)**	(0.1)	(0.4)
Asset impairment charges	**(0.6)**	(2.3)	(1.2)
Severance and furlough costs	**(0.5)**	(0.1)	(1.5)
Adjusted cost of sales	**$ 361.4**	$ 382.6	$ 345.8
Adjusted gross profit margin	**16.7%**	16.1%	13.9%

Adjusted Operating Margin *(In millions - unaudited)*	**Three Months Ended**			
	November 30, 2021	August 31, 2021	November 30, 2020	November 30, 2019
Adjusted sales	**$ 434.1**	$ 456.1	$ 401.7	$ 560.9
Operating income	**$ 30.1**	$ 15.1	$ 21.6	$ 28.1
Investigation and remediation costs	**0.8**	0.2	2.8	2.4
Contract termination/restructuring costs and loss provisions, net	**(4.4)**	6.7	4.5	—
Customer bankruptcy and credit charges	**1.0**	—	1.3	—
Government COVID-related subsidies	**(2.5)**	(0.3)	(18.7)	—
Facility consolidation and repositioning costs	**0.1**	0.1	0.4	—
Asset impairment charges	**0.6**	2.3	1.2	—
Severance and furlough costs	**0.8**	0.9	2.2	0.9
Strategic financing evaluation costs	**—**	—	0.7	—

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Adjusted operating income	**$ 26.5**	$ 25.0	$ 16.0	$ 31.4
Adjusted operating margin	**6.1%**	5.5%	4.0%	5.6%

Adjusted Cash Provided by Operating Activities from Continuing Operations *(In millions - unaudited)*	**Three Months Ended November 30,**		**Six Months Ended November 30,**	
	2021	2020	**2021**	2020
Cash provided by operating activities from continuing operations	**$ 15.9**	$ 27.6	**$ 33.4**	$ 67.4
Amounts outstanding on accounts receivable financing program:				
Beginning of period	**30.2**	55.7	**38.6**	74.3
End of period	**(20.2)**	(48.9)	**(20.2)**	(48.9)
Adjusted cash provided by operating activities from continuing operations	**$ 25.9**	$ 34.4	**$ 51.8**	$ 92.8

Adjusted EBITDA *(In millions - unaudited)*	**Three Months Ended November 30,**		**Six Months Ended November 30,**		**Year Ended May 31,**
	2021	2020	**2021**	2020	2021
Net income (loss)	**$ 20.8**	$ 8.2	**$ 32.3**	$ (6.3)	$ 35.8
Loss (Income) from discontinued operations	**—**	6.2	**(0.3)**	6.8	10.5
Income tax expense	**7.9**	5.2	**11.8**	1.4	18.2
Other (income) expense, net	**(0.3)**	0.7	**(1.0)**	0.5	(4.3)
Interest expense, net	**0.4**	1.3	**1.1**	2.9	4.8
Depreciation and intangible amortization	**8.9**	9.2	**17.8**	18.2	36.3
Investigation and remediation compliance costs	**0.8**	2.8	**1.0**	4.1	4.4
Loss on sale of business	**1.3**	—	**1.3**	19.5	20.2
Asset impairment charges	**0.6**	1.2	**2.9**	7.0	7.0
Contract termination/restructuring costs and loss provisions, net	**(4.4)**	4.5	**2.3**	6.7	9.3
Customer bankruptcy and credit charges	**1.0**	1.3	**1.0**	1.5	4.9
Government COVID-related subsidies, net	**(2.5)**	(18.7)	**(2.8)**	(29.8)	(56.2)
Facility consolidation and repositioning costs	**0.1**	0.4	**0.2**	2.4	4.5
Severance and furlough costs	**0.8**	2.2	**1.7**	8.2	9.0
Strategic financing evaluation costs	**—**	0.7	**—**	1.0	1.0
Stock-based compensation	**1.6**	1.8	**4.7**	4.5	9.2
Adjusted EBITDA	**$ 37.0**	$ 27.0	**$ 74.0**	$ 48.6	$ 114.6

Net Debt *(In millions- unaudited)*	**November 30, 2021**	**November 30, 2020**
Total debt	**$ 104.5**	$ 222.1
Less: Cash and cash equivalents	**(42.7)**	(110.0)
Net debt	**$ 61.8**	$ 112.1

Net Debt to Adjusted EBITDA *(In millions - unaudited)*	
Adjusted EBITDA for the year ended May 31, 2021	**$ 114.6**
Less: Adjusted EBITDA for the six months ended November 30, 2020	**(48.6)**
Plus: Adjusted EBITDA for the six months ended November 30, 2021	**74.0**
Adjusted EBITDA for the twelve months ended November 30, 2021	**$ 140.0**
Net debt at November 30, 2021	**$ 61.8**
Net debt to Adjusted EBITDA	**0.44**

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Exhibit 99.1

AAR REPORTS FOURTH QUARTER & FISCAL YEAR 2021 RESULTS

- Fourth quarter sales of $438 million, up 5% over the prior year
- Fourth quarter GAAP diluted earnings per share from continuing operations of $0.41 compared to a loss per share of $0.43 in Q4 FY2020
- Fourth quarter adjusted diluted earnings per share from continuing operations of $0.47 up 81% from $0.26 in Q4 FY2020
- Fourth quarter cash flow from operating activities from continuing operations of $24 million

WOOD DALE, ILLINOIS (July 20, 2021) — AAR CORP. (NYSE: AIR) today reported fourth quarter Fiscal Year 2021 consolidated sales of $437.6 million and income from continuing operations of $14.7 million, or $0.41 per diluted share. For the fourth quarter of the prior year, the Company reported sales of $416.5 million and loss from continuing operations of $15.0 million, or a loss of $0.43 per diluted share. Our adjusted diluted earnings per share from continuing operations in the fourth quarter of Fiscal Year 2021 were $0.47 compared to $0.26 in the fourth quarter of the prior year. Current quarter results included net after-tax adjustments of $2.0 million, or $0.06 per share, primarily related to customer credit and facility consolidation charges partially offset by government subsidies.

Consolidated fourth quarter sales increased 5% from the prior year quarter. Our consolidated sales to commercial customers increased 3% from the prior year quarter primarily due to the recovery in the commercial market from the impact of COVID-19. Our consolidated sales to government customers increased 7% as a result of continued strong performance across our global government contracts.

Sales to government and defense customers were 48% of consolidated sales compared to 47% in the prior year's quarter reflecting the growth in our government business as well as the continued impact of COVID-19 on commercial volumes.

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"We are encouraged by the strong recovery in domestic leisure travel as well as the recent positive commentary from our airline customers regarding increasing levels of domestic business travel. While there continues to be uncertainty about the pace of the recovery in our international markets, we are optimistic that demand will return when restrictions are lifted as the vaccines are further deployed. Additionally, our government end markets have continued their strong performance and the pipeline of opportunities remains full," said John M. Holmes, President and Chief Executive Officer of AAR CORP.

Gross profit margin increased from 8.7% in the prior year quarter to 16.4% in the current quarter primarily due to the favorable impact from our actions to reduce costs and increase our operating efficiency. Adjusted gross profit margin increased from 13.6% in the prior year quarter to 16.5% in the current quarter. Sequentially, our adjusted gross profit margin increased from 16.1% in the third quarter to 16.5% in the current quarter.

Selling, general and administrative expenses increased from $47.3 million in the prior year quarter to $48.8 million. As a percentage of sales, selling, general and administrative expenses were 11.2% for the quarter compared to 11.4% last year.

Operating margin increased from a loss of 3.6% in the prior year quarter to profit of 4.7% in the current quarter primarily due to the favorable impact from our actions to reduce costs and increase our operating efficiency. Adjusted operating margin increased from 3.2% in the prior year quarter to 5.2% in the current quarter. Sequentially, our adjusted operating margin increased from 5.0% in the third quarter to 5.2% in the current quarter.

Net interest expense for the quarter was $0.9 million compared to $2.6 million last year. Average diluted share count increased to 35.7 million from 34.7 million in the prior year quarter.

Cash flow provided by operating activities from continuing operations was $23.5 million during the current quarter compared to a use of cash of $18.6 million in the prior year quarter. Excluding our accounts receivable financing program, our cash flow provided by operating activities from continuing operations was $33.3 million in the current quarter.

Net debt at May 31, 2021 was $83.4 million compared to $197.3 million at May 31, 2020. Our net leverage was 0.73x at May 31, 2021 compared to 1.27x at May 31, 2020.

Holmes continued, "During the year, we made progress every quarter in improving our operating margins as a result of the actions we took to drive more efficiency throughout our operations. Additionally, our focus on managing working capital generated over $100 million in cash flow during the year allowing us to reduce our net leverage despite a decline in adjusted EBITDA. As our revenue continues to recover, our lower cost structure and improved operational efficiency are expected to improve our long-term margins and cash flow."

Fiscal Year 2021 Results

Full Fiscal Year 2021 consolidated sales were $1.65 billion, a decrease of 20% from Fiscal Year 2020. Aviation Services sales decreased by 21% from the reduced commercial airline volumes from COVID-19 while sales to government customers in this segment grew 9%. Expeditionary Services sales decreased 9% in Fiscal Year 2021 as double-digit growth in our Mobility operations was more than offset by the sale of our Composites business.

Full Fiscal Year 2021 income from continuing operations was $46.3 million, or $1.30 per diluted share. In Fiscal Year 2020, income from continuing operations was $24.8 million, or $0.71 per share. Our adjusted diluted earnings per share from continuing operations was $1.31 in the current year compared to $2.15 last year reflecting the COVID-19 impact.

Sales to government and defense customers were 51% of consolidated sales compared to 38% in the prior year reflecting growth from government contract awards and the continued impact of COVID-19 on commercial volumes. Sales to commercial customers represented 49% of consolidated sales compared to 62% last year.

Cash flow from operating activities from continuing operations was $108.5 million in Fiscal Year 2021 compared to a use of cash of $19.1 million in Fiscal Year 2020. Excluding our accounts receivable financing program, our cash flow provided by operating activities from continuing operations was $144.2 million in the current year.

Holmes concluded, "I am very proud of our team and the results we delivered this year as we navigated the significant downturn in commercial aviation. We are emerging as a more focused Company with higher margins and an even stronger balance sheet. Going forward, we will continue to invest in our new and aftermarket parts activities, expand our digital offering, pursue more government business and capitalize on other opportunities as the market continues to recover. I am very excited about our position as we enter Fiscal Year 2022."

Conference Call Information

AAR will hold its quarterly conference call at 3:45 p.m. CT on July 20, 2021. The conference call can be accessed by calling 866-802-4322 from inside the U.S. or +1-703-639-1319 from outside the U.S. A replay of the conference call will also be available by calling 855-859-2056 from inside the U.S. or +1-404-537-3406 from outside the U.S. (access code 2746882). The replay will be available from 7:15 p.m. CT on July 20, 2021 until 10:59 p.m. CT on July 26, 2021.

About AAR

AAR is a global aerospace and defense aftermarket solutions company with operations in over 20 countries. Headquartered in the Chicago area, AAR supports commercial and government customers through two operating segments: Aviation Services and Expeditionary Services. AAR's Aviation Services include parts supply; OEM solutions; integrated solutions; maintenance, repair, overhaul; and engineering. AAR's Expeditionary Services include mobility systems operations. Additional information can be found at www.aarcorp.com.

AAR

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This press release contains certain statements relating to future results, which are forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995, which reflect management's expectations about future conditions, including but not limited to, (i) the continued strong performance across our global government contracts and growth in our government business, (ii) the increasing levels of domestic business travel, (iii) our optimism about the recovery in our international markets, (iv) the continued strong performance and the pipeline of opportunities remaining full in our government end markets, (v) our ability to progress every quarter in improving our operating margins and to drive more efficiency throughout our operations, (vi) our ability to focus on managing working capital to generate cash flow, (vii) our expectation to maintain our lower cost structure and improve operational efficiency to improve our long-term margins and cash flow, (viii) maintaining higher margins and a stronger balance sheet, and (ix) our ability to continue to invest in our new and aftermarket parts activities, expand our digital offering, pursue more government business and capitalize on other opportunities as the market continues to recover.

Forward-looking statements often address our expected future operating and financial performance and financial condition, or sustainability targets, goals, commitments, and other business plans, and often may also be identified because they contain words such as "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "likely," "may," "might," "plan," "potential," "predict," "project," "seek," "should," "target," "will," "would," or similar expressions and the negatives of those terms.

These forward-looking statements are based on the beliefs of Company management, as well as assumptions and estimates based on information available to the Company as of the dates such assumptions and estimates are made , and are subject to certain risks and uncertainties that could cause actual results to differ materially from historical results or those anticipated, depending on a variety of factors, including: (i) factors that adversely affect the commercial aviation industry; (ii) the continued impact of the COVID-19 pandemic on air travel, worldwide commercial activity and our and our customers' ability to source parts and components; (iii) a reduction in the level of sales to the branches, agencies and departments of the U.S. government and their contractors (which were 44.7% of total sales in fiscal 2021); (iv) non-compliance with laws and regulations relating to the formation, administration and performance of our U.S. government contracts; (v) cost overruns and losses on fixed-price contracts; (vi) nonperformance by subcontractors or suppliers; (vii) changes in or non-compliance with laws and regulations that may affect certain of our aviation and government and defense related activities that are subject to licensing, certification and other regulatory requirements imposed by the FAA, the U.S. State Department and other regulatory agencies, both domestic and foreign; (viii)a reduction in outsourcing of maintenance activity by airlines; (ix) a shortage of the skilled personnel on whom we depend to operate our business, or work stoppages; (x) competition from other companies, including original equipment manufacturers, some of which have greater financial resources than we do; (xi) financial and operational risks arising as a result of operating internationally; (xii) inability to integrate acquisitions effectively and execute our operational and financial plan related to the acquisitions; (xiii) inability to recover our costs due to fluctuations in market values for aviation products and equipment caused by various factors, including reductions in air travel, airline bankruptcies, consolidations and fleet reductions; (xiv) asset impairment charges we may be required to recognize to reflect the non-recoverability of our assets or lowered expectations regarding businesses we have acquired; (xv) limitations on our ability to access the debt and equity capital markets or to draw down funds under loan agreements; (xvi) non-compliance with restrictive and financial covenants contained in certain of our loan agreements, and government funding received under the CARES Act; (xvii) restrictions on paying, or failure to maintain or pay dividends; (xviii) exposure to product liability and property claims that may be in excess of our liability insurance coverage; (xix) threats to our systems technology from equipment failures' cyber and other security y breaches or other disruptions; (xx) the costs of compliance, and liability for non-compliance, with environmental regulations, including future requirements regarding climate change; and (xxi) a need to make significant capital expenditures to keep pace with technological developments in our industry. Should one or more of those risks or uncertainties materialize adversely, or should underlying assumptions or estimates prove incorrect, actual results may vary materially from those described. Those events and uncertainties are difficult or impossible to predict accurately and many are beyond our control.

For a discussion of these and other risks and uncertainties, refer to our Annual Report on Form 10-K, Part I, "Item 1A, Risk Factors" and our Quarterly Reports on Form 10-Q. These events and uncertainties are difficult or impossible to predict accurately and many are beyond the Company's control. The risks described in these reports are not the only risks we face, as additional risks and uncertainties are not currently known or foreseeable or impossible to predict accurately or risks that are beyond the Company's control or deemed immaterial may materially adversely affect our business, financial condition or results of operations in future periods. We assume no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

AAR CORP. and Subsidiaries

Consolidated Statements of Operations *(In millions except per share data - unaudited)*	**Three Months Ended May 31,**		**Twelve Months Ended May 31,**	
	2021	2020	**2021**	2020
Sales	**$ 437.6**	$ 416.5	**$ 1,652.3**	$ 2,072.0
Cost and expenses:				
Cost of sales	**365.8**	380.1	**1,376.4**	1,802.8
Provision for doubtful accounts	**2.7**	2.1	**8.5**	5.4
Selling, general and administrative	**48.8**	47.3	**182.4**	220.6
Earnings (Loss) from joint ventures	**0.4**	(1.9)	**0.2**	(1.9)
Operating income (loss)	**20.7**	(14.9)	**85.2**	41.3
Loss on sale of business	**(0.7)**	—	**(20.2)**	—
Interest expense, net	**(0.9)**	(2.6)	**(4.8)**	(8.8)
Other income (expense), net	**0.4**	(1.5)	**4.3**	(2.1)
Income (Loss) from continuing operations before income tax expense (benefit)	**19.5**	(19.0)	**64.5**	30.4
Income tax expense (benefit)	**4.8**	(4.0)	**18.2**	5.6
Income (Loss) from continuing operations	**14.7**	(15.0)	**46.3**	24.8
Loss from discontinued operations	**(0.7)**	(1.5)	**(10.5)**	(20.4)
Net income (loss)	**$ 14.0**	**$ (16.5)**	**$ 35.8**	$ 4.4
Earnings per share – Basic:				
Earnings (Loss) from continuing operations	**$ 0.42**	$ (0.43)	**$ 1.31**	$ 0.71
Loss from discontinued operations	**(0.02)**	(0.04)	**(0.30)**	(0.59)
Earnings (Loss) per share – Basic	**$ 0.40**	$ (0.47)	**$ 1.01**	$ 0.12
Earnings per share – Diluted:				
Earnings (Loss) from continuing operations	**$ 0.41**	$ (0.43)	**$ 1.30**	$ 0.71
Loss from discontinued operations	**(0.02)**	(0.04)	**(0.30)**	(0.58)
Earnings (Loss) per share – Diluted	**$ 0.39**	$ (0.47)	**$ 1.00**	$ 0.13
Share Data:				
Weighted average shares outstanding – Basic	**35.0**	34.7	**35.0**	34.8
Weighted average shares outstanding – Diluted	**35.7**	34.7	**35.3**	35.0

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AAR CORP. and Subsidiaries

Consolidated Balance Sheets *(In millions)*	May 31, 2021 (unaudited)	May 31, 2020
ASSETS		
Cash and cash equivalents	**$ 51.8**	$ 404.7
Restricted cash	**8.4**	20.0
Accounts receivable, net	**166.7**	171.9
Contract assets	**71.9**	49.3
Inventories, net	**540.6**	623.1
Rotable assets and equipment on or available for lease	**50.4**	69.6
Assets of discontinued operations	**19.5**	22.9
Other current assets	**27.7**	77.2
Total current assets	**937.0**	1,438.7
Property, plant, and equipment, net	**120.0**	135.7
Operating lease right-of-use assets, net	**75.8**	89.7
Goodwill and intangible assets, net	**123.8**	121.7
Rotable assets supporting long-term programs	**184.3**	211.7
Other non-current assets	**98.8**	81.5
Total assets	**$ 1,539.7**	$ 2,079.0
LIABILITIES AND EQUITY		
Accounts payable and accrued liabilities	**$ 301.4**	$ 353.2
Liabilities of discontinued operations	**35.4**	29.9
Total current liabilities	**336.8**	383.1
Long-term debt	**133.7**	600.0
Operating lease liabilities	**59.9**	70.9
Other liabilities and deferred income	**34.9**	122.4
Total liabilities	**565.3**	1,176.4
Equity	**974.4**	902.6
Total liabilities and equity	**$ 1,539.7**	$ 2,079.0

AAR CORP. and Subsidiaries

Consolidated Statements of Cash Flows *(In millions – unaudited)*	**Three Months Ended May 31,**		**Twelve Months Ended May 31,**	
	2021	2020	**2021**	2020
Cash flows provided from (used in) operating activities:				
Net income (loss)	**$ 14.0**	$ (16.5)	**$ 35.8**	$ 4.4
Loss from discontinued operations	**0.7**	1.5	**10.5**	20.4
Income (Loss) from continuing operations	**14.7**	(15.0)	**46.3**	24.8
Adjustments to reconcile income (loss) from continuing operations to net cash provided from (used in) operating activities				
Depreciation and intangible amortization	**9.2**	10.9	**36.3**	43.7
Amortization of stock-based compensation	**2.4**	(3.0)	**9.2**	7.3
Provision for doubtful accounts	**2.7**	2.1	**8.5**	5.4
Loss on sale of business	**0.7**	—	**20.2**	—
Contract termination and restructuring costs	**—**	6.6	**2.2**	31.3
Impairment charges	**2.1**	8.1	**9.1**	8.1
Changes in certain assets and liabilities:				
Accounts receivable	**18.0**	49.4	**(4.5)**	14.8
Contract assets	**(9.6)**	15.3	**(26.4)**	9.9
Inventories	**23.7**	3.5	**74.9**	(94.5)
Rotable assets supporting long-term programs	**4.9**	1.6	**9.1**	(22.1)
Accounts payable and accrued liabilities	**(50.8)**	(92.9)	**(45.5)**	4.6
Deferred revenue on long-term programs	**(10.4)**	(15.7)	**(83.0)**	(14.6)
Other	**15.9**	10.5	**52.1**	(37.8)
Net cash provided from (used in) operating activities – continuing operations	**23.5**	(18.6)	**108.5**	(19.1)
Net cash provided used in operating activities – discontinued operations	**(0.9)**	(8.6)	**(3.3)**	(17.0)
Net cash provided from (used in) operating activities	**22.6**	(27.2)	**105.2**	(36.1)
Cash flows used in investing activities:				
Property, plant and equipment expenditures	**(2.7)**	(5.3)	**(11.3)**	(23.6)
Proceeds from termination of life insurance policies	**—**	—	**10.0**	—
Other	**(0.1)**	0.5	**0.8**	(1.2)
Net cash used in investing activities – continuing operations	**(2.8)**	(4.8)	**(0.5)**	(24.8)
Cash flows provided from (used in) financing activities:				
Proceeds from (repayments on) borrowings, net	**(73.7)**	394.5	**(470.0)**	459.5
Cash dividends	**—**	(2.6)	**(0.1)**	(10.7)
Purchase of treasury stock	**—**	—	**—**	(4.1)
Other	**1.4**	—	**0.6**	(0.2)
Net cash provided from (used in) financing activities – continuing operations	**(72.3)**	391.9	**(469.5)**	444.5
Effect of exchange rate changes on cash	**0.1**	(0.1)	**0.3**	—
Increase (Decrease) in cash and cash equivalents	**(52.4)**	359.8	**(364.5)**	383.6
Cash, cash equivalents, and restricted cash at beginning of period	**112.6**	64.9	**424.7**	41.1
Cash, cash equivalents, and restricted cash at end of period	**$ 60.2**	$ 424.7	**$ 60.2**	$ 424.7

AAR CORP. and Subsidiaries

Sales By Business Segment *(In millions - unaudited)*	**Three Months Ended May 31,**		**Twelve Months Ended May 31,**	
	2021	2020	**2021**	2020
Aviation Services	**$ 415.4**	$ 390.1	**$ 1,553.7**	$ 1,964.2
Expeditionary Services	**22.2**	26.4	**98.6**	107.8
	$ 437.6	$ 416.5	**$ 1,652.3**	$ 2,072.0

Gross Profit by Business Segment *(In millions- unaudited)*	**Three Months Ended May 31,**		**Twelve Months Ended May 31,**	
	2021	2020	**2021**	2020
Aviation Services	**$ 69.3**	$ 36.4	**$ 263.2**	$ 267.3
Expeditionary Services	**2.5**	—	**12.7**	1.9
	$ 71.8	$ 36.4	**$ 275.9**	$ 269.2

Adjusted income from continuing operations, adjusted diluted earnings per share from continuing operations, adjusted sales, adjusted cost of sales, adjusted gross profit margin, adjusted selling, general, and administrative expenses, adjusted operating income, adjusted cash flow from provided by (used in) operating activities from continuing operations, adjusted EBITDA, and net debt are "non-GAAP financial measures" as defined in Regulation G of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). We believe these non-GAAP financial measures are relevant and useful for investors as they illustrate our actual operating performance unaffected by the impact of certain items. When reviewed in conjunction with our GAAP results and the accompanying reconciliations, we believe these non-GAAP financial measures provide additional information that is useful to gain an understanding of the factors and trends affecting our business and provide a means by which to compare our operating performance against that of other companies in the industries we compete. These non-GAAP measures should be considered as a supplement to, and not as a substitute for, or superior to, the corresponding measures calculated in accordance with GAAP. Adjusted EBITDA is income from continuing operations before interest income (expense), other income (expense), income taxes, depreciation and amortization, stock-based compensation and items of an unusual nature including but not limited to business divestitures, workforce actions, subsidies and costs, impairment charges, facility consolidation and repositioning costs, investigation and remediation compliance costs, and significant customer events such as early terminations, contract restructurings, forward loss provisions and bankruptcies and credit charges.

Pursuant to the requirements of Regulation G of the Exchange Act, we are providing the following tables that reconcile the above mentioned non-GAAP financial measures to the most directly comparable GAAP financial measures:

Adjusted Income from Continuing Operations [(a)] *(In millions - unaudited)*	**Three Months Ended May 31,**		**Twelve Months Ended May 31,**	
	2021	2020	**2021**	2020
Income (Loss) from continuing operations	**$ 14.7**	$ (15.0)	**$ 46.3**	$ 24.8
Investigation and remediation compliance costs	—	1.4	**3.3**	7.7
Loss on sale of business	**0.5**	—	**15.3**	—
Contract termination/restructuring costs and loss provisions, net	**(1.1)**	5.2	**7.1**	24.0
Customer bankruptcy and credit charges	**1.8**	1.3	**3.7**	1.3
Asset impairment charges	**—**	8.7	**5.4**	8.7
Government COVID-related subsidies	**(1.3)**	(2.2)	**(42.7)**	(2.2)
Facility consolidation and repositioning costs	**1.6**	3.9	**3.4**	3.9
Severance, furlough and pension settlement charges	**0.5**	5.1	**7.5**	6.7
Gain on legal settlement	**—**	—	**(3.3)**	—
Strategic financing evaluation costs	**—**	0.3	**0.8**	0.3
Adjusted income from continuing operations	**$ 16.7**	$ 8.7	**$ 46.8**	$ 75.2

(a) All adjustments are presented net of applicable income taxes.

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Adjusted Diluted Earnings per Share from Continuing Operations [(a)]
(unaudited)

	Three Months Ended May 31, 2021	Three Months Ended May 31, 2020	Twelve Months Ended May 31, 2021	Twelve Months Ended May 31, 2020
Diluted earnings (loss) per share from continuing operations	**$ 0.41**	$ (0.43)	**$ 1.30**	$ 0.71
Investigation and remediation compliance costs	**—**	0.04	**0.10**	0.22
Loss on sale of business	**0.02**	—	**0.44**	—
Contract termination/restructuring costs and loss provisions, net	**(0.03)**	0.15	**0.20**	0.68
Customer bankruptcy and credit charges	**0.05**	0.04	**0.10**	0.04
Asset impairment charges	**—**	0.25	**0.15**	0.25
Government COVID-related subsidies, net	**(0.04)**	(0.06)	**(1.22)**	(0.06)
Facility consolidation and repositioning costs	**0.04**	0.11	**0.09**	0.11
Severance, furlough and pension settlement charges	**0.02**	0.15	**0.22**	0.19
Gain on legal settlement	**—**	—	**(0.09)**	—
Strategic financing evaluation costs	**—**	0.01	**0.02**	0.01
Adjusted diluted earnings per share from continuing operations	**$ 0.47**	$ 0.26	**$ 1.31**	$ 2.15

(a) All adjustments are presented net of applicable income taxes.

Adjusted Gross Profit Margin
(In millions - unaudited)

	Three Months Ended May 31, 2021	Three Months Ended February 28, 2021	Three Months Ended May 31, 2020
Sales	**$ 437.6**	$ 410.3	$ 416.5
Contract termination/restructuring costs and loss provisions, net	**(2.4)**	1.5	7.5
Adjusted sales	**$ 435.2**	$ 411.8	$ 424.0
Cost of sales	**$ 365.8**	$ 324.3	$ 380.1
Contract termination/restructuring costs and loss provisions, net	**(1.1)**	(2.5)	0.9
Government COVID-related subsidies, net	**1.4**	24.0	2.0
Facility consolidation and repositioning costs	**(2.1)**	—	(4.9)
Asset impairment charges	**—**	—	(9.1)
Severance and furlough costs, net	**(0.6)**	(0.1)	(2.6)
Adjusted cost of sales	**$ 363.4**	$ 345.7	$ 366.4
Adjusted gross profit margin	**16.5%**	16.1%	13.6%

Adjusted Selling, General and Administrative Expenses
(In millions - unaudited)

	Three Months Ended May 31, 2021	Three Months Ended May 31, 2020	Twelve Months Ended May 31, 2021	Twelve Months Ended May 31, 2020
Selling, general and administrative expenses	**$ 48.8**	$ 47.3	**$ 182.4**	$ 220.6
Investigation and remediation compliance costs	—	(1.8)	**(4.4)**	(9.7)
Severance and furlough costs	**(0.1)**	(2.4)	**(3.2)**	(4.6)
Government COVID-related subsidies, net	**0.4**	0.8	**2.6**	0.8
Strategic financing evaluation costs	—	(0.4)	**(1.0)**	(0.4)
Stock-based compensation	**(2.4)**	3.0	**(8.9)**	(7.3)
Adjusted selling, general and administrative expenses	**$ 46.7**	$ 46.5	**$ 167.5**	$ 199.4

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Adjusted Operating Margin
(In millions - unaudited)

	Three Months Ended		
	May 31, 2021	February 28, 2021	May 31, 2020
Adjusted sales	**$ 435.2**	$ 411.8	$ 424.0
Operating income (loss)	**$ 20.7**	$ 39.7	$ (14.9)
Investigation and remediation costs	**—**	0.3	1.8
Contract termination/restructuring costs and loss provisions, net	**(1.4)**	4.0	6.6
Customer bankruptcy and credit charges	**2.4**	1.0	1.6
Government COVID-related subsidies, net	**(1.8)**	(24.6)	(2.8)
Facility consolidation and repositioning costs	**2.1**	—	4.9
Asset impairment charges	**—**	—	11.0
Severance and furlough costs, net	**0.7**	0.1	5.0
Strategic financing evaluation costs	**—**	—	0.4
Adjusted operating income	**$ 22.7**	$ 20.5	$ 13.6
Adjusted operating margin	**5.2%**	5.0%	3.2%

Adjusted Cash Provided by Operating Activities from Continuing Operations
(In millions - unaudited)

	Three Months Ended May 31,		Twelve Months Ended May 31,	
	2021	2020	**2021**	2020
Cash provided by (used in) operating activities from continuing operations	**$ 23.5**	$ (18.6)	**$ 108.5**	$ (19.1)
Amounts outstanding on accounts receivable financing program:				
Beginning of period	**48.4**	85.6	**74.3**	86.2
End of period	**(38.6)**	(74.3)	**(38.6)**	(74.3)
Adjusted cash provided by (used in) operating activities from continuing operations	**$ 33.3**	$ (7.3)	**$ 144.2**	$ (7.2)

Adjusted EBITDA
(In millions - unaudited)

	Three Months Ended May 31,		Twelve Months Ended May 31,	
	2021	2020	**2021**	2020
Net income (loss)	**$ 14.0**	$ (16.5)	**$ 35.8**	$ 4.4
Loss from discontinued operations	**0.7**	1.5	**10.5**	20.4
Income tax expense (benefit)	**4.8**	(4.0)	**18.2**	5.6
Other (income) expense, net	**(0.4)**	1.5	**(4.3)**	2.1
Interest expense, net	**0.9**	2.6	**4.8**	8.8
Depreciation and intangible amortization	**9.2**	10.9	**36.3**	43.7
Investigation and remediation costs	**—**	1.8	**4.4**	10.1
Loss on sale of business	**0.7**	—	**20.2**	—
Contract termination/restructuring costs and loss provisions, net	**(1.4)**	6.6	**9.3**	31.3
Asset impairment charges	**—**	11.0	**7.0**	11.0
Facility consolidation and repositioning costs	**2.1**	4.9	**4.5**	4.9
Severance and furlough costs, net	**0.7**	5.0	**9.0**	7.1
Customer bankruptcy and credit charges	**2.4**	1.6	**4.9**	1.6
Government COVID-related subsidies, net	**(1.8)**	(2.8)	**(56.2)**	(2.8)
Strategic financing evaluation costs	**—**	0.4	**1.0**	0.4
Stock-based compensation	**2.4**	(3.0)	**9.2**	7.3
Adjusted EBITDA	**$ 34.3**	$ 21.5	**$ 114.6**	$ 155.9

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Net Debt

(In millions- unaudited)	May 31, 2021	May 31, 2020
Total debt	**$ 135.2**	$ 602.0
Less: Cash and cash equivalents	**(51.8)**	(404.7)
Net debt	**$ 83.4**	$ 197.3

Net Debt to Adjusted EBITDA

(In millions - unaudited)	May 31, 2021	May 31, 2020
Adjusted EBITDA for the year ended	**$ 114.6**	**$ 155.9**
Net debt at period end	**83.4**	**197.3**
Net debt to Adjusted EBITDA	**0.73**	**1.27**

Exhibit 99.1

AAR REPORTS THIRD QUARTER FISCAL YEAR 2022 RESULTS

- Third quarter sales of $452 million, up 10% over the prior year
- Third quarter GAAP diluted earnings per share from continuing operations of $0.63 compared to $0.87 in Q3 FY2021, which included a favorable impact from CARES Act payroll support
- Adjusted diluted earnings per share from continuing operations of $0.63, up 70% from $0.37 in Q3 FY2021
- Third quarter cash flow from operating activities from continuing operations of $16 million

WOOD DALE, ILLINOIS (March 22, 2022) — AAR CORP. (NYSE: AIR) today reported third quarter Fiscal Year 2022 consolidated sales of $452.2 million and income from continuing operations of $22.6 million, or $0.63 per diluted share. For the third quarter of the prior year, the Company reported sales of $410.3 million and income from continuing operations of $31.1 million, or $0.87 per diluted share. Our adjusted diluted earnings per share from continuing operations in the third quarter of Fiscal Year 2022 were $0.63 compared to $0.37 in the third quarter of the prior year. The prior year quarter included net pretax adjustments of $23.4 million, or $0.50 per share, primarily related to the exclusion of CARES Act payroll support.

Consolidated third quarter sales increased 10% over the prior year quarter. Our consolidated sales to commercial customers increased 28% over the prior year quarter due to the recovery in the commercial market from the impact of COVID-19. Our consolidated sales to government customers decreased 8% primarily related to the level of program activity and delays in pallet orders in our Mobility business.

Sales to commercial customers were 59% of consolidated sales compared to 51% in the prior year's quarter primarily reflecting the recovery in the commercial market from the impact of COVID-19.

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"During the quarter, we drove continued sequential improvement in our government and commercial businesses. In our government business, we were able to mitigate the impact of the Afghanistan drawdown and in commercial, we saw demand in our parts activities accelerate throughout the quarter as the impact from the Omicron variant subsided. Furthermore, our largest commercial customers remain optimistic about the recovering demand for business and leisure travel and we expect this momentum to continue," said John M. Holmes, President and Chief Executive Officer of AAR CORP.

Gross profit margins were 17.8% in the current quarter compared to 21.0% in the prior year quarter which included the favorable impact of CARES Act payroll support. Adjusted gross profit margin increased from 16.1% to 17.3%, primarily due to the favorable impact from our actions to reduce costs and improve our operating efficiency.

Selling, general and administrative expenses increased from $44.9 million to $48.9 million mainly due to digital and other investments to support the volume growth. Selling, general and administrative expenses decreased as a percent of sales from 10.9% to 10.8% primarily related to the growth in sales.

Operating margins were 6.7% in the current quarter compared to 9.7% in the prior year quarter which included the favorable impact of CARES Act payroll support. Adjusted operating margin increased from 5.0% to 6.7%, as a result of the actions we took to improve our operating efficiency as well as the recovery in commercial sales. Sequentially, our adjusted operating margin increased from 6.1% in the second quarter to 6.7% in the current quarter primarily due to improved performance across our commercial activities.

During the quarter, we announced a ten-year extension of our component maintenance, repair, and overhaul contract with International Aerospace Management Company (IAMCO), which is responsible for depot-level maintenance for the NATO E-3A AWACS aircraft fleet.

Subsequent to the end of the quarter, we announced an exclusive distribution agreement with Collins Aerospace's Goodrich De-Icing & Specialty Heating Systems business. Under the agreement, we will provide airlines, business jet and other aircraft operators as well as MROs globally with de-icers and supporting products.

Net interest expense for the quarter was $0.6 million compared to $1.0 million last year. Average diluted share count increased from 35.5 million to 35.7 million in the current year quarter. We also repurchased 0.5 million shares for $20.2 million in conjunction with the $150 million share repurchase program we announced earlier in the quarter.

Cash flow provided by operating activities from continuing operations was $16.2 million during the current quarter. Excluding our accounts receivable financing program, our cash flow provided by operating activities from continuing operations was $18.4 million in the current quarter. At February 28, 2022, our net debt was $63.9 million and our net leverage was 0.43x.

Holmes concluded, “Early in the pandemic, we took a series of actions to better position the Company for margin improvement as the industry recovered. We have now delivered our sixth straight quarter of adjusted operating margin expansion and our margins are exceeding pre-pandemic levels. We are extremely proud of this progress particularly since we have not yet seen a complete recovery in commercial sales. We expect our improved operating performance combined with the strength of our balance sheet to allow us to continue generating shareholder value by investing in our parts, MRO and government activities, pursuing strategic M&A, and returning capital to shareholders.”

Conference Call Information

AAR will hold its quarterly conference call at 3:45 p.m. CT on March 22, 2022. The conference call can be accessed by calling 866-802-4322 from inside the U.S. or +1-703-639-1319 from outside the U.S. A replay of the conference call will also be available by calling 855-859-2056 from inside the U.S. or +1-404-537-3406 from outside the U.S. (access code 2031289). The replay will be available from 7:15 p.m. CT on March 22, 2022 until 10:59 p.m. CT on March 29, 2022.

About AAR

AAR is a global aerospace and defense aftermarket solutions company with operations in over 20 countries. Headquartered in the Chicago area, AAR supports commercial and government customers through two operating segments: Aviation Services and Expeditionary Services. AAR's Aviation Services include parts supply; OEM solutions; integrated solutions; maintenance, repair, overhaul; and engineering. AAR's Expeditionary Services include mobility systems operations. Additional information can be found at www.aarcorp.com.

AAR

Contact: Dylan Wolin – Vice President, Strategic & Corporate Development and Treasurer | (630) 227-2017 | dylan.wolin@aarcorp.com

This press release contains certain statements relating to future results, which are forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995, which reflect management's expectations about future conditions, including but not limited to (i) the optimism about the recovering demand for business and leisure travel, (ii) our expectation that this momentum will continue, (iii) our continued actions to better position the company for margin improvement as the industry recovers, (iv) our expectation of seeing a continued recovery in commercial sales, and (v) our expectation that our improved operating performance combined with the strength of our balance sheet will allow us to continue to generate shareholder value by investing in our parts, MRO and government activities, pursuing strategic M&A, and returning capital to shareholders.

Forward-looking statements often address our expected future operating and financial performance and financial condition, or sustainability targets, goals, commitments, and other business plans, and often may also be identified because they contain words such as "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "likely," "may," "might," "plan," "potential," "predict," "project," "seek," "should," "target," "will," "would," or similar expressions and the negatives of those terms.

These forward-looking statements are based on the beliefs of Company management, as well as assumptions and estimates based on information available to the Company as of the dates such assumptions and estimates are made, and are subject to certain risks and uncertainties that could cause actual results to differ materially from historical results or those anticipated, depending on a variety of factors, including: (i) factors that adversely affect the commercial aviation industry; (ii) the continued impact of the COVID-19 pandemic on air travel, worldwide commercial activity and our and our customers' ability to source parts and components; (iii) a reduction in the level of sales to the branches, agencies and departments of the U.S. government and their contractors (which were 44.7% of total sales in fiscal 2021); (iv) non-compliance with laws and regulations relating to the formation, administration and performance of our U.S. government contracts; (v) cost overruns and losses on fixed-price contracts; (vi) nonperformance by subcontractors or suppliers; (vii) changes in or non-compliance with laws and regulations that may affect certain of our aviation and government and defense related activities that are subject to licensing, certification and other regulatory requirements imposed by the FAA, the U.S. State Department and other regulatory agencies, both domestic and foreign; (viii) a reduction in outsourcing of maintenance activity by airlines; (ix) a shortage of the skilled personnel on whom we depend to operate our business, or work stoppages; (x) competition from other companies, including original equipment manufacturers, some of which have greater financial resources than we do; (xi) financial and operational risks arising as a result of operating internationally; (xii) inability to integrate acquisitions effectively and execute our operational and financial plan related to the acquisitions; (xiii) inability to recover our costs due to fluctuations in market values for aviation products and equipment caused by various factors, including reductions in air travel, airline bankruptcies, consolidations and fleet reductions; (xiv) asset impairment charges we may be required to recognize to reflect the non-recoverability of our assets or lowered expectations regarding businesses we have acquired; (xv) limitations on our ability to access the debt and equity capital markets or to draw down funds under loan agreements; (xvi) non-compliance with restrictive and financial covenants contained in certain of our loan agreements, and government funding received under the CARES Act; (xvii) restrictions on paying, or failure to maintain or pay dividends; (xviii) exposure to product liability and property claims that may be in excess of our liability insurance coverage; (xix) threats to our systems technology from equipment failures' cyber and other security y breaches or other disruptions; (xx) the costs of compliance, and liability for non-compliance, with environmental regulations, including future requirements regarding climate change; and (xxi) a need to make significant capital expenditures to keep pace with technological developments in our industry. Should one or more of those risks or uncertainties materialize adversely, or should underlying assumptions or estimates prove incorrect, actual results may vary materially from those described. Those events and uncertainties are difficult or impossible to predict accurately and many are beyond our control.

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For a discussion of these and other risks and uncertainties, refer to our Annual Report on Form 10-K, Part I, "Item 1A, Risk Factors" and our Quarterly Reports on Form 10-Q. These events and uncertainties are difficult or impossible to predict accurately and many are beyond the Company's control. The risks described in these reports are not the only risks we face, as additional risks and uncertainties are not currently known or foreseeable or impossible to predict accurately or risks that are beyond the Company's control or deemed immaterial may materially adversely affect our business, financial condition or results of operations in future periods. We assume no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

AAR CORP. and Subsidiaries

Condensed Consolidated Statements of Income	**Three Months Ended February 28,**		**Nine Months Ended February 28,**	
(In millions except per share data - unaudited)	**2022**	2021	**2022**	2021
Sales	**$ 452.2**	$ 410.3	**$ 1,343.9**	$ 1,214.7
Cost and expenses:				
Cost of sales	**371.8**	324.3	**1,120.5**	1,010.6
Provision for doubtful accounts	**0.1**	1.4	**0.9**	5.8
Selling, general and administrative	**48.9**	44.9	**145.3**	133.6
Loss from joint ventures	**(1.1)**	—	**(1.7)**	(0.2)
Operating income	**30.3**	39.7	**75.5**	64.5
Loss on sale of business	**—**	—	**(1.3)**	(19.5)
Interest expense, net	**(0.6)**	(1.0)	**(1.7)**	(3.9)
Other income, net	**1.1**	4.4	**2.1**	3.9
Income from continuing operations before income tax expense	**30.8**	43.1	**74.6**	45.0
Income tax expense	**8.2**	12.0	**20.0**	13.4
Income from continuing operations	**22.6**	31.1	**54.6**	31.6
Income (Loss) from discontinued operations	**(0.1)**	(3.0)	**0.2**	(9.8)
Net income	**$ 22.5**	**$ 28.1**	**$ 54.8**	$ 21.8
Earnings per share – Basic:				
Earnings from continuing operations	**$ 0.64**	$ 0.88	**$ 1.54**	$ 0.90
Income (Loss) from discontinued operations	**—**	(0.09)	**0.01**	(0.28)
Earnings per share – Basic	**$ 0.64**	$ 0.79	**$ 1.55**	$ 0.62
Earnings per share – Diluted:				
Earnings from continuing operations	**$ 0.63**	$ 0.87	**$ 1.52**	$ 0.89
Income (Loss) from discontinued operations	**—**	(0.08)	**0.01**	(0.28)
Earnings per share – Diluted	**$ 0.63**	$ 0.79	**$ 1.53**	$ 0.61
Share Data:				
Weighted average shares outstanding – Basic	**35.1**	35.0	**35.3**	35.0
Weighted average shares outstanding – Diluted	**35.7**	35.5	**35.8**	35.2

AAR CORP. and Subsidiaries

Condensed Consolidated Balance Sheets	**February 28, 2022**	**May 31, 2021**
(In millions)	**(unaudited)**	
ASSETS		
Cash and cash equivalents	**$ 40.6**	$ 51.8
Restricted cash	**2.4**	8.4
Accounts receivable, net	**209.3**	166.7
Contract assets	**68.8**	71.9
Inventories, net	**535.2**	540.6
Rotable assets and equipment on or available for lease	**53.6**	50.4
Assets of discontinued operations	**17.0**	19.5
Other current assets	**50.3**	27.7
Total current assets	**977.2**	937.0
Property, plant, and equipment, net	**106.9**	120.0
Operating lease right-of-use assets, net	**73.2**	75.8
Goodwill and intangible assets, net	**121.0**	123.8
Rotable assets supporting long-term programs	**171.1**	184.3
Other non-current assets	**102.6**	98.8
Total assets	**$ 1,552.0**	$ 1,539.7
LIABILITIES AND EQUITY		
Accounts payable and accrued liabilities	**$ 325.0**	$ 301.4
Liabilities of discontinued operations	**18.1**	35.4
Total current liabilities	**343.1**	336.8
Long-term debt	**103.3**	133.7
Operating lease liabilities	**57.9**	59.9
Other liabilities and deferred income	**30.0**	34.9
Total liabilities	**534.3**	565.3
Equity	**1,017.7**	974.4
Total liabilities and equity	**1,552.0**	$ 1,539.7

AAR CORP. and Subsidiaries

Condensed Consolidated Statements of Cash Flows	Three Months Ended February 28,		Nine Months Ended February 28,	
(In millions – unaudited)	**2022**	2021	**2022**	2021
Cash flows provided from operating activities:				
Net income	**$ 22.5**	$ 28.1	**$ 54.8**	$ 21.8
Loss (Income) from discontinued operations	**0.1**	3.0	**(0.2)**	9.8
Income from continuing operations	**22.6**	31.1	**54.6**	31.6
Adjustments to reconcile income from continuing operations to net cash provided from operating activities				
Depreciation and intangible amortization	**7.7**	8.9	**25.5**	27.1
Amortization of stock-based compensation	**1.1**	2.3	**5.8**	6.8
Provision for doubtful accounts	**0.1**	1.4	**0.9**	5.8
Loss on sale of business	**—**	—	**1.3**	19.5
Contract termination and restructuring costs	**—**	—	**—**	2.2
Impairment charges	**—**	—	**2.9**	7.0
Changes in certain assets and liabilities:				
Accounts receivable	**(17.9)**	(17.7)	**(44.1)**	(22.5)
Contract assets	**(0.3)**	(9.3)	**2.9**	(16.8)
Inventories	**(3.4)**	21.0	**4.6**	51.2
Prepaid expenses and other current assets	**(14.0)**	10.0	**(22.7)**	46.7
Accounts payable and accrued liabilities	**18.6**	(3.7)	**17.2**	5.3
Payroll Support Program deferred credit	**—**	(23.6)	**—**	—
Deferred revenue on long-term programs	**1.8**	(12.2)	**2.5**	(72.6)
Other	**(0.1)**	9.4	**(1.8)**	(6.3)
Net cash provided from operating activities – continuing operations	**16.2**	17.6	**49.6**	85.0
Net cash used in operating activities – discontinued operations	**(0.3)**	(0.5)	**(14.5)**	(2.4)
Net cash provided from operating activities	**15.9**	17.1	**35.1**	82.6
Cash flows provided from (used in) investing activities:				
Property, plant and equipment expenditures	**(4.2)**	(2.6)	**(10.2)**	(8.6)
Proceeds from termination of life insurance policies	**—**	—	**—**	10.0
Other	**—**	(0.7)	**3.3**	0.9
Net cash provided from (used in) investing activities	**(4.2)**	(3.3)	**(6.9)**	2.3
Cash flows used in financing activities:				
Repayments on borrowings, net	**—**	(15.0)	**(29.7)**	(396.3)
Purchase of treasury stock	**(20.2)**	—	**(20.2)**	—
Other	**5.0**	0.7	**4.6**	(0.9)
Net cash used in financing activities	**(15.2)**	(14.3)	**(45.3)**	(397.2)
Effect of exchange rate changes on cash	**0.1**	0.1	**(0.1)**	0.2
Increase (Decrease) in cash and cash equivalents	**(3.4)**	(0.4)	**(17.2)**	(312.1)
Cash, cash equivalents, and restricted cash at beginning of period	**46.4**	113.0	**60.2**	424.7
Cash, cash equivalents, and restricted cash at end of period	**$ 43.0**	$ 112.6	**$ 43.0**	$ 112.6

AAR CORP. and Subsidiaries

Sales By Business Segment	**Three Months Ended February 28,**		**Nine Months Ended February 28,**	
(In millions - unaudited)	**2022**	2021	**2022**	2021
Aviation Services	**$ 438.0**	$ 389.7	**$ 1,292.9**	$ 1,138.3
Expeditionary Services	**14.2**	20.6	**51.0**	76.4
	$ 452.2	$ 410.3	**$ 1,343.9**	$ 1,214.7

Gross Profit by Business Segment	**Three Months Ended February 28,**		**Nine Months Ended February 28,**	
(In millions- unaudited)	**2022**	2021	**2022**	2021
Aviation Services	**$ 77.9**	$ 82.5	**$ 212.8**	$ 193.9
Expeditionary Services	**2.5**	3.5	**10.6**	10.2
	$ 80.4	$ 86.0	**$ 223.4**	$ 204.1

Adjusted income from continuing operations, adjusted diluted earnings per share from continuing operations, adjusted sales, adjusted cost of sales, adjusted gross profit margin, adjusted operating margin, adjusted cash provided by operating activities from continuing operations, adjusted EBITDA, and net debt are "non-GAAP financial measures" as defined in Regulation G of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). We believe these non-GAAP financial measures are relevant and useful for investors as they illustrate our actual operating performance unaffected by the impact of certain items. When reviewed in conjunction with our GAAP results and the accompanying reconciliations, we believe these non-GAAP financial measures provide additional information that is useful to gain an understanding of the factors and trends affecting our business and provide a means by which to compare our operating performance against that of other companies in the industries we compete. These non-GAAP measures should be considered as a supplement to, and not as a substitute for, or superior to, the corresponding measures calculated in accordance with GAAP. Adjusted EBITDA is income from continuing operations before interest income (expense), other income (expense), income taxes, depreciation and amortization, stock-based compensation and items of an unusual nature including but not limited to business divestitures, workforce actions, subsidies and costs, impairment and exit charges, facility consolidation and repositioning costs, investigation and remediation compliance costs, purchase accounting settlements, and significant customer events such as early terminations, contract restructurings, forward loss provisions and bankruptcies.

Pursuant to the requirements of Regulation G of the Exchange Act, we are providing the following tables that reconcile the above mentioned non-GAAP financial measures to the most directly comparable GAAP financial measures:

Adjusted Income from Continuing Operations [a]	**Three Months Ended February 28,**		**Nine Months Ended February 28,**	
(In millions - unaudited)	**2022**	2021	**2022**	2021
Income from continuing operations	**$ 22.6**	$ 31.1	**$ 54.6**	$ 31.6
Investigation and remediation compliance costs	**1.2**	0.2	**1.9**	3.3
Loss on sale of business	**—**	—	**1.0**	14.8
Contract termination/restructuring costs and loss provisions, net	**(0.8)**	2.9	**0.9**	8.0
Customer bankruptcy and credit charges	**—**	0.8	**0.7**	1.9
Asset impairment and exit charges	**0.4**	—	**2.6**	5.4
Government COVID-related subsidies	**(0.8)**	(18.8)	**(2.9)**	(41.4)
Facility consolidation and repositioning costs	**—**	—	**0.2**	1.8
Severance, furlough and pension settlement charges	**0.7**	0.1	**1.9**	7.0
Gain on settlement of purchase accounting liabilities	**(0.8)**	**—**	**(0.8)**	**—**
Recognition of foreign currency translation adjustments	**—**	—	**0.2**	—
Gain on legal settlement	**—**	(3.3)	—	(3.3)
Strategic financing evaluation costs	**—**	—	—	0.8
Adjusted income from continuing operations	**$ 22.5**	$ 13.0	**$ 60.3**	$ 29.9

(a) All adjustments are presented net of applicable income taxes.

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Adjusted Diluted Earnings per Share from Continuing Operations [a]	**Three Months Ended February 28,**		**Nine Months Ended February 28,**	
(In millions - unaudited)	**2022**	2021	**2022**	2021
Diluted earnings per share from continuing operations	**$ 0.63**	$ 0.87	**$ 1.52**	$ 0.89
Investigation and remediation compliance costs	**0.03**	0.01	**0.05**	0.10
Loss on sale of business	—	—	**0.03**	0.42
Contract termination/restructuring costs and loss provisions, net	**(0.02)**	0.08	**0.03**	0.23
Customer bankruptcy and credit charges	—	0.02	**0.02**	0.05
Asset impairment and exit charges	**0.01**	—	**0.07**	0.15
Government COVID-related subsidies	**(0.02)**	(0.53)	**(0.08)**	(1.18)
Facility consolidation and repositioning costs	—	—	**0.01**	0.05
Severance, furlough and pension settlement charges	**0.02**	0.01	**0.05**	0.20
Gain on settlement of purchase accounting liabilities	**(0.02)**	—	**(0.02)**	—
Gain on legal settlement	—	(0.09)	**—**	(0.09)
Strategic financing evaluation costs	**—**	—	**—**	0.02
Adjusted diluted earnings per share from continuing operations	**$ 0.63**	$ 0.37	**$ 1.68**	$ 0.84

(a) All adjustments are presented net of applicable income taxes.

Adjusted Gross Profit Margin	**Three Months Ended**			
(In millions - unaudited)	**February 28, 2022**	November 30, 2021	February 28, 2021	February 29, 2020
Sales	**$ 452.2**	$ 436.6	$ 410.3	$ 553.1
Contract termination/restructuring costs, net	**(0.2)**	(2.5)	1.5	9.8
Adjusted sales	**$ 452.0**	$ 434.1	$ 411.8	$ 562.9
Cost of sales	**$ 371.8**	$ 358.2	$ 324.3	$ 487.8
Contract termination/restructuring costs and loss provisions, net	**0.9**	1.9	(2.5)	(14.9)
Government COVID-related subsidies, net	**0.9**	2.5	24.0	—
Facility consolidation and repositioning costs	**—**	(0.1)	—	—
Asset impairment charges	**—**	(0.6)	—	—
Severance and furlough costs	**—**	(0.5)	(0.1)	(0.1)
Adjusted cost of sales	**$ 373.6**	$ 361.4	$ 345.7	$ 472.8
Adjusted gross profit margin	**17.3%**	16.7%	16.1%	16.0%

Adjusted Operating Margin
(In millions - unaudited)

	Three Months Ended			
	February 28, 2022	November 30, 2021	February 28, 2021	February 29, 2020
Adjusted sales	**$ 452.0**	$ 434.1	$ 411.8	$ 562.9
Operating income	**$ 30.3**	$ 30.1	$ 39.7	$ 5.3
Investigation and remediation costs	**1.6**	0.8	0.3	2.7
Contract termination/restructuring costs and loss provisions, net	**(1.1)**	(4.4)	4.0	24.7
Customer bankruptcy and credit charges	—	1.0	1.0	—
Government COVID-related subsidies	**(1.0)**	(2.5)	(24.6)	—
Facility consolidation and repositioning costs	—	0.1	—	—
Asset impairment and exit charges	**0.5**	0.6	—	—
Severance and furlough costs	**0.2**	0.8	0.1	0.5
Adjusted operating income	**$ 30.5**	$ 26.5	$ 20.5	$ 33.2
Adjusted operating margin	**6.7%**	6.1%	5.0%	5.9%

Adjusted Cash Provided by Operating Activities from Continuing Operations
(In millions - unaudited)

	Three Months Ended February 28,		Nine Months Ended February 28,	
	2022	2021	**2022**	2021
Cash provided by operating activities from continuing operations	**$ 16.2**	$ 17.6	**$ 49.6**	$ 85.0
Amounts outstanding on accounts receivable financing program:				
Beginning of period	**20.2**	48.9	**38.6**	74.3
End of period	**(18.0)**	(48.4)	**(18.0)**	(48.4)
Adjusted cash provided by operating activities from continuing operations	**$ 18.4**	$ 18.1	**$ 70.2**	$ 110.9

Adjusted EBITDA
(In millions - unaudited)

	Three Months Ended February 28,		Nine Months Ended February 28,		Year Ended May 31,
	2022	2021	**2022**	2021	2021
Net income	**$ 22.5**	$ 28.1	**$ 54.8**	$ 21.8	$ 35.8
Loss (Income) from discontinued operations	**0.1**	3.0	**(0.2)**	9.8	10.5
Income tax expense	**8.2**	12.0	**20.0**	13.4	18.2
Other income, net	**(1.1)**	(4.4)	**(2.1)**	(3.9)	(4.3)
Interest expense, net	**0.6**	1.0	**1.7**	3.9	4.8
Depreciation and intangible amortization	**7.7**	8.9	**25.5**	27.1	36.3
Investigation and remediation compliance costs	**1.6**	0.3	**2.6**	4.4	4.4
Loss on sale of business	—	—	**1.3**	19.5	20.2
Asset impairment and exit charges	**0.5**	—	**3.4**	7.0	7.0
Contract termination/restructuring costs and loss provisions, net	**(1.1)**	4.0	1.2	10.7	9.3
Customer bankruptcy and credit charges	—	1.0	**1.0**	2.5	4.9
Government COVID-related subsidies, net	**(1.0)**	(24.6)	**(3.8)**	(54.4)	(56.2)
Facility consolidation and repositioning costs	—	—	**0.2**	2.4	4.5
Severance and furlough costs	**0.2**	0.1	**1.9**	8.3	9.0
Strategic financing evaluation costs	—	—	**—**	1.0	1.0
Stock-based compensation	**1.1**	2.3	**5.8**	6.8	9.2
Adjusted EBITDA	**$ 39.3**	$ 31.7	**$ 113.3**	$ 80.3	$ 114.6

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Net Debt *(In millions- unaudited)*	**February 28, 2022**	**February 28, 2021**
Total debt	**$ 104.5**	$ 207.6
Less: Cash and cash equivalents	**(40.6)**	(99.2)
Net debt	**$ 63.9**	$ 108.4

Net Debt to Adjusted EBITDA *(In millions - unaudited)*	
Adjusted EBITDA for the year ended May 31, 2021	**$ 114.6**
Less: Adjusted EBITDA for the nine months ended February 28, 2021	**(80.3)**
Plus: Adjusted EBITDA for the nine months ended February 28, 2022	**113.3**
Adjusted EBITDA for the twelve months ended February 28, 2022	**$ 147.6**
Net debt at February 28, 2022	**$ 63.9**
Net debt to Adjusted EBITDA	**0.43**

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

FORM 10-K

(Mark One)

☒ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the fiscal year ended May 31, 2021
or

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from _______ to _______

Commission file number 1-6263

AAR CORP.
(Exact name of registrant as specified in its charter)

Delaware	**36-2334820**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

One AAR Place, 1100 N. Wood Dale Road, Wood Dale, Illinois 60191
(Address of principal executive offices, including zip code)
Registrant's telephone number, including area code: **(630) 227-2000**
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, $1.00 par value	**AIR**	**New York Stock Exchange** **Chicago Stock Exchange**

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 15(d) of the 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 check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post 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 the 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 of the registrant's voting stock held by nonaffiliates was approximately $952 million (based upon the closing price of the Common Stock at November 30, 2020 as reported on the New York Stock Exchange).

On June 30, 2021, there were 35,404,605 shares of Common Stock outstanding.

Documents Incorporated by Reference

Portions of the Company's proxy statement for the Company's 2021 Annual Meeting of Stockholders, to be held September 28, 2021, are incorporated by reference in Part III of this report.

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PART I

ITEM 1. BUSINESS

General

AAR CORP. and its subsidiaries are referred to herein collectively as "AAR," "Company," "we," "us," and "our" unless the context indicates otherwise. AAR was founded in 1951, organized in 1955 and reincorporated in Delaware in 1966. We are a diversified provider of products and services to the worldwide aviation and government and defense markets.

Fiscal 2021 began with our focus centered on managing through the COVID-19 pandemic to ensure the safety of our team and navigating the unprecedented decline in commercial passenger flight hours. Our sales to commercial customers in fiscal 2021 decreased by $486.8 million or 37.6% from the prior year as the impact from COVID-19 affected all of our commercial businesses.

To mitigate the impact of COVID-19, we implemented a number of actions since the onset of the COVID-19 pandemic to align our costs with the anticipated lower levels of demand. These actions included facility consolidations, exiting or restructuring several underperforming contracts, and eliminating discretionary spending. We also implemented actions to reduce our fixed and variable cost base which will support improved operating efficiencies and margins as commercial demand recovers.

In addition to these actions, we have also taken steps to focus on our core aviation services offering by continuing the divestiture of non-core businesses. Following the fiscal 2020 exit from our Contractor-Owned, Contractor-Operated ("COCO") business, we completed the sale of our composites manufacturing business in early fiscal 2021. All of these actions have simplified our portfolio and improved efficiency in our operations to position us to drive higher returns on capital.

As we continued to successfully execute on our recent government contract awards over the last few years, we achieved strong sales growth in fiscal 2021 with our government customers as sales increased $67.1 million or 8.6% over the prior year. This growth was driven from recent contract awards such as the $118 million contract from the Naval Air Systems Command in support of the U.S. Marine Corps for the procurement, modification and delivery of two C-40 aircraft.

During fiscal 2021, we also maintained a strong focus on working capital management with cash flows from operating activities from continuing operations of $108.5 million. Borrowings outstanding under the Revolving Credit Facility were $109.5 million at May 31, 2021 with an availability on the facility of $471.3 million.

Over the long-term, we expect to see strength in our Aviation Services segment given its offerings of value-added services to both commercial and government and defense customers. We believe long-term commercial aftermarket growth trends are favorable. As we continue to experience growth in our government businesses and recovery in some commercial markets, our long-term strategy continues to emphasize investing in the business and capitalizing on opportunities in those markets.

Business Segments

Aviation Services

The Aviation Services segment provides aftermarket support and services for the commercial aviation and government and defense markets and accounted for approximately 95% of our sales in fiscal 2021, 2020, and 2019. In this segment, we also provide inventory management and distribution services, maintenance, repair and overhaul ("MRO"), and engineering services. Business activities in this segment are primarily conducted through AAR Supply Chain, Inc.; AAR Government Services, Inc.; AAR Aircraft & Engine Sales & Leasing, Inc.; AAR Aircraft Services, Inc.; AAR Allen Services, Inc.; AAR Landing Gear LLC; AAR Airlift Group, Inc.; and AAR International, Inc.

We sell and lease a wide variety of new, overhauled and repaired engine and airframe parts and components and aircraft to our commercial aviation and government/defense customers.

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We provide customized flight hour component inventory and repair programs, warranty claim management, and outsourcing programs for engine and airframe parts and components in support of our airline and government customers' maintenance activities. The types of services provided under these programs include some or all of the following functions: material planning, sourcing, logistics, information and program management, and parts and component repair and overhaul. We are also an authorized distributor for more than 30 product lines which include parts from over 300 Federal Supply Class codes, which we source from over 25 leading aviation original equipment manufacturers ("OEM"s).

We provide fleet management and operations of customer-owned aircraft for the U.S. Department of State ("DoS") under the INL/A WASS contract. We are the prime contractor on this ten-year performance-based contract which began in fiscal 2018. Our services under the contract include operating and maintaining the global DoS fleet of fixed- and rotary-wing aircraft.

We also provide customized performance-based supply chain logistics programs in support of the U.S. Department of Defense ("DoD") and foreign governments. The types of services provided under these programs include some or all of the following functions: material planning, sourcing, logistics, information and program management, airframe maintenance and maintenance planning, and component repair and overhaul.

We provide major airframe inspection, maintenance, repair and overhaul, painting services, line maintenance, airframe modifications, structural repairs, avionics service and installation, exterior and interior refurbishment, and engineering services and support for many types of commercial and military aircraft. We also repair and overhaul various components, landing gears, wheels, and brakes for commercial and military aircraft.

We operate six airframe maintenance facilities and one landing gear overhaul facility. Our landing gear overhaul facility is in Miami, Florida, where we repair and overhaul landing gear, wheels, brakes, and actuators for different types of commercial and military aircraft. Our U.S. airframe maintenance facilities are in Indianapolis, Indiana; Oklahoma City, Oklahoma; Miami, Florida; and Rockford, Illinois and our Canadian airframe maintenance facilities are in Trois Rivieres, Quebec and Windsor, Ontario.

In addition to our North American facilities, we also have an interest in a joint venture to develop and operate an airframe maintenance facility in India. The facility is expected to receive regulatory certification in the first half of fiscal 2022 and would commence airframe maintenance operations shortly thereafter.

The majority of our product sales are made pursuant to standard commercial purchase orders. Government sales are generally made under standard types of government contracts, which can include firm fixed-price contracts, cost plus fixed fee contracts, and time-and-materials contracts. For cost plus fixed fee contracts, we typically receive reimbursement of our costs, to the extent the costs are allowable under contractual and regulatory provisions, in addition to receiving a fixed fee. Some of our contracts call for the performance of specified services or the delivery of specified products under indefinite delivery/indefinite quantity ("ID/IQ") arrangements. Certain inventory supply and management and performance-based logistics program agreements reflect negotiated terms and conditions.

To support activities within the Aviation Services segment, we acquire aviation parts and components from domestic and foreign airlines, independent aviation service companies, aircraft leasing companies, and OEMs. We have ongoing arrangements with OEMs that provide us access to parts, repair manuals, and service bulletins in support of parts manufactured by them. Although the terms of each arrangement vary, they typically are made on standard OEM terms as to duration, price, and delivery. From time to time, we purchase airframes and engines for disassembly into individual parts and components. Airframes and engines may also be leased to airlines on a short-term basis prior to disassembly or sale.

Expeditionary Services

The Expeditionary Services segment primarily consists of products and services supporting the movement of equipment and personnel by the U.S. and foreign governments and non-governmental organizations. The Expeditionary Services segment accounted for approximately 5% of our sales in fiscal 2021, 2020, and 2019. Business activities in this segment are primarily conducted through AAR Manufacturing, Inc. and Brown International Corporation.

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We design, manufacture, and repair transportation pallets and a wide variety of containers and shelters used in support of military and humanitarian tactical deployment activities. The containers and shelters are used in numerous mission requirements, including armories, supply and parts storage, refrigeration systems, tactical operation centers, briefing rooms, laundry and kitchen facilities, water treatment, and sleeping quarters. Shelters include both stationary and vehicle-mounted applications.We also provide engineering, design, and system integration services for specialized command and control systems.

During the first quarter of fiscal 2021, we sold our composites manufacturing business which resulted in a charge of $20.2 million. The sale of the Composites business is consistent with our multi-year strategy to focus our portfolio on our core services offerings, and the transaction has allowed us to further prioritize our efforts in our principal operations.

Sales in this segment are generally made to customers pursuant to standard commercial purchase orders and contracts. Government sales are generally made under standard types of government contracts, which can include firm fixed-price contracts, cost plus fixed fee contracts, and time-and-materials contracts. Some of our contracts call for the performance of specified services or the delivery of specified products under ID/IQ arrangements, however, the majority of our products and services are procured via definite contracts.

Raw Materials

Although we generated approximately 55% of our fiscal 2021 sales from the sale of products, we are generally engaged in only limited manufacturing activities and have minimal exposure to fluctuations in both the availability and pricing of raw materials. We purchase raw materials for our manufacturing operations, including steel, aluminum, extrusions, balsa, and other necessary supplies from several vendors. Where necessary, we have been able to obtain raw materials and other inventory items from numerous sources for each segment at competitive prices, terms, and conditions, and we expect to be able to continue to do so.

Terms of Sale

We generally sell our products and services under standard 30-day payment terms. On occasion, certain customers will negotiate extended payment terms of 60-90 days. Except for customary warranty provisions, customers neither have the right to return products nor do they have the right to extended financing. Our government contracts may extend several years and include one or more base years and one or more option years. The government generally has the right not to exercise options to extend or expand our contracts and may otherwise terminate, cancel, or modify some contracts at its convenience.

Customers

The principal customers for our products and services in the Aviation Services segment are domestic and foreign passenger airlines, domestic and foreign cargo airlines, regional and commuter airlines, business and general aviation operators, OEMs, aircraft leasing companies, aftermarket aviation support companies, the DoD and its contractors, the DoS, and foreign military organizations or governments. In the Expeditionary Services segment, our principal customers include the DoD and its contractors, foreign military organizations or governments, defense organizations, and OEMs.

Sales of aviation products and services to our commercial airline customers are generally affected by such factors as the number, type and average age of aircraft in service, the levels of aircraft utilization (e.g., frequency of schedules, flying hours, and take-off and landing cycles), the number of airline operators, the general economy, and the level of sales of new and used aircraft. Sales to the DoD and other government agencies are subject to a number of factors, including the level of troop deployment worldwide, government funding, competitive bidding, and requirements generated by worldwide geopolitical events.

We primarily market and sell products and services through our own employees. In certain markets outside of the United States, we rely on foreign sales representatives to assist in the sale of our products and services.

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Sales to Government and Defense Customers

Sales to global government and defense customers (including sales to branches, agencies, and departments of the U.S. government) were $845.9 million (51.2% of consolidated sales), $778.8 million (37.6% of consolidated sales) and $677.9 million (33.0% of consolidated sales) in fiscal 2021, 2020 and 2019, respectively. Sales to branches, agencies, and departments of the U.S. government and their contractors were $738.8 million (44.7% of consolidated sales), $668.2 million (32.2% of consolidated sales) and $546.2 million (26.6% of consolidated sales) in fiscal 2021, 2020, and 2019, respectively.

Sales to government and defense customers are reported in each of our reportable segments (See Note 14 of Notes to Consolidated Financial Statements). Since such sales are subject to competitive bidding and government funding, no assurance can be given that such sales will continue at levels previously experienced. The majority of our U.S. government sales are for products and services supporting the DoD logistics and mobility strategy and supporting DoS flight operations. Thus, our government contracts have changed, and may continue to change, with fluctuations in defense and other governmental agency spending and requirements. Our government contracts are also often subject to termination for convenience by the customer; in the event of such a termination, we are contractually entitled to recover all allowable costs incurred by us through the date of termination.

Government Regulation and Certificates

The Federal Aviation Administration ("FAA") regulates the manufacture, repair, and operation of all aircraft and aircraft parts operated in the United States. Similar rules and regulatory authorities exist in other countries. The inspection, maintenance and repair procedures for the various types of aircraft and equipment are prescribed by these regulatory authorities and can be performed only by certified repair facilities utilizing certified technicians. The FAA requires that various maintenance routines be performed on aircraft engines, certain engine parts, and airframes at regular intervals based on take off and landing cycles or flight time. Our businesses, which sell defense products and services directly to the U.S. government or through its contractors, can be subject to various laws and regulations governing pricing and other factors.

We have nine FAA certificated repair stations in the United States, Canada, and Europe. Of the nine certificated FAA repair stations, seven are also European Aviation Safety Agency ("EASA") and three are also Transport Canada Civil Aviation ("TCCA") certificated repair stations. Such certificates, which are ongoing in duration, are required for us to perform authorized maintenance, repair, and overhaul services for our customers and are subject to revocation by the government for non-compliance with applicable regulations. All of the certificated repair stations are in the Aviation Services segment. We believe that we possess all licenses and certifications that are material to the conduct of our business.

Competition

Competition in each of our markets is based on quality, ability to provide a broad range of products and services, speed of delivery, and price. Competitors in our Aviation Services segment include OEMs, the service divisions of large commercial airlines, and other independent suppliers of parts, repair, and overhaul services to the commercial and defense markets. Our Expeditionary Services segment competes with a number of divisions of large corporations and other large and small companies. Although certain of our competitors have substantially greater financial and other resources than we do, we believe that we have maintained a satisfactory competitive position through our responsiveness to customer needs, our attention to quality, and our unique combination of market expertise and technical and financial capabilities.

Backlog

Backlog represents the amount of revenue that we expect to derive from unshipped orders or signed contracts. Backlog includes our remaining performance obligations based on the transaction price of firm orders for which work has not yet been performed as of May 31, 2021. Backlog excludes unexercised contract options and potential orders under contracts such as ID/IQ contracts.

At May 31, 2021, our firm backlog was approximately $750 million and we expect that approximately 40% of this backlog will be recognized as revenue over the next 12 months, with approximately 45% of the remaining balance recognized as revenue over the next three years.

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Human Capital Resources

As of May 31, 2021, we had approximately 4,700 employees worldwide, with approximately 3,300 employees in the United States and approximately 1,400 employees outside of the United States. We also retained approximately 220 contract workers as of May 31, 2021, the majority of whom are located at our airframe maintenance facilities. We retain these contract workers as they provide unique skill sets which are necessary at certain facilities as well as mitigate the impact of demand variability with our customers.

Our employees set the foundation for our ability to achieve our strategic objectives. In particular, the employees in our MRO facilities, sales, and quality assurance departments are instrumental in driving operational execution and strong financial performance, and maintaining a strong quality and compliance program.

The success and growth of our business depend in large part on our ability to attract, retain and develop a population of talented and high-performing employees at all levels of our organization. To achieve this objective we have formulated a human capital management strategy, which includes the components below:

Commitment to Safety

One of our primary objectives is the health and safety of our employees. The commitment to safety starts at the top levels of our organization. In December 2020, our Board of Directors formed an Aviation Safety and Training Committee that oversees safety and training matters on the Board's behalf. We believe a safe and secure workplace is fundamental and important to our success and we are committed to providing a safe and healthy workplace, and complying with applicable safety and health laws, regulations and internal requirements. We are also committed to engaging our employees to continually improve health and safety by acting upon opportunities to reduce risk and improve our safety and health performance. We maintain comprehensive safety programs focused on identifying hazards and eliminating risks that can lead to severe injuries.

Competitive Pay and Benefits

We focus on paying our employees competitively. We strive to provide competitive pay opportunities which reward our employees for achieving and exceeding objectives that create long-term value for shareholders. Providing competitive pay enhances our ability to attract and retain strong, innovative talent.

Providing comprehensive, competitive and affordable benefits is important to our attraction and retention strategy. We offer health benefits which include various medical/pharmacy plan options as well as a cost comparison tool to assist employees with their decisions. Health savings accounts for those in a high deductible health plan and flexible spending accounts for both health care and dependent care are also available to employees. The retirement, investment, and tax savings/deferral opportunities offered to employees include competitive 401k benefits and an Employee Stock Purchase Plan.

Employees are eligible for paid and unpaid leaves and, in addition, we offer a variety of other benefits to meet the needs of employees including an employee assistance program which provides some free counseling sessions, educational assistance and adoption assistance. Some of our facilities have fitness centers on site for employees to use.

Diversity, Inclusion and Engagement

We are an equal opportunity employer and recognize the value of a diverse workforce. We have established company-wide Employee Resource Groups ("ERGs") where employees can foster connections and develop in a supportive environment.

We are continually seeking out new ways to broaden our exposure to underrepresented groups in the aviation industry and to develop a diverse talent pipeline. Our ERGs support the development of diverse talent internally and promote the acquisition of talent externally.

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Business Ethics

Our Code of Conduct ("Code") is a statement of the principles and standards that we expect our employees 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 us and individuals involved, including disciplinary action, civil penalties or criminal prosecution under certain circumstances.

Available Information

For additional information concerning our business segments, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business Segment Information" in Note 14 of Notes to Consolidated Financial Statements under Item 8, "Financial Statements and Supplementary Data."

Our internet address is www.aarcorp.com. We make available free of charge through our web site our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the Securities and Exchange Commission. Information contained on our web site is not a part of this report.

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ITEM 1A. RISK FACTORS

The following is a description of the principal risks inherent in our business. Any of the risks and uncertainties described below could materially and adversely affect our business, financial condition, and results of operations and should be considered in evaluating us. Although the risks are organized by heading, and each risk is described separately, many of the risks are interrelated. While we believe we have identified and discussed below the material risks affecting our business, there may be additional risks and uncertainties that we do not presently know or that we do not currently believe to be material that may adversely affect our business, financial condition, or results of operations in the future.

Risks Related to Our Business and Industry

We are affected by factors that adversely impact the commercial aviation industry.

As a provider of products and services to the commercial aviation industry, we are greatly affected by overall economic conditions of that industry. The commercial aviation industry is historically cyclical and has been negatively affected in the past by geopolitical events and conflicts, weather related events, natural disasters, disruption to fuel and oil production and supply shortages, high fuel and oil prices, environmental concerns (including climate change), lack of capital, and weak economic conditions. As a result of these and other events, from time to time certain of our customers have filed for bankruptcy protection or ceased operation. The impact of instability in the global financial markets may lead airlines to reduce domestic or international capacity. In addition, certain of our airline customers have in the past been impacted by tight credit markets, which limited their ability to buy parts, services, engines, and aircraft.

A reduction in the operating fleet of aircraft both in the U.S. and abroad will result in reduced demand for parts support and maintenance activities for the type of aircraft affected. A deteriorating airline environment may also result in additional airline bankruptcies, and in such circumstances we may not be able to fully collect outstanding accounts receivable, which was recently seen over the past year during the COVID-19 pandemic. Reduced demand from customers caused by weak economic conditions, including tight credit conditions and customer bankruptcies, may adversely impact our financial condition or results of operations. As an example, over the past year, as a result of the COVID-19 pandemic, which reduced demand, our revenue decreased by 20% largely due to reduced demand attributable to the COVID-19 pandemic.

Our business, financial condition, results of operations, and growth rates have been and may continue to be adversely affected by these and other events that impact the aviation industry, including the following:

- deterioration in the financial condition of our existing and potential customers;
- reductions in the need for, or the deferral of, aircraft maintenance and repair services and spare parts support;
- retirement of older generation aircraft, resulting in lower prices for spare parts and services for those aircraft;
- reductions in demand for used aircraft and engines;
- increased in-house maintenance by airlines;
- lack of parts in the marketplace;
- acts of terrorism;
- future outbreaks of infectious diseases; and
- acts of God.

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Our U.S. government contracts may not continue at present sales levels, which may have a material adverse effect on our financial condition and results of operations.

Our sales to branches, agencies and departments of the U.S. government and their contractors were $738.8 million (44.7% of consolidated sales) in fiscal 2021 (See Note 14 of Notes to Consolidated Financial Statements). The majority of our U.S. government sales is for products and services supporting DoD logistics and mobility strategy and DoS flight operations and are, therefore, subject to changes in defense and other governmental agency funding and spending. Our contracts with the U.S. government and their contractors are typically agreements to provide products and services at a fixed price and have a term of one year or less, frequently subject to extension for one or more additional periods of one year at the option of the government customer. Sales to agencies of the U.S. government and their contractors are subject to a number of factors, including the level of troop deployment worldwide, competitive bidding, U.S. government funding, requirements generated by world events, and budgetary constraints.

U.S. government programs are subject to annual congressional budget authorization and appropriation processes. In recent years, U.S. government appropriations have been affected by larger U.S. government budgetary issues and related legislation, including the statutory limit on the amount of permissible federal debt. These issues could negatively affect the timely collection of our U.S. government invoices.

Future congressional appropriation and authorization of defense spending and the application of sequestration remain marked by significant debate and an uncertain schedule. The federal debt limit continues to be actively debated as plans for long-term national fiscal policy are discussed. The outcome of these debates could have a significant impact on defense spending broadly and programs we support in particular.

If there are funding delays and constraints, we may be required to continue to perform for some period of time on certain of our U.S. government contracts even if the U.S. government is unable to make timely payments. Future budget cuts, including cuts mandated by sequestration, or future procurement decisions could result in reductions, cancellations, and/or delays of existing contracts or programs which could adversely affect our results of operations and financial condition.

In addition, U.S. government programs budgets could be negatively impacted under President Biden's administration, including possible policy changes on defense spending, spending priorities outside defense, reduction in military presence overseas and in general pressure to reduce U.S. defense spending. A significant reduction in defense spending could result in a reduction in the amount of our products and services furnished to the U.S. government.

In light of COVID-19, and the corresponding decrease in commercial airline activity, the percentage of our revenue that comes from government contracts increased and became more important to our overall business, which heightens the possible adverse effects on our results of operations and financial condition of any reduction in the sales levels of our U.S. government contracts.

We use estimates when accounting for long-term contracts and face risks of cost overruns and losses on these contracts.

We sell certain of our products and services to our commercial, government, and defense customers under firm contracts providing for fixed unit prices, regardless of costs incurred by us. The cost of producing products or providing services may be adversely affected by increases in the cost of labor, materials, fuel, overhead, and other unknown variants, including manufacturing and other operational inefficiencies and differences between assumptions used by us to price a contract and actual results. Increased costs may result in cost overruns and losses on such contracts, which could adversely affect our results of operations and financial condition.

We recognize revenue on our long-term contracts primarily over time as there is continuous transfer of control to the customer over the duration of the contract as the services are delivered, which generally requires estimates of total costs at completion, fees earned on the contract, or both. This estimation process is complex and involves significant judgment related to assumptions on flight hours, component repair costs, labor hours and rates, and contract penalties and incentives. Adjustments to estimates are often required as work progresses, experience is gained and additional information becomes known, even though the scope of the work required under the contract may not change. Any adjustment as a result of a change in estimate is recognized as events become known. Changes in the underlying assumptions, circumstances or estimates could result in adjustments that may adversely affect our future financial results.

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If our subcontractors or suppliers fail to perform their contractual obligations, our contract profitability and our ability to win new contracts may be adversely affected.

We rely on subcontractors to perform a portion of the services we agree to provide our customers, and our suppliers provide necessary inventory and component parts. A failure by one or more of our subcontractors or suppliers to satisfactorily provide on a timely basis the agreed-upon services or supplies may affect our ability to perform our contractual obligations. Deficiencies in the performance of our subcontractors and/or suppliers could result in liquidated damages or our customer terminating our contract for default. A termination for default could expose us to liability and adversely affect our financial performance and our ability to win new contract awards.

Success at our airframe maintenance facilities is dependent upon continued outsourcing by the airlines.

We currently perform airframe maintenance, repair, and overhaul activities at six leased locations. If our maintenance facilities become unavailable either temporarily or permanently due to labor disruptions or circumstances beyond our control, such as geopolitical developments or logistical complications arising from acts of war, cyber-attacks, weather, global climate change, earthquakes or other natural disasters including public health crises, we may be unable to shift such work to other facilities or to make up for lost work. Revenues at these facilities fluctuate based on demand for maintenance which, in turn, is driven by the number of aircraft operating and the extent of outsourcing of maintenance activities by airlines. In addition, certain airlines operate certain new fleet types and/or newer generation aircraft and we may not have contractual arrangements to service these aircraft nor technicians trained and certified to perform the required airframe maintenance, repair, and overhaul activities. If either the number of aircraft operating or the level of outsourcing of maintenance activities declines, we may not be able to execute our operational and financial plans at our maintenance, repair, and overhaul facilities, which could adversely affect our results of operations and financial condition.

Our operations would be adversely affected by a shortage of skilled personnel or work stoppages.

Our business has historically been dependent on educated and skilled aviation mechanics because of the complex nature of many of our products and services. We face competition for management and qualified technical personnel from other companies and organizations. Furthermore, we have a collective bargaining agreement covering approximately 200 employees (4% of employees). Beginning in April 2020, we furloughed a significant portion of our skilled workforce as a result of the negative impact the COVID-19 pandemic has had on the demand for our services, with those employees being either terminated or brought back to work by November 16, 2020. Although we took measures to maintain good relationships with our workforce, there can be no assurance that the act of furloughing our employees did not damage employee relations or negatively impact our ability to be an employer of choice in our field. As the demand for skilled personnel begins to return to pre-COVID-19 levels, if we are unable to quickly reassemble our skilled workforce and subsequently retain a sufficient number of skilled personnel, or we experience a significant or prolonged work stoppage in such an environment, our ability to secure new work and our results of operations and financial condition could be adversely affected.

We operate in highly competitive markets, and competitive pressures may adversely affect us.

The markets for our products and services to our commercial, government, and defense customers are highly competitive, and we face competition from a number of sources, both domestic and international. Our competitors include aircraft manufacturers, aircraft component and parts manufacturers, airline and aircraft service companies, other companies providing maintenance, repair and overhaul services, other aircraft spare parts distributors and redistributors. Some of our competitors have substantially greater financial and other resources than we have and others may price their products and services below our selling prices. These competitive markets also create pressure on our ability to hire and retain qualified technicians and other skilled labor needs. We believe that our ability to compete depends on superior customer service and support, on-time delivery, sufficient inventory availability, competitive pricing, and effective quality assurance programs.

Our government customers, including the DoD and DoS, may turn to commercial contractors, rather than traditional defense contractors, for certain work, or may utilize set asides such as small business, women-owned, or minority-owned contractors or determine to source work internally rather than use us. We are also impacted by bid protests from unsuccessful bidders on new program awards and task orders. Bid protests could result in significant expense for us, contract modifications, or the award decision being overturned and loss of the contract award. Even where a bid protest does not result in the loss of an award, the resolution can extend the time until the contract activity can begin, and delay earnings. These competitive pressures, with potential impacts on both our commercial and government business, could adversely affect our results of operations and financial condition.

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We are exposed to risks associated with operating internationally.

We conduct our business in a number of foreign countries, some of which are politically unstable or subject to military or civil conflicts. Consequently, we are subject to a variety of risks that are specific to international operations, including the following:

- military conflicts, civil strife, and political risks;
- export regulations that could erode profit margins or restrict exports;
- compliance with the U.S. Foreign Corrupt Practices Act, United Kingdom ("UK") Bribery Act 2010, and other anti-bribery and anti-corruption laws; see Note 15 of Notes to Consolidated Financial Statements for information about certain pending proceedings;
- the burden and cost of compliance with foreign laws, treaties, and technical standards and changes in those regulations;
- contract award and funding delays;
- potential restrictions on transfers of funds;
- import and export duties and value added taxes;
- foreign exchange risk;
- transportation delays and interruptions, including the inability to move personnel out of foreign jurisdictions due to COVID-19 travel restrictions;
- uncertainties arising from foreign local business practices and cultural considerations; and
- changes in U.S. policies on trade relations and trade policy, including implementation of or changes in trade sanctions, tariffs, and embargoes.

Any measures adopted to reduce the potential impact of losses resulting from the risks of doing business internationally, may not be adequate, and the regions in which we operate might not continue to be stable enough to allow us to operate profitably or at all.

Acquisitions expose us to risks, including the risk that we may be unable to effectively integrate acquired businesses.

We have completed acquisitions in the past and we have discussions with third parties regarding acquisitions on a regular basis. Acquisitions involve risks, including difficulties in integrating the operations and personnel, the effects of amortization of any acquired intangible assets and the potential impairment of goodwill, and the potential loss of key employees of the acquired business. In addition, acquisitions often require substantial management resources and have the potential to divert our attention from our existing business. For any businesses we may acquire in the future, we may not be able to execute our operational, financial, or integration plans for the acquired businesses, which could adversely affect our results of operations and financial condition.

Market values for our aviation products fluctuate and we may be unable to recover our costs incurred on engines, rotable components and other aircraft parts.

We make a number of assumptions when determining the recoverability of rotable components, engines, and other assets which are on lease, available for lease, or supporting our long-term programs. These assumptions include historical sales trends, current and expected usage trends, replacement values, current and expected lease rates, residual values, future demand, and future cash flows. Reductions in demand for these assets or declining market values, as well as differences between actual results and the assumptions utilized by us when determining the recoverability of our aircraft, engines, and other assets, could result in impairment charges in future periods, which would adversely affect our results of operations and financial condition.

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Our business could be negatively affected by cyber or other security threats or other disruptions.

Our business depends heavily on information technology and computerized systems to communicate and operate effectively. We store sensitive data including proprietary business information, intellectual property and confidential employee or other personal data on our servers and databases. Our systems and technologies, or those of third parties on which we rely, could fail or become unreliable due to equipment failures, software viruses, cyber threats, ransomware attacks, terrorist acts, natural disasters, power failures, political or social unrest, pandemics or other public health issues or other causes. These threats arise in some cases as a result of our role as a defense contractor.

Cyber security threats are evolving and include, but are not limited to, malicious software, attempts to gain unauthorized access to our sensitive information, business e-mail compromises, ransomware attacks, and other electronic security breaches, including at our customers, suppliers, subcontractors, and joint venture partners, that could lead to disruptions in mission critical systems, unauthorized release of confidential or otherwise protected information, and corruption of data.

A theft, loss, fraudulent use or misuse of customer, stockholder, employee or our proprietary data by cybercrime or otherwise, noncompliance with our contractual or other legal obligations regarding such data or a violation of our privacy and security policies with respect to such data could adversely impact our reputation and could result in costs, fines, litigation or regulatory action against us. Security breaches can create system disruptions and shutdowns that could result in disruptions to our operations. We cannot be certain that advances in criminal capabilities, new vulnerabilities or other developments will not compromise or breach the security solutions protecting our information technology, networks and systems. A failure of or cyber-attack on our information systems technology or those of our partners, customers, vendors, or suppliers could adversely affect our ability to process orders, maintain proper levels of inventory, collect accounts receivable and pay expenses; all of which could have an adverse effect on our results of operations, financial condition and cash flows. Such serious harm can involve, among other things, misuse of our assets, business disruptions, loss of data, unauthorized access to trade secrets and confidential business information, unauthorized access to personal information, legal claims or proceedings, reporting errors, processing inefficiencies, negative media attention, reputational harm, loss of sales, remediation and increased insurance costs, and interference with regulatory compliance. We have experienced and expect to continue to experience some of these types of cybersecurity threats and incidents, which could be material in the future.

The procedures and controls we utilize to monitor and mitigate these threats may not be sufficient to prevent security threats from materializing. If any of these events were to materialize, the costs related to cyber or other security threats or disruptions may not be fully insured or indemnified and could have a material adverse effect on our reputation, operating results, and financial condition.

Moreover, expenditures incurred in implementing and maintaining cyber security and other procedures and controls could adversely affect our results of operations and financial condition.

We may need to make significant capital expenditures to keep pace with technological developments in our industry.

The industries in which we participate are constantly undergoing development and change, and it is likely that new products, equipment, and methods of repair and overhaul services will be introduced in the future. We may need to make significant expenditures to purchase new equipment and to train our employees to keep pace with any new technological developments. These expenditures could adversely affect our results of operations and financial condition.

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Risk Related to Financial Matters

We may need to reduce the carrying value of our assets.

We own and distribute a significant amount of engines, aircraft parts and components, as well as own manufacturing facilities and joint venture investments. Recurring losses in certain operations could require us to evaluate the recoverability of the carrying value of the related assets and recognize an impairment charge through earnings to reduce the carrying value. During fiscal 2020, and 2019, we recognized impairment charges of $11.8 million and $74.1 million, respectively, related to our COCO business which is classified as a discontinued operation. In addition, if aircraft or engines for which we offer replacement parts or supply repair and overhaul services are retired and there are fewer aircraft that require these parts or services, our revenues may decline.

We make a number of assumptions when determining the recoverability of our assets, including historical sales trends, current and expected usage trends, replacement values, current and expected lease rates, residual values, future demand, and future cash flows. Differences between actual results and the assumptions utilized by us when determining the recoverability of our assets could result in impairment charges in future periods, which would adversely affect our results of operations and financial condition.

We have recorded goodwill and other intangible assets related to acquisitions. If we are unable to achieve the projected levels of operating results, it may be necessary to record an impairment charge to reduce the carrying value of goodwill and related intangible assets. Similarly, if we were to lose a key customer or if a regulator were to terminate any of our repair certificates at our airframe maintenance or landing gear facilities, we might be required to record an impairment charge if we were unable to operate.

We are dependent upon continued availability of financing to manage our business and to execute our business strategy, and additional financing may not be available on terms acceptable to us.

Our ability to manage our business and to execute our business strategy is dependent, in part, on the continued availability of debt and equity capital. Access to the debt and equity capital markets may be limited by various factors, including the condition of overall credit markets, general economic factors, state of the aviation industry, our financial performance, and credit ratings. Debt and equity capital may not continue to be available to us on favorable terms, or at all. Our inability to obtain financing on favorable terms could adversely affect our results of operations and financial condition.

LIBOR, the London interbank offered rate, is the basic rate of interest used in lending between banks on the London interbank market and is widely used as a reference for setting the interest rate on loans globally. Interest rates under our Revolving Credit Facility (as defined below) are based partly on LIBOR. On March 5, 2021, the UK Financial Conduct Authority, which regulates LIBOR, announced that it would cease publication of the one-week and two-month U.S. dollar LIBOR immediately after December 31, 2021 and cease publication of the remaining tenors immediately after June 30, 2023. Additionally, the Federal Reserve Board has advised banks to stop entering into new U.S. dollar LIBOR based contracts. The U.S. Federal Reserve has begun publishing a Secured Overnight Funding Rate which is currently intended to serve as an alternative reference rate to LIBOR. If lenders have increased costs due to changes in LIBOR, we may suffer from potential increases in interest rates on our borrowings. Further, we may need to renegotiate our credit facilities or any other borrowings that utilize LIBOR as a factor in determining the interest rate to replace LIBOR with the new standard that is established.

Our existing debt and expected government funding includes restrictive and/or financial covenants.

Certain financing arrangements, including our Revolving Credit Facility and our accounts receivable financing program, require us to comply with various restrictive covenants and some contain financial covenants that require us to comply with specified financial ratios and tests. Our failure to meet these covenants could result in default under these loan and debt agreements and may result in a cross-default under other debt agreements. In the event of a default and our inability to obtain a waiver of the default, all amounts outstanding under our debt agreements could be declared immediately due and payable. Our failure to comply with these covenants could adversely affect our results of operations and financial condition.

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In addition, our receipt of funding from the Payroll Support Program under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") requires us to comply with certain covenants. If we do not comply with these covenants, or if the government issues new guidance regarding existing covenants, the government may require us to repay the support given to us.

We currently are prohibited from paying dividends under the Payroll Support Program under the CARES Act and, in the future, may not be able to pay or maintain dividends, or we may choose not to pay dividends, and the failure to pay or maintain dividends may adversely affect our share price.

The Payroll Support Program under the CARES Act prohibits the Company from paying dividends to our stockholders through September 30, 2021, accordingly no dividend has been paid since April 2020 or will be paid by the Company prior to September 30 of this year.

After the restrictions on paying dividends under the CARES Act lapse, our ability to pay, maintain or increase cash dividends to our stockholders is subject to the discretion of our Board of Directors and will depend on many factors, including: our ability to comply with financial covenants, the economic condition of the commercial aviation industry, the level and timing of capital expenditures, principal repayments and other capital needs, maintaining our credit ratings, our results of operations, financial condition and liquidity, and legal restrictions on the payment of dividends, including government imposed restrictions. In the future, we may choose to not pay dividends or may not be able to pay dividends, maintain our historical level of dividends, or increase them over time. The failure to maintain or pay dividends may adversely affect our share price.

Risks Related to COVID-19

The COVID-19 pandemic has had a material adverse impact on our business, results of operations, financial condition, and liquidity, and the duration and extent of the pandemic could prolong or increase the adverse impact.

In December 2019, an outbreak of COVID-19 originated in Wuhan, China, and in March 2020, the World Health Organization characterized COVID-19 as a pandemic. Many countries, including the United States, declared states of emergency and took steps to restrict air travel, and many companies adopted policies prohibiting non-essential business travel by their employees. Even in the absence of formal restrictions and prohibitions, contagious illness and fear of contagion has adversely affected travel demand and travel behavior. Passenger airline traffic declined significantly since March 2020, and the decrease has since had a material negative impact on our financial results.

With the roll-out of the COVID-19 vaccines, many countries have started to lift their states of emergency and restrictions on air travel. With the easing of these restrictions, passenger airline traffic has started to pick-up in the United States, but business travel in particular remains well below pre-pandemic levels. In addition, we have seen and expect to continue to see reduced demand in our non-cargo commercial businesses in certain markets. In some cases, airlines have reduced their operating fleet of aircraft both in the U.S. and abroad which results in reduced demand for parts support and maintenance activities for the type of aircraft affected. Moreover, if the COVID-19 pandemic continues to result in decreased worldwide commercial activity, it could also adversely affect the demand for airline cargo services. Reduced numbers of aircraft flying or flight hours has and will continue to negatively impact the demand for our services, and any prolonged reduction could materially and adversely affect our business, operating results, financial condition, and liquidity.

While some of our employees were able to work remotely during spikes in COVID-19 cases, a significant number can only perform their job functions on site. We have promulgated policies designed to provide for appropriate protections for employees in light of relevant government guidance. We evaluate and modify these policies as needed on an ongoing basis, but there remains the risk of disruption or reduced efficiency caused by social distancing and other protective measures as well as elevated employee absence because of illness or required quarantines.

In addition, we source parts and components for our business from various suppliers around the world. Disruptions to our supply chain and business operations, or to our suppliers' or customers' supply chains and business operations, could have adverse effects on our ability to provide aftermarket support and services. Moreover, a prolonged epidemic or pandemic, or the threat thereof, could result in worker absences, lower productivity, voluntary closure of our offices and facilities, travel restrictions for our employees and other disruptions to our business. These impacts have had and could continue to have a material adverse effect on our business, financial condition or results of operations.

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We have taken a number of actions in response to decreased demand. In addition to reducing operating expenditures for fiscal 2021, we received financial assistance under the CARES Act. Certain of our subsidiaries received $57.2 million from the U.S. Treasury Department ("Treasury") through the Payroll Support Program under the CARES Act. In connection with the financial assistance these subsidiaries received under the Payroll Support Program, we are required to comply with certain provisions of the CARES Act, including provisions prohibiting the repurchase of common stock and the payment of common stock dividends through September 30, 2021; and limitations on the payment of certain employee compensation through March 24, 2022. These restrictions have and may continue to materially affect our operations, and we may not be successful in managing these impacts for the duration of the restrictions. In particular, limitations on compensation may adversely impact our ability to attract and retain senior management or attract other key employees during this critical time.

Risks Related to Legal and Regulatory Matters

If we fail to comply with government procurement laws and regulations, we could lose business and be liable for various penalties or sanctions.

We must comply with laws and regulations relating to the formation, administration, and performance of government contracts. In the U.S., these laws and regulations include the Federal Acquisition Regulations, Defense Federal Acquisition Regulations, the Truth in Negotiations Act, Cost Accounting Standards, and laws, regulations, and orders restricting the use and dissemination of classified information under the U.S. export control laws and the export of certain products and technical information and safeguarding of contractor information systems.

In addition, we are subject to U.S. government inquiries and investigations, including periodic audits of costs that we determine are reimbursable under government contracts. U.S. government agencies routinely audit government contractors, including the Company, to review performance under contracts, cost structure and compliance with applicable laws, regulations, and standards, as well as the adequacy of and compliance with internal control systems and policies, including the contractor's purchasing, property, estimating, compensation and management information systems. Any costs found to be misclassified or inaccurately allocated to a specific contract are not reimbursable, and to the extent already reimbursed, must be refunded. Also, any inadequacies in our systems and policies could result in payments being withheld, penalties and reduced future business.

U.S. government rules allow contracting officers to impose contractual withholdings at no less than certain minimum levels if a contracting officer determines that one or more of a contractor's business systems have one or more significant deficiencies. If a contracting officer were to impose such a withholding on us or even one of our prime contractors, it would increase the risk that we would not be paid in full or paid timely. If future audit adjustments exceed our estimates, our profitability could be adversely affected.

If a government inquiry or investigation uncovers improper or illegal activities, we could be subject to civil or criminal penalties or administrative sanctions, including contract termination, fines, forfeiture of fees, suspension of payment and suspension or debarment from doing business with government agencies, any of which could materially adversely affect our reputation, business, financial condition and results of operations. See Note 15 of Notes to Consolidated Financial Statements for information about certain pending proceedings.

We are subject to significant government regulation and may need to incur significant expenses to comply with new or more stringent governmental regulation.

The aviation industry is highly regulated by the FAA in the United States and equivalent regulatory agencies in other countries. Before we sell any of our products that are to be installed in an aircraft, such as engines, engine parts and components, and airframe and accessory parts and components, they must meet certain standards of airworthiness established by the FAA or the equivalent regulatory agencies in certain other countries. We operate repair stations that are licensed by the FAA and the equivalent regulatory agencies in certain other countries, and hold certificates to operate aircraft. Specific regulations vary from country to country; although regulatory requirements in other countries are generally satisfied by compliance with FAA requirements. New and more stringent governmental regulations may be adopted in the future that, if enacted, may have an adverse impact on us.

If any of our material licenses, certificates, authorizations, or approvals were revoked or suspended by the FAA or equivalent regulatory agencies in other countries, our results of operations and financial condition may be adversely affected.

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Our industry is susceptible to product and other liability claims, and claims not adequately covered by insurance may adversely affect our financial condition.

Our business exposes us to possible claims for property damage and bodily injury or death, which may result if an engine, engine part or component, airframe part or accessory, or any other aviation product that we have sold, manufactured, or repaired fails, or if an aircraft we operated, serviced, or in which our products are installed, has an accident. Claims may arise in the future, and our insurance coverage may not be adequate to protect us in all circumstances. Additionally, we might not be able to maintain adequate insurance coverage in the future at an acceptable cost. Any liability claim not covered by adequate insurance could adversely affect our results of operations and financial condition.

We must comply with extensive environmental requirements, and any exposure to environmental liabilities may adversely affect us.

Federal, state, and local requirements relating to the discharge and emission of substances into the environment, the disposal of hazardous wastes, the remediation and abatement of contaminants, and other activities affecting the environment have had and may continue to have an impact on our operations. Management cannot assess the possible effect of compliance with future environmental requirements or of future environmental claims for which we may not have adequate indemnification or insurance coverage. If we were required to pay the expenses related to any future environmental claims for which neither indemnification nor insurance coverage were available, these expenses could have an adverse impact on our results of operations and financial condition.

Future environmental regulatory developments in the United States and abroad concerning environmental issues, such as climate change, could adversely affect our operations and increase operating costs and, through their impact on our customers, reduce demand for our products and services. Actions may be taken in the future by the U.S. government, state governments within the United States, foreign governments, or the International Civil Aviation Organization to regulate the emission of greenhouse gases by the aviation industry. The precise nature of any such requirements and their applicability to us and our customers are difficult to predict, but the impact to us and the aviation industry would likely be adverse and could be significant, including the potential for increased fuel costs, carbon taxes or fees, or a requirement to purchase carbon credits.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not Applicable.

ITEM 2. PROPERTIES

In the Aviation Services segment, we conduct parts supply activities from our headquarters in Wood Dale, Illinois, which we own. In addition to warehouse space, this facility includes executive, sales and administrative offices. Our principal maintenance, repair, overhaul, engineering and other service activities for this segment are conducted at U.S. facilities leased by us in Indianapolis, Indiana; Oklahoma City, Oklahoma; Miami, Florida; Medley, Florida; and Rockford, Illinois and at Canadian facilities leased by us in Trois Rivieres, Quebec and Windsor, Ontario.

We also lease facilities in Garden City, New York; Jacksonville, Florida; Rockledge, Florida; Brussels, Belgium; London, England; and Crawley, England, and own a building near Schiphol International Airport in the Netherlands to support activities in the Aviation Services segment.

Our principal activities in the Expeditionary Services segment are conducted at a facility we own in Cadillac, Michigan.

We also operate sales offices that support all our activities and are leased in London, England; Crawley, England; Paris, France; Rio de Janeiro, Brazil; Tokyo, Japan; Shanghai, China; Singapore, Republic of Singapore; and Dubai, UAE.

We believe that our owned and leased facilities are suitable and adequate for our operational requirements.

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ITEM 3. LEGAL PROCEEDINGS

Note 15 of the Notes to our Consolidated Financial Statements for the year ended May 31, 2021 contained in Item 8 of this Annual Report on Form 10-K includes information on legal proceedings that constitute material contingencies for financial reporting purposes that could have a material adverse effect on our consolidated financial position or liquidity if they were resolved in a manner that is adverse to us. The information in Note 15 is incorporated by reference in this Item 3.

There are no matters which constitute material pending legal proceedings to which we are a party other than those incorporated into this item by reference from Note 15 to our Consolidated Financial Statements for the year ended May 31, 2021 contained in this Annual Report on Form 10-K.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

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Supplemental Item:

INFORMATION ABOUT OUR EXECUTIVE OFFICERS

Information concerning each of our executive officers is set forth below:

Name	Age	Present Position with the Company
John M. Holmes	44	Chief Executive Officer and President, Director
Sean M. Gillen	35	Vice President and Chief Financial Officer
Jessica A. Garascia	42	Vice President, General Counsel, Chief Compliance Officer and Secretary
Chris Jessup	43	Vice President, Chief Commercial Officer
Eric S. Pachapa	48	Vice President, Controller and Chief Accounting Officer

Mr. Holmes is Chief Executive Officer and President, having served in that capacity since June 2018. From June 2017 to May 2018, Mr. Holmes served as President and Chief Operating Officer. From February 2015 to June 2017, Mr. Holmes served as Chief Operating Officer – Aviation Services. Prior to that, Mr. Holmes served as Group Vice President, Aviation Services – Inventory Management and Distribution from 2012 to 2015, General Manager and Division President of our Allen Asset Management business from 2003 to 2012, and in various other positions since joining the Company in September 2001. Mr. Holmes has been a director of the Company since 2017.

Mr. Gillen is Vice President and Chief Financial Officer, having served in that capacity since January 2019. Prior to joining AAR, Mr. Gillen was Vice President and Treasurer of USG Corporation since 2017. Prior to USG, Mr. Gillen spent nine years in investment banking with Goldman Sachs, most recently as a Vice President in their Global Industrials Group.

Ms. Garascia is Vice President, General Counsel, Chief Compliance Officer and Secretary, having served in the capacity of General Counsel and Secretary since February 2020 and Chief Compliance Officer since May 2021. Prior to joining the Company, from September 2013 through February 2020, Ms. Garascia served in positions of increasing responsibility for USG Corporation, most recently as Deputy General Counsel. Prior to USG, Ms. Garascia was an attorney for the Museum of Science and Industry and the law firm of Jenner & Block.

Mr. Jessup is Vice President, Chief Commercial Officer, having served in that capacity since June 2017. Mr. Jessup previously served as Chief Commercial Officer for the Company's Aviation Services segment since February 2015, and prior to that, he served in various capacities within the Company's Maintenance, Repair and Overhaul business. Prior to joining the Company in 2008, Mr. Jessup was Vice President, Sales and Marketing at Avborne Heavy Maintenance, Inc. in Miami, Florida.

Mr. Pachapa is Vice President, Controller and Chief Accounting Officer, having served in that capacity since July 2016. Mr. Pachapa previously served as Controller since October 2015 and Senior Director of Accounting and Reporting since April 2014. Prior to joining the Company, Mr. Pachapa was with Glanbia plc from 2011 to 2014, and with Ernst & Young LLP from 1996 to 2011.

Each executive officer is elected annually by the Board of Directors. Executive officers continue to hold office until their successors are duly elected or until their death, resignation, termination or reassignment.

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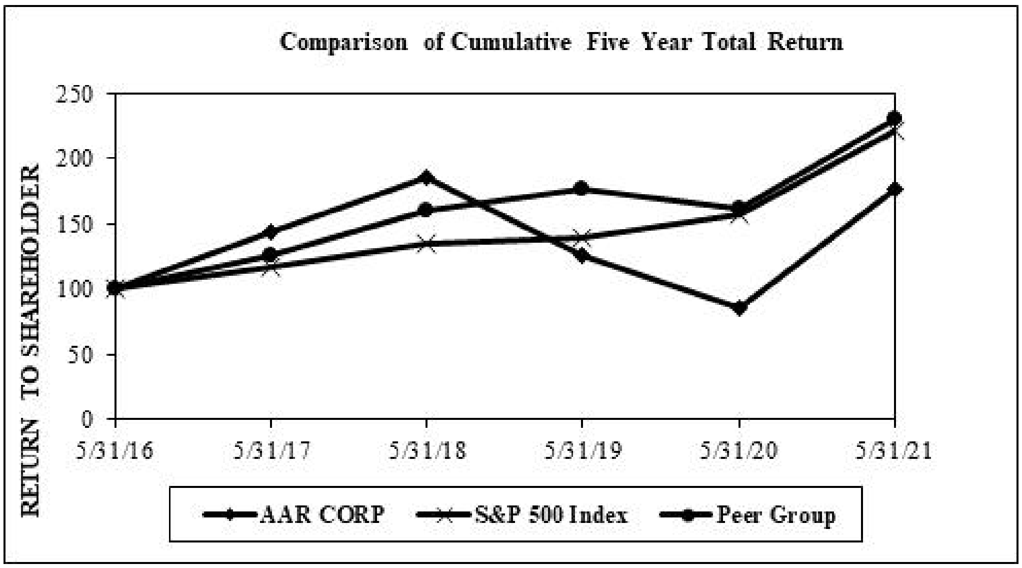
PART II

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

Our common stock is traded on the New York Stock Exchange and the Chicago Stock Exchange under the symbol "AIR." On June 30, 2021, there were approximately 820 holders of common stock, including participants in security position listings.

Stockholder Return Performance Graph

The following graph compares the total return on a cumulative basis of $100 invested, and reinvestment of dividends in our common stock on May 31, 2016 to the Standard and Poor's ("S&P") 500 Index and the Proxy Peer Group:



The S&P 500 Index is comprised of domestic industry leaders in four major sectors: Industrial, Financial, Utility, and Transportation, and serves as a broad indicator of the performance of the U.S. equity market. The Company's Fiscal 2021 Proxy Peer Group companies are listed as follows:

Aerojet Rocketdyne Holdings, Inc.
Applied Industrial Technologies, Inc. [a]
Barnes Group Inc.
CACI International Inc
Crane Co.
Cubic Corporation
Curtiss-Wright Corporation
Heico Corporation
Hexcel Corporation
Kaman Corporation
Moog Inc.
MSC Industrial Direct Co., Inc.
Teledyne Technologies Incorporated
The Timken Company [a]
TriMas Corporation
Triumph Group, Inc.
Woodward, Inc.

[a] New peer group company added for fiscal 2021 due to its business and financial comparability to the Company.

Two companies were removed from the prior year's peer group: Esterline Technologies Corporation and Wesco Aircraft Holdings were acquired.

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The Company annually revisits the composition of the peer group to ensure that the Company's performance is measured against those of comparably-sized and situated companies. The mix of the Company's commercial and government/defense markets presents a challenge in constructing a peer group, given that many government/defense contractors have substantially greater resources than the Company.

Dividends

The declaration and payment of cash dividends is at the discretion of our Board of Directors and will be dependent upon our future earnings, cash flows, financial condition, capital requirements and any government restrictions. Specifically, the Payroll Support Program under the CARES Act prohibits the Company from paying stock dividends through September 30, 2021, accordingly no dividend will be paid by the Company prior to that time.

ITEM 6. (Reserved)

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Dollars in millions)

Background and Forward-Looking Statements

The following discussion and analysis of our financial condition and results of operations, and quantitative and qualitative disclosures about market risk should be read in conjunction with our consolidated financial statements and the related notes included in this Form 10-K. For a discussion of the comparison of fiscal 2020 and 2019, refer to Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations of our Annual Report on Form 10-K for the year ended May 31, 2020 (filed July 20, 2020).

Management's Discussion and Analysis of Financial Condition and Results of Operations contain certain statements relating to future results, which are forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements may also be identified because they contain words such as "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "likely," "may," "might," "plan," "potential," "predict," "project," "seek," "should," "target," "will," "would," or similar expressions and the negatives of those terms. These forward-looking statements are based on the beliefs of management, as well as assumptions and estimates based on information available to us as of the dates such assumptions and estimates are made, and are subject to certain risks and uncertainties, including those factors discussed under Item 1A, "Risk Factors," that could cause actual results to differ materially from those anticipated. Should one or more of those risks or uncertainties materialize adversely, or should underlying assumptions or estimates prove incorrect, actual results may vary materially from those described. Those events and uncertainties are difficult or impossible to predict accurately and many are beyond our control. We assume no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

General Overview

We report our activities in two business segments: *Aviation Services* comprised of supply chain and maintenance, repair and overhaul ("MRO") activities and *Expeditionary Services* comprised of manufacturing activities.

The Aviation Services segment consists of aftermarket support and services offerings that provide spare parts and maintenance support for aircraft operated by our commercial and government/defense customers. Sales in the Aviation Services segment are derived from the sale and lease of a wide variety of new, overhauled and repaired engine and airframe parts and components to the commercial aviation and government and defense markets. We provide customized inventory supply chain management, performance based logistics programs, customer fleet management and operations, and aircraft component repair management services. The segment also includes repair, maintenance and overhaul of aircraft, landing gear and components. Cost of sales consists principally of the cost of product, direct labor, and overhead.

The Expeditionary Services segment consists of primarily manufacturing operations with sales derived from the design and manufacture of pallets, shelters, and containers used to support the U.S. military's requirements for a mobile and agile force including engineering, design, and system integration services for specialized command and control systems. Cost of sales consists principally of the cost of material to manufacture products, direct labor and overhead.

Our chief operating decision making officer (Chief Executive Officer) evaluates performance based on the reportable segments and utilizes gross profit as a primary profitability measure. Gross profit is calculated by subtracting cost of sales from sales. The assets and certain expenses related to corporate activities are not allocated to the segments. Our reportable segments are aligned principally around differences in products and services.

Business Trends and Outlook

Fiscal 2021 began with our focus centered on managing through the COVID-19 pandemic to ensure the safety of our team and navigating the unprecedented decline in commercial passenger flight hours. Our sales to commercial customers in fiscal 2021 decreased by $486.8 million or 37.6% from the prior year as the impact from COVID-19 affected all of our commercial businesses.

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To mitigate the impact of COVID-19, we implemented a number of actions since the onset of the COVID-19 pandemic to align our costs with the anticipated lower levels of demand. These actions included facility consolidations, exiting or restructuring several underperforming contracts, and eliminating discretionary spending. We also implemented actions to reduce our fixed and variable cost base which will support improved operating efficiencies and margins as commercial demand recovers.

In addition to these actions, we have also taken steps to focus on our core aviation services offering by continuing the divestiture of non-core businesses. Following the fiscal 2020 exit from our Contractor-Owned, Contractor-Operated ("COCO") business, we completed the sale of our composites manufacturing business in early fiscal 2021. All of these actions have simplified our portfolio and improved efficiency in our operations to position us to drive higher returns on capital.

As we continued to successfully execute on our recent government contract awards over the last few years, we achieved strong sales growth in fiscal 2021 with our government customers as sales increased $67.1 million or 8.6% over the prior year. This growth was driven from recent contract awards such as the $118 million contract from the Naval Air Systems Command in support of the U.S. Marine Corps for the procurement, modification and delivery of two C-40 aircraft.

During fiscal 2021, we also maintained a strong focus on working capital management with cash flows from operating activities from continuing operations of $108.5 million. Borrowings outstanding under the Revolving Credit Facility were $109.5 million at May 31, 2021 with an availability on the facility of $471.3 million.

Over the long-term, we expect to see strength in our Aviation Services segment given its offerings of value-added services to both commercial and government and defense customers. We believe long-term commercial aftermarket growth trends are favorable. As we continue to experience growth in our government businesses and recovery in some commercial markets, our long-term strategy continues to emphasize investing in the business and capitalizing on opportunities in those markets.

Results of Operations – Fiscal 2021 Compared with Fiscal 2020

Sales and gross profit for our two business segments for the two years ended May 31, 2021 and 2020 were as follows:

	For the Year Ended May 31,		
	2021	**2020**	**% Change**
Sales:			
Aviation Services			
Commercial	$ 793.9	$ 1,268.9	(37.4)%
Government and defense	759.8	695.3	9.3 %
	$ 1,553.7	$ 1,964.2	(20.9)%
Expeditionary Services			
Commercial	$ 12.5	$ 24.3	(48.6)%
Government and defense	86.1	83.5	3.1 %
	$ 98.6	$ 107.8	(8.5)%

	For the Year Ended May 31,		
	2021	**2020**	**% Change**
Gross Profit (Loss):			
Aviation Services			
Commercial	$ 136.2	$ 148.0	(8.0)%
Government and defense	127.0	119.3	6.5 %
	$ 263.2	$ 267.3	(1.5)%
Expeditionary Services			
Commercial	$ (1.1)	$ (3.6)	69.4 %
Government and defense	13.8	5.5	150.9 %
	$ 12.7	$ 1.9	568.4 %

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Aviation Services Segment

Sales in the Aviation Services segment decreased $410.5 million or 20.9% from the prior year. Sales to government and defense customers increased $64.5 million or 9.3% primarily attributable to new contracts recently awarded. During fiscal 2021, sales in this segment to commercial customers decreased $475.0 million or 37.4% from the prior year. The decrease in sales to commercial customers was primarily attributable to the impact of COVID-19 and the resultant decrease in commercial passenger air traffic which significantly reduced our volumes in our supply chain and MRO activities.

Changes in estimates and assumptions related to our programs accounted for using the cost-to-cost method are recorded using the cumulative catch-up method of accounting. In fiscal 2021, we recognized favorable and unfavorable cumulative catch-up adjustments of $16.1 million and $4.1 million, respectively, compared to favorable and unfavorable cumulative catch-up adjustments of $6.1 million and $2.2 million, respectively, in fiscal 2020. When considering these adjustments on a net basis, we recognized favorable cumulative catch-up adjustments of $12.0 million and $3.9 million for fiscal 2021 and 2020, respectively. These adjustments primarily relate to our long-term programs where we provide component inventory management and/or repair services.

Cost of sales in Aviation Services decreased $406.4 million or 23.9% from the prior year which was largely in line with the sales decrease of 20.9% discussed above. Gross profit in the Aviation Services segment decreased $4.1 million or 1.5% from the prior year. Gross profit in this segment on sales to commercial customers decreased $11.8 million or 8.0% from the prior year primarily due to the COVID-19 impact discussed above. The impact of COVID-19 on our gross profit on sales to commercial customers was partially mitigated by a net benefit of $53.8 million in government workforce subsidies from the Payroll Support Program in the CARES Act and other subsidies provided by foreign governments.

Gross profit on sales to commercial customers was also impacted in fiscal 2021 from asset impairment charges of $8.4 million. In fiscal 2020, gross profit on sales to commercial customers was impacted by contract termination and restructuring charges of $31.3 million across certain power-by-the-hour contracts, impairment charges of $6.9 million related to the exit of certain product lines across our operations and $4.3 million related to the closure of our Duluth airframe maintenance facility.

The gross profit margin on sales to commercial customers increased to 17.2% from 11.7% in the prior year with the increased margin largely attributable to the net benefit from the government workforce subsidies.

Gross profit on sales to government and defense customers increased $7.7 million or 6.5% over the prior year. Gross profit margin on sales to government and defense customers decreased to 16.7% from 17.2% as the gross profit margin on our recent contract awards is lower than our existing government and defense activity.

Expeditionary Services Segment

Sales in the Expeditionary Services segment decreased $9.2 million or 8.5% from the prior year primarily due to the divestiture of our composites manufacturing business.

Gross profit in the Expeditionary Services segment increased $10.8 million or 568.4% over the prior year due to the divestiture of our composites manufacturing business as it was not profitable in the prior year period. Gross profit margin increased to 12.9% from 1.8% in the prior year primarily as a result of such divestiture.

Provision for Doubtful Accounts

Provision for doubtful accounts increased $3.1 million from the prior year primarily related to increased customer credit charges in fiscal 2021.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased $38.2 million from the prior year due to our actions to reduce both our fixed and variable cost structure in light of the reduced commercial volumes resulting from the COVID-19 pandemic. As a percent of sales, selling, general and administrative expenses increased to 11.0% in fiscal 2021 from 10.6% in fiscal 2020. This increase is

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primarily attributable to the significant decrease in commercial sales more than offsetting the favorable impact from the cost reduction actions.

Interest Expense

Interest expense decreased $4.3 million in fiscal 2021 reflecting the impact of both lower average borrowing rates and average borrowings on our Revolving Credit Facility during fiscal 2021.

Income Taxes

Our fiscal 2021 effective income tax rate for continuing operations was 28.2% compared to 18.4% in the prior year. In fiscal 2021, we recognized additional tax expense of $0.7 million for stock compensation while we recognized favorable excess tax benefits of $2.1 million related to stock compensation in fiscal 2020.

Discontinued Operations

Loss from discontinued operations was $10.5 million in fiscal 2021 compared to $20.4 million in the prior year. The fiscal 2021 loss was primarily attributable to an $11.0 million increase in our legal reserve to reflect the agreement with the U.S. Department of Justice to settle their investigation of our COCO business under the federal civil False Claims Act. The prior period loss includes both operating losses incurred by our COCO business prior to the sale of its last operating contract in the fourth quarter of fiscal 2020 and impairment charges of $11.8 million.

Liquidity, Capital Resources and Financial Position

Our operating activities are funded and commitments met through the generation of cash from operations. In addition to operations, our current capital resources include an unsecured Revolving Credit Facility and an accounts receivable financing program. Periodically, we may also raise capital through common stock and debt financings in the public or private markets. We continually evaluate various financing arrangements, including the issuance of common stock or debt, which would allow us to improve our liquidity position and finance future growth on commercially reasonable terms. Our continuing ability to borrow from our lenders and issue debt and equity securities to the public and private markets in the future may be negatively affected by a number of factors, including the overall health of the credit markets, general economic conditions, airline industry conditions, geo-political events, and our operating performance. Our ability to generate cash from operations is influenced primarily by our operating performance and changes in working capital.

We maintain a Revolving Credit Facility with various financial institutions, as lenders, and Bank of America, N.A., as administrative agent for the lenders, which provides the Company an aggregate revolving credit commitment of $600 million that matures September 25, 2024. Under certain circumstances, we have the ability to request, but our lenders are not required to grant, an increase to the revolving credit commitment by an aggregate amount of up to $300 million, not to exceed $900 million in total.

Borrowings under the Revolving Credit Facility bear interest at the offered Eurodollar Rate plus 87.5 to 175 basis points based on certain financial measurements if a Eurodollar Rate loan, or at the offered fluctuating Base Rate plus 0 to 75 basis points based on certain financial measurements if a Base Rate loan.

Borrowings outstanding under the Revolving Credit Facility at May 31, 2021 were $109.5 million and there were approximately $19.2 million of outstanding letters of credit, which reduced the availability of this facility to $471.3 million. There are no other terms or covenants limiting the availability of this facility.

As of May 31, 2021, we also had other financing arrangements that did not limit availability on our Revolving Credit Facility including outstanding letters of credit of $11.6 million and foreign lines of credit of $10.4 million.

On October 18, 2017, we entered into the Credit Agreement with the Canadian Imperial Bank of Commerce, as lender. The Credit Agreement provided a Canadian $31 million term loan with the proceeds used to fund the acquisition of two maintenance, repair, and overhaul facilities in Canada from Premier Aviation. Interest is payable monthly on the term loan at the offered fluctuating Canadian

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Dollar Offer Rate plus 125 to 225 basis points based on certain financial measurements if a Bankers' Acceptances loan, or at the offered fluctuating Prime Rate plus 25 to 125 basis points based on certain financial measurements, if a Prime Rate loan.

The term loan under the Credit Agreement is due in full at the expiration of the Credit Agreement on November 1, 2021. We intend to retire this loan at maturity using proceeds from our Revolving Credit Facility.

We maintain a Purchase Agreement with Citibank N.A. ("Purchaser") for the sale, from time to time, of certain accounts receivable due from certain customers (the "Purchase Agreement"). Under the Purchase Agreement, the maximum amount of receivables sold is limited to $150 million and Purchaser may, but is not required to, purchase the eligible receivables we offer to sell. The term of the Purchase Agreement runs through February 22, 2022, however, the Purchase Agreement may also be terminated earlier under certain circumstances. The term of the Purchase Agreement shall be automatically extended for annual terms unless either party provides advance notice that they do not intend to extend the term.

We have no retained interests in the sold receivables, other than limited recourse obligations in certain circumstances, and only perform collection and administrative functions for the Purchaser. We account for these receivable transfers as sales under ASC 860, *Transfers and Servicing*, and de-recognize the sold receivables from our Consolidated Balance Sheet.

Receivables sold under the Purchase Agreement during fiscal 2021, 2020, and 2019 were $440.6 million, $746.4 million, and $744.2 million, respectively. Amounts remitted to the Purchaser on their behalf during fiscal 2021, 2020, and 2019 were $476.3 million, $758.3 million, and $729.7 million, respectively. As of May 31, 2021 and May 31, 2020, we had collected cash of $8.4 million and $20.0 million, respectively, which was not yet remitted to the Purchaser as of those dates and was classified as Restricted cash on our Consolidated Balance Sheets.

At May 31, 2021, we complied with all financial and other covenants under each of our financing arrangements.

Cash Flows – Fiscal 2021 Compared with Fiscal 2020

Cash Flows from Operating Activities

Net cash provided from operating activities–continuing operations was $108.5 million in fiscal 2021 compared to cash used of $19.1 million in fiscal 2020. The increase from the prior period of $127.6 million was primarily attributable to a reduction in inventory levels and the proceeds of a $48.5 million grant from the Payroll Support Program of the CARES Act. These items were partially offset by a $25 million license fee paid to Unison Industries for our expanded and extended exclusive distribution agreement and the timing of our cash receipts and disbursements on long-term programs.

Cash Flows from Investing Activities

Net cash used in investing activities–continuing operations was $0.5 million in fiscal 2021 compared to $24.8 million in fiscal 2020. The decrease over the prior period was primarily related to lower expenditures for property and equipment in the current year period as compared to the prior year period. In addition, we received proceeds of $10.0 million from the termination of split-dollar life insurance policies in fiscal 2021.

Cash Flows from Financing Activities

Net cash used in financing activities–continuing operations was $469.5 million in fiscal 2021 compared to cash provided of $444.5 million in fiscal 2020. The decrease was primarily related to the repayment in fiscal 2021 of the additional draw down on our Revolving Credit Facility from late fiscal 2020. These funds were originally drawn in late fiscal 2020 as a precautionary measure in light of the economic and market uncertainty presented by COVID-19.

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Contractual Obligations and Off-Balance Sheet Arrangements

A summary of contractual cash obligations and off-balance sheet arrangements as of May 31, 2021 is as follows:

	Payments Due by Period						
	Total	Due in Fiscal 2022	Due in Fiscal 2023	Due in Fiscal 2024	Due in Fiscal 2025	Due in Fiscal 2026	After Fiscal 2026
On Balance Sheet:							
Bank borrowings	$135.2	$ 25.7	$ —	$ —	$109.5	$ —	$ —
Facilities and equipment operating leases	84.9	13.7	11.9	9.9	8.8	7.7	32.9
Interest[1]	7.2	2.2	2.2	2.1	0.7	—	—
Off Balance Sheet:							
Purchase obligations[2]	381.7	102.2	208.5	53.0	15.2	2.0	0.8
Pension contribution[3]	2.3	2.3	—	—	—	—	—

Notes:

1 Interest associated with variable rate debt was determined using the interest rate in effect on May 31, 2021.

2 Purchase obligations arise in the ordinary course of business and represent a binding commitment to acquire inventory, including raw materials, parts, and components, as well as equipment to support the operations of our business.

3 Our contribution policy for the domestic plans is to contribute annually, at a minimum, an amount which is deductible for federal income tax purposes and that is sufficient to meet actuarially computed pension benefits. For our Netherlands pension plan, our policy is to fund at least the minimum amount required by the local laws and regulations. We anticipate contributing approximately $2.3 million to our pension plans during fiscal 2022.

We routinely issue letters of credit and performance bonds in the ordinary course of business. These instruments are typically issued in conjunction with insurance contracts or other business requirements. The total of these instruments outstanding at May 31, 2021 was $30.8 million.

Critical Accounting Policies and Significant Estimates

Our Consolidated Financial Statements are prepared in conformity with accounting principles generally accepted in the United States. Management has made estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent liabilities to prepare the Consolidated Financial Statements. The most significant estimates made by management include those related to assumptions used in assessing goodwill impairment, adjustments to reduce the value of inventories and certain rotable assets, revenue recognition, allowance for doubtful accounts, and assumptions used in determining pension plan obligations. Accordingly, actual results could differ materially from those estimates. The following is a summary of the accounting policies considered critical by management.

Goodwill

Under accounting standards for goodwill and other intangible assets, goodwill and other intangible assets deemed to have indefinite lives are not amortized, but are subject to annual impairment tests. We review and evaluate our goodwill and indefinite life intangible assets for potential impairment at a minimum annually, on May 31, or more frequently if circumstances indicate that impairment is possible.

The accounting standards for goodwill allow for either a qualitative or quantitative approach for the annual impairment test. Under the qualitative approach, factors such as macroeconomic conditions, industry and market conditions and company-specific events or circumstances are assessed to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. When the quantitative approach is utilized, we compare the fair value of each reporting unit with the carrying value of the reporting unit, including goodwill. If the estimated fair value of the reporting unit is less than the carrying value of the reporting unit, we would be required to recognize an impairment loss for the excess carrying value of the reporting unit's assets.

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As of May 31, 2021, we had three reporting units, which included two in our Aviation Services segment (Aviation Supply Chain and Maintenance, Repair, and Overhaul) and one comprised of our Expeditionary Services segment. In fiscal 2021 and 2019, we utilized the qualitative assessment approach for all reporting units. Under this approach, we considered the overall industry and market conditions related to the aerospace and government/defense markets as well as conditions in the global capital markets. We also considered the long-term forecasts for each reporting unit, which incorporated specific opportunities and risks, working capital requirements, and capital expenditure needs. We concluded it was more likely than not that the fair value of each reporting unit exceeded its carrying value at the respective measurement dates, and thus no impairment charges were recorded in those fiscal years.

In fiscal 2020, we elected to forego the qualitative assessment due to the unprecedented impact of COVID-19 and utilized a quantitative assessment approach for all reporting units. We estimated the fair value of each reporting unit using primarily an income approach based on discounted cash flows. The assumptions we used to estimate the fair value of our reporting units are based on historical performance, as well as forecasts used in our business plan, and required considerable management judgment in light of the impact of COVID-19. Our Aviation Services reporting units were impacted by the reduced numbers of commercial aircraft flying and the overall decline in flight hours. We incorporated the decline in demand from commercial airline customers followed by a multiple year recovery as passenger miles and flight hours progressively increase.

We used discount rates based on our consolidated weighted average cost of capital which was adjusted for each of our reporting units based on their specific risk, size, and industry characteristics. The fair value measurements used for our goodwill impairment testing used significant unobservable inputs, which reflected our own assumptions about the inputs that market participants would use in measuring fair value. The fair value of our reporting units is also impacted by our overall market capitalization and may be impacted by volatility in our stock price and assumed control premium, among other items.

Upon completion of the annual quantitative goodwill impairment analysis as of May 31, 2020 for our reporting units, we concluded the fair value of each reporting unit exceeded its carrying values, and thus no impairment charges were recorded.

We also evaluate the sensitivity of the discounted cash flow valuations by assessing the impact of changes in certain assumptions on the estimated fair value of each reporting unit by increasing the discount rates and/or adjusting our business plan assumptions including slower recovery of sales from COVID-19 and reduced profitability. All of our reporting units would have had fair values substantially in excess of their carrying values under all our sensitivity scenarios.

Inventories

Inventories are valued at the lower of cost or market (estimated net realizable value). Cost is determined by the specific identification, average cost or first-in, first-out methods. Write-downs are made for excess and obsolete inventories and inventories that have been impaired as a result of industry conditions. We have utilized certain assumptions when determining the market value of inventories, such as inventory quantities and aging, historical sales of inventory, current and expected future aviation usage trends, replacement values, expected future demand, and historical scrap recovery rates. Reductions in demand for certain of our inventories or declining market values, as well as differences between actual results and the assumptions utilized by us when determining the market value of our inventories, could result in the recognition of impairment charges in future periods.

In conjunction with the decision to exit certain product lines and facilities, we recognized inventory impairment charges of $3.9 million in fiscal 2020. We also recognized rotable asset impairment charges of $1.9 million in fiscal 2020 in conjunction with reclassifying the rotable assets as inventory held for sale. In fiscal 2021, we recognized additional impairment charges of $1.4 million on these assets.

Revenue Recognition

Revenue is measured based on consideration specified in a contract with a customer, and excludes any sales incentives and amounts collected on behalf of third parties. We recognize revenue when we satisfy a performance obligation by transferring control over a product or service to a customer.

Our unit of accounting for revenue recognition is a performance obligation included in our customer contracts. A performance obligation reflects the distinct good or service that we must transfer to a customer. At contract inception, we

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evaluate if the contract should be accounted for as a single performance obligation or if the contract contains multiple performance obligations. In some cases,

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our contract with the customer is considered one performance obligation as it includes factors such as whether the good or service being provided is significantly integrated with other promises in the contract, whether the service provided significantly modifies or customizes another good or service or whether the good or service is highly interdependent or interrelated. If the contract has more than one performance obligation, we determine the standalone price of each distinct good or service underlying each performance obligation and allocate the transaction price based on their relative standalone selling prices.

The transaction price of a contract, which can include both fixed and variable amounts, is allocated to each performance obligation identified. Some contracts contain variable consideration, which could include incremental fees or penalty provisions related to performance. Variable consideration that can be reasonably estimated based on current assumptions and historical information is included in the transaction price at the inception of the contract but limited to the amount that is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Variable consideration that cannot be reasonably estimated is recorded when known.

Our performance obligations are satisfied over time as work progresses or at a point in time based on transfer of control of products and services to our customers. The majority of our sales from products are recognized at a point in time upon transfer of control to the customer, which generally occurs upon shipment. In connection with certain sales of products, we also provide logistics services, which include inventory management, replenishment, and other related services. The price of such services is generally included in the price of the products delivered to the customer, and revenues are recognized upon delivery of the product, at which point the customer has obtained control of the product. We do not account for these services separate from the related product sales as the services are inputs required to fulfill part orders received from customers.

For our performance obligations that are satisfied over time, we measure progress in a manner that depicts the performance of transferring control to the customer. As such, we utilize the input method of cost-to-cost to recognize revenue over time as this depicts when control of the promised goods or services are transferred to the customer. Revenue is recognized based on the relationship of actual costs incurred to date to the estimated total cost at completion of the performance obligation. We are required to make certain judgments and estimates, including estimated revenues and costs, as well as inflation and the overall profitability of the arrangement. Key assumptions involved include future labor costs and efficiencies, overhead costs, and ultimate timing of product delivery. Differences may occur between the judgments and estimates made by management and actual program results.

Changes in estimates and assumptions related to our arrangements accounted for using the cost-to-cost method are recorded using the cumulative catch-up method of accounting. These changes are primarily adjustments to the estimated profitability for our long-term programs where we provide component inventory management and/or repair services.

When contracts are modified, we consider whether the modification either creates new or changes the existing enforceable rights and obligations. Contract modifications that are for goods or services that are not distinct from the existing contract, due to the significant integration with the original goods or services provided, are accounted for as if they were part of that existing contract with the effect of the contract modification recognized as an adjustment to revenue on a cumulative catch-up basis. When the modifications include additional performance obligations that are distinct, they are accounted for as a new contract and performance obligation, which are recognized prospectively.

Under most of our U.S. government contracts, if the contract is terminated for convenience, we are entitled to payment for items delivered and fair compensation for work performed, the costs of settling and paying other claims, and a reasonable profit on the costs incurred or committed.

Shipping and handling fees and costs incurred associated with outbound freight after control over a product has transferred to a customer are accounted for as a fulfillment cost and are included in Cost of sales on our Consolidated Statements of Income, and are not considered a performance obligation to our customers. Our reported sales on our Consolidated Statements of Income are net of any sales or related non-income taxes. We also utilize the "as invoiced" practical expedient in certain cases where performance obligations are satisfied over time and the invoiced amount corresponds directly with the value we are providing to the customer.

The timing of revenue recognition, customer billings, and cash collections results in a contract asset or contract liability at the end of each reporting period. Contract assets consist of unbilled receivables or costs incurred where revenue recognized over time using the cost-to-cost model exceeds the amounts billed to customers. Contract liabilities include advance payments and billings in excess of revenue recognized. Certain customers make advance payments prior to the satisfaction of our performance obligations on the contract.

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These amounts are recorded as contract liabilities until such performance obligations are satisfied, either over time as costs are incurred or at a point in time when deliveries are made. Contract assets and contract liabilities are determined on a contract-by-contract basis.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts to reflect the expected uncollectibility of accounts receivable based on past collection history and specific risks identified among uncollected accounts. In determining the required allowance, we consider factors such as general and industry-specific economic conditions, customer credit history, and our customers' current and expected future financial performance. The majority of our customers are recurring customers with an established payment history. Certain customers are required to undergo an extensive credit check prior to delivery of products or services.

We perform regular evaluations of customer payment experience, current financial condition, and risk analysis. We may require collateral in the form of security interests in assets, letters of credit, and/or obligation guarantees from financial institutions for transactions executed on other than normal trade terms. We also maintain trade credit insurance for certain customers to provide coverage, up to a certain limit, in the event of insolvency of some customers.

In fiscal 2019, we recognized a provision for doubtful accounts of $12.4 million related to the bankruptcy of a European airline customer. The provision consisted of impairment of non-current contract assets of $7.6 million, allowance for doubtful accounts of $3.3 million, and other liabilities of $1.5 million.

In addition, we currently have past due accounts receivable owed by former commercial program customers primarily related to our exit from customer contracts in certain geographies, including Colombia, Peru, and Spain. Our past due accounts receivable owed by these customers was $4.7 million as of May 31, 2021 which was net of allowance for doubtful accounts of $8.8 million.

Impairment of Long-Lived Assets

We are required to test for impairment of long-lived assets whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable from its undiscounted cash flows. When applying accounting standards addressing impairment of long-lived assets, we have utilized certain assumptions to estimate future undiscounted cash flows, including current and future sales volumes or lease rates, expected changes to cost structures, lease terms, residual values, market conditions, and trends impacting future demand. Differences between actual results and the assumptions utilized by us when determining undiscounted cash flows could result in future impairments of long-lived assets. We recognized pre-tax asset impairment charges related to our COCO business of $11.8 million and $74.1 million in fiscal 2020 and 2019, respectively, related to assets included in our COCO business, which is classified as a discontinued operation. In our Expeditionary Services segment, we consolidated manufacturing facilities and recognized impairment and related charges of $2.6 million during fiscal 2021.

We maintain a significant inventory of rotable parts and equipment to service customer aircraft and components. Portions of that inventory are used parts that are often exchanged with parts removed from aircraft or components, and are reworked to a useable condition. We may have to recognize an impairment of our rotable parts and equipment if we discontinue using or servicing certain aircraft models or if an older aircraft model is phased-out in the industry. In light of declines in commercial airline volumes and commercial program contract terminations, we evaluated future cash flows related to certain rotable assets supporting long-term programs and recognized asset impairment charges of $5.8 million and $1.9 million in fiscal 2021 and 2020, respectively.

Pension Plans

The projected benefit obligation for our benefit plans exceeds our plan assets by $0.6 million as of May 31, 2021. This underfunded position is driven by our Netherlands plan where its projected benefit obligation exceeds its plan assets by $6.6 million. For our U.S. plans, assets exceed the projected benefit obligations by $6.0 million.

The liabilities and net periodic cost of our pension plans are determined utilizing several actuarial assumptions, the most significant of which are the discount rate and the expected long-term rate of return on plan assets.

AAR uses discount rates to measure our benefit obligation and net periodic benefit cost for our pension plans. We used a broad population of Aa-rated corporate bonds as of May 31, 2021 to determine the discount rate assumption. All bonds were denominated in U.S. Dollars, with a minimum outstanding of $50.0 million. This population of bonds was narrowed from a broader universe of over

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500 Moody's Aa-rated, non-callable (or callable with make-whole provisions) bonds by eliminating the top 10th percentile and the bottom 40th percentile to adjust for any pricing anomalies and to represent the bonds we would most likely select if we were to actually annuitize our pension plan liabilities. This portfolio of bonds was used to generate a yield curve and associated spot rate curve to discount the projected benefit payments for the domestic plans. The discount rate is the single level rate that produces the same result as the spot rate curve.

We establish the long-term asset return assumption based on a review of historical compound average asset returns, both company-specific and relating to the broad market, as well as analysis of current market and economic information and future expectations. The current asset return assumption is supported by historical market experience for both our actual and target asset allocation. In calculating the net pension cost, the expected return on assets is applied to a calculated value on plan assets, which recognizes changes in the fair value of plan assets in a systematic manner over five years. The difference between this expected return and the actual return on plan assets is a component of the total net unrecognized gain or loss and is subject to amortization in the future.

New Accounting Pronouncements Adopted

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*. This ASU requires a change in the measurement approach for credit losses on financial assets measured on an amortized cost basis from an incurred loss method to an expected loss method, thereby eliminating the requirement that a credit loss be considered probable to impact the valuation of a financial asset measured on an amortized cost basis. This ASU also requires the measurement of expected credit losses to be based on relevant information about past events, including historical experience, current conditions, and a reasonable and supportable forecast of the collectability of the related financial asset. Our adoption of this ASU on June 1, 2020 did not have a material impact on our Consolidated Financial Statements.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure to market risk includes fluctuating interest rates under our credit agreements, changes in foreign exchange rates, and credit losses on accounts receivable. See Note 1 of Notes to Consolidated Financial Statements for a discussion on accounts receivable exposure.

We are exposed to the risk that our earnings and cash flows could be adversely impacted by fluctuations in interest rates. A 10 percent increase in the average interest rate affecting our financial instruments, including the average outstanding balance of our debt obligations would not have had a significant impact on our pre-tax income during fiscal 2021.

Revenues and expenses of our foreign operations are translated at average exchange rates during the year, and balance sheet accounts are translated at year-end exchange rates. Balance sheet translation adjustments are excluded from the results of operations and are recorded in stockholders' equity as a component of accumulated other comprehensive loss. A hypothetical 10 percent devaluation of the U.S. dollar against foreign currencies would not have had a material impact on our financial position or continuing operations during fiscal 2021.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
AAR CORP.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of AAR CORP. and subsidiaries (the Company) as of May 31, 2021 and 2020, the related consolidated statements of income, comprehensive income (loss), changes in equity, and cash flows for each of the years in the three year period ended May 31, 2021, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of May 31, 2021 and 2020, and the results of its operations and its cash flows for each of the years in the three year period ended May 31, 2021, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of May 31, 2021, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated July 20, 2021 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Company has changed its method of accounting for leases as of June 1, 2019 due to the adoption of Accounting Standards Update No. 2016-02, Leases.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits 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. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) 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 matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Assessment of the write-down of inventories

As discussed in Note 1 to the consolidated financial statements, the inventory balance as of May 31, 2021 was $540.6 million. The Company records inventory within the Aviation Services segment at the lower of cost or net realizable value. The write-

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down of slow moving inventory is recorded for excess or obsolete inventory based on certain inputs and assumptions used to determine the net realizable value. These assumptions include the number of days transpiring from the date the inventory was originally received and the historical sales of inventory to determine recovery rates. Other inputs include current and expected future aviation usage trends, replacement values, expected future demand, and historical scrap recovery rates.

We identified the assessment of the write-down of inventories for a portion of the inventory within the Aviation Services segment as a critical audit matter. The primary inputs and assumptions used in determining the write-down of slow moving inventory include the historical recovery rates, which are based on the number of days transpiring from the date the inventory was originally received, the historical sales of inventory, and the identification of specific inventories associated with aircraft with declining usage trends. The assessment of these inputs required a higher degree of subjective auditor judgment in evaluating the future customer demand for slow moving inventory.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls over the Company's inventory process, including controls over the Company's evaluation of the impact on the estimate of net realizable value based on 1) the number of days transpiring from the date the inventory was originally received, 2) historical sales of inventory, and 3) specific inventories associated with aircraft with declining usage trends. We also tested relevant information technology application controls over the determination of the number of days transpiring from the date the inventory was originally received. We evaluated the write-down to determine that it was recorded using the Company's policy based on the number of days transpiring from the date the inventory was originally received and the recovery rates of existing inventory based on historical sales. We also assessed that the recovery rates applied to slow moving inventory were consistent with historical sales of these inventory items. We assessed the identification of specific inventory with declining usage trends by evaluating external industry information.

Evaluation of the estimate of costs at completion of certain performance obligations

As discussed in Note 1 to the consolidated financial statements, for revenue in the Aviation Services segment with performance obligations that are satisfied over time, the Company recognizes revenue using the cost-to-cost input method, which depicts when control of the promised goods or services are transferred to the customer. Revenue is recognized based on the relationship of costs incurred to date to the estimated total costs at completion of the performance obligation. The net favorable cumulative catch-up adjustments recognized during fiscal year 2021 associated with Aviation Services revenue recognized over time totaled $12.0 million, which resulted from changes in the estimated billings and costs at completion of the performance obligations.

We identified the evaluation of the estimate of total costs at completion of the performance obligations for certain contracts within the Aviation Services segment as a critical audit matter. The key inputs and assumptions used in determining the revenue to be recognized include current and future costs to support the program, and future labor costs. The testing of the key inputs and assumptions required the application of subjective auditor judgment because of the estimation uncertainty associated with the inputs and assumptions.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls over the Company's revenue process, including controls over 1) the assessment of the estimated future costs, 2) actual costs incurred for each performance obligation that are used by the Company in their assessment of the measure of progress, and 3) the approval of costs recorded for each performance obligation to assess the allowability per the contract. We obtained the Company's forecast for the cost of a selection of Aviation Services revenue contracts and assessed that the measure of progress was determined using actual costs to date plus the estimated future costs to support the satisfaction of performance obligations. We selected a sample of contract costs where revenue is recognized over time to test actual fiscal year 2021 program costs by comparing them to underlying documentation. We evaluated the Company's historical estimates to assess their consistency with the Company's historical actual costs.

/s/ KPMG LLP

We have served as the Company's auditor since 1985.

Chicago, Illinois
July 20, 2021

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AAR CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	For the Year Ended May 31,		
	2021	2020	2019
	(In millions, except per share data)		
Sales:			
Sales from products	$ 934.9	$ 1,090.0	$ 1,124.3
Sales from services	717.4	982.0	927.5
	1,652.3	2,072.0	2,051.8
Costs and operating expenses:			
Cost of products	773.8	900.0	915.0
Cost of services	602.6	902.8	807.0
Provision for doubtful accounts	8.5	5.4	15.8
Selling, general and administrative	182.4	220.6	215.4
	1,567.3	2,028.8	1,953.2
Earnings (Loss) from joint ventures	0.2	(1.9)	(0.3)
Operating income	85.2	41.3	98.3
Loss on sale of business	(20.2)	—	—
Other income (expense), net	4.3	(2.1)	(0.8)
Interest expense	(5.0)	(9.3)	(9.5)
Interest income	0.2	0.5	1.0
Income from continuing operations before provision for income taxes	64.5	30.4	89.0
Provision for income taxes	18.2	5.6	4.9
Income from continuing operations	46.3	24.8	84.1
Loss from discontinued operations, net of tax	(10.5)	(20.4)	(76.6)
Net income	$ 35.8	$ 4.4	$ 7.5
Earnings per share – basic:			
Earnings from continuing operations	$ 1.31	$ 0.71	$ 2.42
Loss from discontinued operations	(0.30)	(0.59)	(2.22)
Earnings per share – basic	$ 1.01	$ 0.12	$ 0.20
Earnings per share – diluted:			
Earnings from continuing operations	$ 1.30	$ 0.71	$ 2.40
Loss from discontinued operations	(0.30)	(0.58)	(2.19)
Earnings per share – diluted	$ 1.00	$ 0.13	$ 0.21

The accompanying notes to consolidated financial statements are an integral part of these statements.

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AAR CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	For the Year Ended May 31,		
	2021	2020	2019
		(In millions)	
Net income	$ 35.8	$ 4.4	$ 7.5
Other comprehensive income (loss), net of tax:			
Currency translation adjustments, net of tax	5.9	0.1	(2.4)
Unrecognized pension and post retirement costs, net of tax benefit (expense) of $5.2 in 2021, $(1.0) in 2020, and $(1.7) in 2019	20.4	(3.8)	(6.5)
Total other comprehensive income (loss), net of tax	26.3	(3.7)	(8.9)
Comprehensive income (loss)	$ 62.1	$ 0.7	$ (1.4)

The accompanying notes to consolidated financial statements are an integral part of these statements.

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AAR CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

ASSETS

	May 31, 2021	May 31, 2020
	(In millions, except share data)	
Current assets:		
Cash and cash equivalents	$ 51.8	$ 404.7
Restricted cash	8.4	20.0
Accounts receivable, net	166.7	171.9
Contract assets	71.9	49.3
Inventories	540.6	623.1
Rotable assets and equipment on or available for short-term lease	50.4	69.6
Assets of discontinued operations	19.5	22.9
Prepaid expenses and other current assets	27.7	77.2
Total current assets	937.0	1,438.7
Property, plant and equipment, at cost:		
Land	3.3	4.5
Buildings and improvements	114.7	112.4
Equipment and furniture and fixtures	262.2	265.3
	380.2	382.2
Accumulated depreciation	(260.2)	(246.5)
	120.0	135.7
Other assets:		
Goodwill and intangible assets, net	123.8	121.7
Operating lease right-of-use assets, net	75.8	89.7
Rotable assets supporting long-term programs	184.3	211.7
Other non-current assets	98.8	81.5
	482.7	504.6
	$ 1,539.7	$ 2,079.0

The accompanying notes to consolidated financial statements are an integral part of these statements.

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AAR CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

LIABILITIES AND EQUITY

	May 31, 2021	May 31, 2020
	(In millions, except share data)	
Current liabilities:		
Accounts payable	127.2	191.6
Accrued liabilities	174.2	161.6
Liabilities of discontinued operations	35.4	29.9
Total current liabilities	336.8	383.1
Long-term debt	133.7	600.0
Operating lease liabilities	59.9	70.9
Deferred revenue on long-term contracts	5.4	88.0
Other liabilities	29.5	34.4
	228.5	793.3
Equity:		
Preferred stock, $1.00 par value, authorized 250,000 shares; none issued	—	—
Common stock, $1.00 par value, authorized 100,000,000 shares; issued 45,300,786 shares at cost	45.3	45.3
Capital surplus	479.8	478.6
Retained earnings	741.7	706.0
Treasury stock, 9,925,551 and 10,203,437 shares at cost, respectively	(274.1)	(282.7)
Accumulated other comprehensive loss	(18.3)	(44.6)
Total equity	974.4	902.6
	$ 1,539.7	$ 2,079.0

The accompanying notes to consolidated financial statements
are an integral part of these statements.

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AAR CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE YEARS ENDED MAY 31, 2020

(In millions)	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance, May 31, 2018	$ 45.3	$ 470.5	$ 733.2	$ (280.7)	$ (32.0)	$ 936.3
Cumulative effect adjustment upon adoption of ASC 606 on June 1, 2018	—	—	(20.4)	—	—	(20.4)
Net income	—	—	7.5	—	—	7.5
Cash dividends	—	—	(10.5)	—	—	(10.5)
Stock option activity	—	3.5	—	4.1	—	7.6
Restricted stock activity	—	5.4	—	(0.8)	—	4.6
Repurchase of shares	—	—	—	(10.3)	—	(10.3)
Other comprehensive loss, net of tax	—	—	—	—	(8.9)	(8.9)
Balance, May 31, 2019	$ 45.3	$ 479.4	$ 709.8	$ (287.7)	$ (40.9)	$ 905.9
Cumulative effect adjustment upon adoption of ASC 842 on June 1, 2019	—	—	2.5	—	—	2.5
Net income	—	—	4.4	—	—	4.4
Cash dividends	—	—	(10.7)	—	—	(10.7)
Stock option activity	—	3.1	—	8.3	—	11.4
Restricted stock activity	—	(3.9)	—	0.8	—	(3.1)
Repurchase of shares	—	—	—	(4.1)	—	(4.1)
Other comprehensive loss, net of tax	—	—	—	—	(3.7)	(3.7)
Balance, May 31, 2020	$ 45.3	$ 478.6	$ 706.0	$ (282.7)	$ (44.6)	$ 902.6
Net income	—	—	35.8	—	—	35.8
Cash dividends	—	—	(0.1)	—	—	(0.1)
Stock option activity	—	3.6	—	3.0	—	6.6
Restricted stock activity	—	(2.4)	—	5.6	—	3.2
Other comprehensive income, net of tax	—	—	—	—	26.3	26.3
Balance, May 31, 2021	$ 45.3	$ 479.8	$ 741.7	$ (274.1)	$ (18.3)	$ 974.4

The accompanying notes to consolidated financial statements are an integral part of these statements.

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AAR CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)	For the Year Ended May 31, 2021	2020	2019
Cash flows provided from (used in) operating activities:			
Net income	$ 35.8	$ 4.4	$ 7.5
Less: Loss from discontinued operations	(10.5)	(20.4)	(76.6)
Income from continuing operations	46.3	24.8	84.1
Adjustments to reconcile income to net cash provided from (used in) operating activities:			
Depreciation and intangible amortization	36.3	43.7	42.8
Stock-based compensation expense	9.2	7.3	13.5
Provision for doubtful accounts	8.5	5.4	15.8
Deferred tax provision (benefit)	8.4	0.5	(5.0)
Loss (Earnings) from joint ventures	(0.2)	1.9	0.3
Customer contract termination and restructuring costs	2.2	31.3	—
Impairment charges	9.1	8.1	—
Loss on sale of business	20.2	—	—
Changes in certain assets and liabilities, net of acquisitions:			
Accounts receivable	(4.5)	14.8	(34.4)
Contract assets	(26.4)	9.9	(9.7)
Inventories	74.9	(94.5)	(80.9)
Prepaid expenses and other current assets	49.8	(40.1)	(10.9)
Rotable assets supporting long-term programs	9.1	(22.1)	(49.2)
Accounts payable	(62.6)	4.1	17.5
Accrued and other liabilities	17.1	0.5	22.9
Deferred revenue on long-term programs	(83.0)	(14.6)	44.4
Other	(5.9)	(0.1)	9.3
Net cash provided from (used in) operating activities—continuing operations	108.5	(19.1)	60.5
Net cash provided from (used in) operating activities—discontinued operations	(3.3)	(17.0)	6.9
Net cash provided from (used in) operating activities	105.2	(36.1)	67.4
Cash flows used in investing activities:			
Property, plant and equipment expenditures	(11.3)	(23.6)	(17.4)
Proceeds from termination of life insurance policies	10.0	—	—
Other	0.8	(1.2)	(1.1)
Net cash used in investing activities–continuing operations	(0.5)	(24.8)	(18.5)
Net cash used in investing activities—discontinued operations	—	—	(0.5)
Net cash used in investing activities	(0.5)	(24.8)	(19.0)
Cash flows provided from (used in) financing activities:			
Short-term borrowings (repayments), net	(470.0)	459.5	(10.0)
Repayments on long-term borrowings	—	—	(25.0)
Cash dividends	(0.1)	(10.7)	(10.5)
Purchase of treasury stock	—	(4.1)	(10.3)
Stock compensation activity	0.6	1.1	8.5
Other	—	(1.3)	—
Net cash provided from (used in) financing activities—continuing operations	(469.5)	444.5	(47.3)
Net cash used in financing activities—discontinued operations	—	—	(1.4)
Net cash provided from (used in) financing activities	(469.5)	444.5	(48.7)
Effect of exchange rate changes on cash	0.3	—	(0.2)
Increase (Decrease) in cash and cash equivalents	(364.5)	383.6	(0.5)
Cash, cash equivalents, and restricted cash at beginning of year	424.7	41.1	41.6
Cash, cash equivalents, and restricted cash at end of year	$ 60.2	$ 424.7	$ 41.1

The accompanying notes to consolidated financial statements are an integral part of these statements.

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AAR CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions, except per share amounts)

1. Summary of Significant Accounting Policies

Description of Business

AAR CORP. (the "Company") is a diversified provider of services and products to the worldwide commercial aviation and government and defense markets. Services and products include: aviation supply chain and parts support programs; customer fleet management and operations; maintenance, repair and overhaul of airframes, landing gear, and certain other airframe components; design and manufacture of specialized pallets, shelters, and containers; aircraft modifications and aircraft and engine sales and leasing. We serve commercial, government and defense aircraft fleet operators, original equipment manufacturers, and independent service providers around the world, and various other domestic and foreign military customers.

Principles of Consolidation

The accompanying Consolidated Financial Statements include the accounts of the Company and its majority-owned subsidiaries after elimination of intercompany accounts and transactions.

Certain reclassifications have been made to the 2020 presentation to conform to the 2021 presentation.

New Accounting Pronouncements Adopted

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-13, *Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*. This ASU requires a change in the measurement approach for credit losses on financial assets measured on an amortized cost basis from an incurred loss method to an expected loss method, thereby eliminating the requirement that a credit loss be considered probable to impact the valuation of a financial asset measured on an amortized cost basis. This ASU also requires the measurement of expected credit losses to be based on relevant information about past events, including historical experience, current conditions, and a reasonable and supportable forecast of the collectability of the related financial asset. Our adoption of this ASU on June 1, 2020 did not have a material impact on our Consolidated Financial Statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases* ("ASC 842"), which amended the existing accounting standards for lease accounting. ASC 842 requires lessees to recognize a right-of-use ("ROU") asset and lease liability on the balance sheet for most lease arrangements, including those classified as operating leases. In addition, ASC 842 requires new qualitative and quantitative disclosures about our leasing activities.

We adopted ASC 842 on June 1, 2019 using the modified retrospective transition approach. Under that approach, prior periods have not been restated and continue to be reported under the accounting standards in effect for those periods. We elected the package of practical expedients, which must be elected as a package and applied consistently to all leases. This package permitted us to not reassess our prior conclusions about lease identification, lease classification and initial direct costs. In addition, we elected the practical expedients to not separate lease and non-lease components for both lessee and lessor relationships and to not apply the recognition requirements to leases with terms of less than twelve months.

Upon adoption of ASC 842 on June 1, 2019, we recognized operating lease ROU assets of $123.2 million and operating lease liabilities of $116.8 million on our Consolidated Balance Sheet. These amounts included operating lease ROU assets of $26.6 million and operating lease liabilities of $25.3 million related to our discontinued operations. In addition, we recognized the remaining unamortized deferred gains of $2.5 million, net of tax, associated with sale-leaseback transactions as a cumulative effect adjustment to the opening balance of retained earnings as of June 1, 2019. The adoption of ASC 842 did not have a material impact on the Consolidated Statements of Operations or Cash Flows.

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AAR CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions, except per share amounts)

1. Summary of Significant Accounting Policies (Continued)

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* ("ASC 606"), which provides guidance for revenue recognition. ASC 606 superseded the revenue recognition requirements in Accounting Standards Codification ("ASC") 605, *Revenue Recognition*, and most industry-specific guidance.

We adopted ASC 606 on June 1, 2018 using the modified retrospective method. Under that approach, prior periods were not restated and continue to be reported under the accounting standards in effect for those periods. We elected to use the practical expedient allowing for the application of ASC 606 only to contracts that were not completed as of June 1, 2018. We recognized the cumulative effect of initially applying ASC 606 as a decrease of $20.4 million to the opening balance of retained earnings as of June 1, 2018.

Revenue Recognition

Revenue is measured based on consideration specified in a contract with a customer, and excludes any sales incentives and amounts collected on behalf of third parties. We recognize revenue when we satisfy a performance obligation by transferring control over a product or service to a customer.

Our unit of accounting for revenue recognition is a performance obligation included in our customer contracts. A performance obligation reflects the distinct good or service that we must transfer to a customer. At contract inception, we evaluate if the contract should be accounted for as a single performance obligation or if the contract contains multiple performance obligations. In some cases, our contract with the customer is considered one performance obligation as it includes factors such as whether the good or service being provided is significantly integrated with other promises in the contract, whether the service provided significantly modifies or customizes another good or service or whether the good or service is highly interdependent or interrelated. If the contract has more than one performance obligation, we determine the standalone price of each distinct good or service underlying each performance obligation and allocate the transaction price based on their relative standalone selling prices.

The transaction price of a contract, which can include both fixed and variable amounts, is allocated to each performance obligation identified. Some contracts contain variable consideration, which could include incremental fees or penalty provisions related to performance. Variable consideration that can be reasonably estimated based on current assumptions and historical information is included in the transaction price at the inception of the contract but limited to the amount that is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Variable consideration that cannot be reasonably estimated is recorded when known.

Our performance obligations are satisfied over time as work progresses or at a point in time based on transfer of control of products and services to our customers. The majority of our sales from products typically represent distinct performance obligations and are recognized at a point in time upon transfer of control to the customer, which generally occurs upon shipment. In connection with certain sales of products, we also provide logistics services, which include inventory management, replenishment, and other related services. The price of such services is generally included in the price of the products delivered to the customer, and revenues are recognized upon delivery of the product, at which point the customer has obtained control of the product. We do not account for these services separate from the related product sales as the services are inputs required to fulfill part orders received from customers.

For our performance obligations that are satisfied over time, we measure progress in a manner that depicts the performance of transferring control to the customer. As such, we utilize the input method of cost-to-cost to recognize revenue over time as this depicts when control of the promised goods or services are transferred to the customer. Revenue is recognized based on the relationship of actual costs incurred to date to the estimated total cost at completion of the performance obligation. We are required to make certain judgments and estimates, including estimated revenues and costs, as well as inflation and the overall profitability of the arrangement. Key assumptions involved can include customer volume, future labor costs and efficiencies, repair or overhaul costs, overhead costs, and ultimate timing of product delivery. Differences may occur between the judgments and estimates made by management and actual program results.

For contracts that are deemed to be loss contracts, we establish forward loss reserves for total estimated costs that are in excess of total estimated consideration in the period in which they become known.

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AAR CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions, except per share amounts)

1. Summary of Significant Accounting Policies (Continued)

When contracts are modified, we consider whether the modification either creates new or changes the existing enforceable rights and obligations. Contract modifications that are for goods or services that are not distinct from the existing contract, due to the significant integration with the original goods or services provided, are accounted for as if they were part of that existing contract with the effect of the contract modification recognized as an adjustment to revenue on a cumulative catch-up basis. When the modifications include additional performance obligations that are distinct, they are accounted for as a new contract and performance obligation, which are recognized prospectively.

Under most of our U.S. government contracts, if the contract is terminated for convenience, we are entitled to payment for items delivered and fair compensation for work performed, the costs of settling and paying other claims, and a reasonable profit on the costs incurred or committed.

We have elected to use certain practical expedients permitted under ASC 606. Shipping and handling fees and costs incurred associated with outbound freight after control over a product has transferred to a customer are accounted for as a fulfillment cost and are included in Cost of sales on our Consolidated Statements of Income, and are not considered a performance obligation to our customers. Our reported sales on our Consolidated Statements of Income are net of any sales or related non-income taxes. We also utilize the "as invoiced" practical expedient in certain cases where performance obligations are satisfied over time and the invoiced amount corresponds directly with the value we are providing to the customer.

Cumulative Catch-up Adjustments

Changes in estimates and assumptions related to our arrangements accounted for using the cost-to-cost method are recorded using the cumulative catch-up method of accounting. These changes are primarily adjustments to the estimated profitability for our long-term programs where we provide component inventory management and/or repair services.

Favorable and unfavorable cumulative catch-up adjustments were as follows:

	May 31, 2021	May 31, 2020	May 31, 2019
Favorable cumulative catch-up adjustments	$ 16.1	$ 6.1	$ 8.0
Unfavorable cumulative catch-up adjustments	(4.1)	(2.2)	(2.1)
Net cumulative catch-up adjustments	$ 12.0	$ 3.9	$ 5.9

Contract Assets and Liabilities

The timing of revenue recognition, customer billings, and cash collections results in a contract asset or contract liability at the end of each reporting period. When an unconditional right to consideration exists, we record an unbilled receivable. When amounts are dependent on factors other than the passage of time in order for payment from a customer to be due, we record a contract asset which consists of costs incurred where revenue recognized over time using the cost-to-cost model exceeds the amounts billed to customers. Contract liabilities include advance payments and billings in excess of revenue recognized. Certain customers make advance payments prior to the satisfaction of our performance obligations on the contract. These amounts are recorded as contract liabilities until such performance obligations are satisfied, either over time as costs are incurred or at a point in time when deliveries are made. Contract assets and contract liabilities are determined on a contract-by-contract basis.

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AAR CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions, except per share amounts)

1. Summary of Significant Accounting Policies (Continued)

Net contract assets and liabilities are as follows:

	May 31, 2021	May 31, 2020	Change
Contract assets – current	$ 71.9	$ 49.3	$ 22.6
Contract assets – non-current	21.6	22.4	(0.8)
Contract liabilities – current	(25.9)	(11.2)	(14.7)
Deferred revenue on long-term contracts	(5.4)	(88.0)	82.6
Net contract assets (liabilities)	$ 62.2	$ (27.5)	$ 89.7

Contract assets – non-current is reported within Other non-current assets, and Contract liabilities – current is reported within Accrued Liabilities on our Consolidated Balance Sheet. Changes in contract assets and contract liabilities primarily result from the timing difference between our performance of services and payments from customers.

During the fiscal 2021 and 2020, we terminated or restructured certain commercial power-by-the-hour ("PBH") customer contracts resulting in charges of $5.7 million and $31.3 million, respectively. Some of these contracts were deemed loss contracts requiring the establishment of forward loss reserves for the total estimated costs that are in excess of the total estimated consideration over the remainder of the contracts.

As of May 31, 2021, our Consolidated Balance Sheet included remaining forward loss reserves of $3.0 million with $2.8 million classified as current in Accrued liabilities and $0.2 million classified as long-term in Other liabilities.

One of our PBH customers notified us in June 2021 that the contract would be terminating earlier than originally anticipated. In conjunction with the early termination, we expect to recognize contract asset and rotable asset impairment charges of $5.0 to $10.0 million in the first quarter of fiscal 2022.

To support our PBH customer contracts, we previously entered into an agreement with a component repair facility to outsource a portion of the component repair and overhaul services. The agreement included certain minimum repair volume guarantees which we have not met due to the impact of COVID-19 on commercial passenger aircraft flight hours. During fiscal 2021, we recognized a $4.5 million charge to reflect our estimated obligation over the remainder of the agreement for not achieving the minimum volume guarantees. As of May 31, 2021, our Consolidated Balance Sheet included remaining loss reserves of $2.9 million with $1.5 million classified as current in Accrued liabilities and $1.4 million classified as long-term in Other liabilities.

Changes in our deferred revenue were as follows:

	Year ended May 31, 2021	Year ended May 31, 2020
Deferred revenue at beginning of period	$ (99.2)	$ (96.4)
Revenue deferred	(251.4)	(417.2)
Revenue recognized	318.2	410.5
Other	1.1	3.9
Deferred revenue at end of period	$ (31.3)	$ (99.2)

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AAR CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions, except per share amounts)

1. Summary of Significant Accounting Policies (Continued)

Remaining Performance Obligations

As of May 31, 2021, we had approximately $750 million of remaining performance obligations, also referred to as firm backlog, which excludes unexercised contract options and potential orders under our indefinite-delivery, indefinite-quantity contracts. We expect that approximately 40% of this backlog will be recognized as revenue over the next 12 months, with approximately 45% of the remaining balance recognized over the next three years. The amount of remaining performance obligations, which is expected to be recognized as revenue beyond 12 months, primarily relates to our long-term, PBH programs where we provide component inventory management and/or repair services.

Financial Instruments and Concentrations of Market or Credit Risk

Financial instruments that potentially subject us to concentrations of market or credit risk consist principally of trade receivables. While our trade receivables are diverse and represent a number of entities and geographic regions, the majority are with the U.S. government and its contractors and entities in the aviation industry. The composition of our accounts receivable is as follows:

	May 31, 2021	May 31, 2020
U.S. Government contracts:		
Trade receivables	$ 24.1	$ 33.9
Unbilled receivables	25.2	27.4
	49.3	61.3
All other customers:		
Trade receivables	104.9	81.7
Unbilled receivables	12.5	28.9
	117.4	110.6
	$ 166.7	$ 171.9

In addition, we currently have past due accounts receivable owed by former commercial program customers primarily related to our exit from customer contracts in certain geographies, including Colombia, Peru, and Spain. Our past due accounts receivable owed by these customers was $4.7 million as of May 31, 2021 which was net of allowance for doubtful accounts of $8.8 million.

The carrying amounts of cash and cash equivalents, accounts receivable, and accounts and trade notes payable approximate fair value because of the short-term maturity of these instruments. The carrying value of long-term debt bearing a variable interest rate approximates fair value.

Fair value estimates are made at a specific point in time based on relevant market information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts to reflect the expected uncollectibility of accounts receivable based on past collection history and specific risks identified among uncollected accounts. In determining the required allowance, we consider factors such as general and industry-specific economic conditions, customer credit history, and our customers' current and expected future financial performance. The majority of our customers are recurring customers with an established payment history. Certain customers are required to undergo an extensive credit check prior to delivery of products or services.

AAR CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions, except per share amounts)

1. Summary of Significant Accounting Policies (Continued)

Our allowance for doubtful accounts also includes reserves for estimated product returns based on historical return rates. The reserve for estimated product returns is recognized as a reduction to sales with a corresponding reduction to cost of sales for the estimated cost of inventory that is expected to be returned.

We perform regular evaluations of customer payment experience, current financial condition, and risk analysis. We may require collateral in the form of security interests in assets, letters of credit, and/or obligation guarantees from financial institutions for transactions executed on other than normal trade terms. We also maintain trade credit insurance for certain customers to provide coverage, up to a certain limit, in the event of insolvency of some customers.

In fiscal 2019, we recognized a provision for doubtful accounts of $12.4 million related to the bankruptcy of a European airline customer. The provision consisted of impairment of non-current contract assets of $7.6 million, allowance for doubtful accounts of $3.3 million, and other liabilities of $1.5 million.

The change in our allowance for doubtful accounts was as follows:

	May 31,		
	2021	2020	2019
Balance, beginning of year	$ 22.1	$ 16.0	$ 7.5
Provision charged to operations	8.5	5.4	15.8
Recoveries, deductions for accounts written off and other reclassifications	(14.2)	0.7	(7.3)
Balance, end of year	$ 16.4	$ 22.1	$ 16.0

Goodwill and Other Intangible Assets

In accordance with ASC 350, *Intangibles–Goodwill and Other*, goodwill and other intangible assets deemed to have indefinite lives are not amortized, but are subject to annual impairment tests. We review and evaluate our goodwill and indefinite life intangible assets for potential impairment at a minimum annually, on May 31, or more frequently if circumstances indicate that impairment is possible.

As of May 31, 2021, we had three reporting units, which included two in our Aviation Services segment (Aviation Supply Chain and Maintenance, Repair, and Overhaul) and one comprised of our Expeditionary Services segment. We utilized the qualitative assessment approach for all reporting units which considers general economic conditions, industry specific performance, changes in reporting unit carrying values, and assumptions used in the most recent fair value calculation. We concluded it was more likely than not that the fair value of each reporting unit exceeded its carrying value at May 31, 2021, and thus no impairment charges were recorded.

In fiscal 2020, we elected to forego the qualitative assessment due to the unprecedented impact of the COVID-19 pandemic and utilized a quantitative assessment approach for all reporting units. We estimated the fair value of each reporting unit using primarily an income approach based on discounted cash flows. The assumptions we used to estimate the fair value of our reporting units were based on historical performance, as well as forecasts used in our business plan and required considerable management judgment in light of the impact of COVID-19. We used discount rates based on our consolidated weighted average cost of capital which is adjusted for each of our reporting units based on their specific risk, size, and industry characteristics. The fair value measurements used for our goodwill impairment testing use significant unobservable inputs, which reflected our own assumptions about the inputs that market participants would use in measuring fair value. The fair value of our reporting units is also impacted by our overall market capitalization and may be impacted by volatility in our stock price and assumed control premium, among other items. We concluded the fair value of each reporting unit exceeded its carrying values as of May 31, 2020, and thus no impairment charges were recorded.

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1. Summary of Significant Accounting Policies (Continued)

Changes in the carrying amount of goodwill by segment for fiscal 2021 and 2020 are as follows:

	Aviation Services	Expeditionary Services	Total
Balance as of May 31, 2019	$ 96.9	$ 19.3	$ 116.2
Foreign currency translation adjustments	(0.5)	—	(0.5)
Balance as of May 31, 2020	96.4	19.3	115.7
Sale of Composites	—	(0.5)	(0.5)
Foreign currency translation adjustments	4.1	—	4.1
Balance as of May 31, 2021	$ 100.5	$ 18.8	$ 119.3

Intangible assets with finite useful lives are amortized on a straight-line basis over their estimated useful lives. Intangible assets, other than goodwill, are comprised of the following:

	May 31, 2021		
	Gross	Accumulated Amortization	Net
Amortizable intangible assets:			
Customer relationships	$ 23.0	$ (19.7)	$ 3.3
Unamortized intangible assets:			
Trademarks	1.2	—	1.2
	$ 24.2	$ (19.7)	$ 4.5

	May 31, 2020		
	Gross	Accumulated Amortization	Net
Amortizable intangible assets:			
Customer relationships	$ 21.4	$ (16.5)	$ 4.9
Unamortized intangible assets:			
Trademarks	1.1	—	1.1
	$ 22.5	$ (16.5)	$ 6.0

In conjunction with the adoption of ASC 842 on June 1, 2019, our net intangible asset for lease agreements of $8.5 million was re-classified to the ROU asset. During fiscal 2020, we recognized an impairment charge of $5.4 million related to the exit of certain product lines across both our Aviation Services and Expeditionary Services segments.

Customer relationships are being amortized over 5-20 years. Amortization expense recorded during fiscal 2021, 2020 and 2019 was $1.8 million, $2.3 million, and $3.9 million, respectively. The estimated aggregate amount of amortization expense for intangible assets in each of the next five fiscal years is $1.1 million in 2022, $0.5 million in 2023, $0.3 million in 2024, $0.3 million in 2025 and $0.3 million in 2026.

Foreign Currency

Our foreign subsidiaries utilize the local currency as their functional currency. All balance sheet accounts of foreign subsidiaries transacting business in currencies other than the U.S. dollar are translated at year-end exchange rates. Revenues and expenses are translated at average exchange rates during the year. Translation adjustments are excluded from the results of operations and are recorded in stockholders' equity as a component of accumulated other comprehensive loss until such subsidiaries are liquidated.

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1. Summary of Significant Accounting Policies (Continued)

Cash

Cash and cash equivalents consist of highly liquid instruments which have original maturities of three months or less when purchased. Restricted cash represents cash on hand required to be set aside by a contractual agreement related to receivable securitization arrangements. Generally, the restrictions related to the receivable securitization arrangements lapse at the time we remit the customer payments collected by us as servicer of previously sold customer receivables to the purchaser.

Inventories

Inventories are valued at the lower of cost or market (estimated net realizable value). Cost is determined by the specific identification, average cost, or first-in, first-out methods. From time-to-time, we purchase aircraft and engines for disassembly to individual parts and components. Costs are assigned to these individual parts and components utilizing list prices from original equipment manufacturers and recent sales history. Expenditures for the repair of parts and components are capitalized as inventory.

The following is a summary of inventories:

	May 31, 2021	May 31, 2020
Aircraft and engine parts, components and finished goods	$ 468.4	$ 556.6
Raw materials and parts	53.0	45.9
Work-in-process	19.2	20.6
	$ 540.6	$ 623.1

Rotable Assets and Equipment under Leases

The cost of the asset under lease is the original purchase price plus overhaul costs. Depreciation is computed using the straight-line method over the estimated service life of the equipment. The balance sheet classification of equipment under lease is generally based on lease term, with fixed-term leases less than twelve months generally classified as short-term and all others generally classified as long-term.

Equipment on short-term lease includes aircraft engines and parts on or available for lease to satisfy customers' immediate short-term requirements. The leases are renewable with fixed terms, which generally vary from one to twelve months.

Property, Plant and Equipment and Other Non-Current Assets

We record property, plant and equipment at cost. Depreciation is computed on the straight-line method over useful lives of 10-40 years for buildings and improvements and 3-10 years for equipment, furniture and fixtures, and capitalized software. Leasehold improvements are amortized over the shorter of the estimated useful life or the term of the applicable lease.

Repair and maintenance expenditures are expensed as incurred. Upon sale or disposal, cost and accumulated depreciation are removed from the accounts, and related gains and losses are included in results of operations.

Rotable assets supporting long-term programs consist of rotable component parts used to support long-term supply chain programs. The assets are being depreciated on a straight-line basis over their estimated useful lives.

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1. Summary of Significant Accounting Policies (Continued)

In accordance with ASC 360, *Property, Plant and Equipment*, we are required to test for impairment of long-lived assets whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable from its undiscounted cash flows. We utilize certain assumptions to estimate future undiscounted cash flows, including demand for our services, future market conditions and trends, business development pipeline of opportunities, current and future lease rates, lease terms, and residual values.

In our Aviation Services segment, we evaluated future cash flows related to certain rotable assets supporting long-term programs in light of declines in commercial airline volumes and commercial program contract terminations We recognized asset impairment charges of $5.8 million related to these rotable assets in fiscal 2021. In our Expeditionary Services segment, we consolidated manufacturing facilities and recognized impairment and related charges of $2.6 million during fiscal 2021.

In conjunction with the decision to exit certain product lines, we recognized rotable asset impairment charges of $1.9 million in fiscal 2020 in conjunction with reclassifying the rotable assets as inventory held for sale. In fiscal 2021, we recognized additional impairment charges of $1.4 million on these assets.

Future rent due to us under non-cancelable leases during each of the next five fiscal years is $21.0 million in 2022, $21.7 million in 2023, $21.1 million in 2024, $21.1 million in 2025, and $19.1 million in 2026.

Investments

Investments where we have the ability to exercise significant influence, but do not control the entity, are accounted for under the equity method of accounting. Significant influence generally exists if we have a 20% to 50% ownership interest in the investee. Our share of the net earnings or loss of our investees is included in operating income on our Consolidated Statements of Income since the activities of the investees are closely aligned with our operations. Equity investments in entities over which we do not have the ability to exercise significant influence and whose securities do not have a readily determinable fair value are carried at cost less impairment, if any, adjusted for changes resulting from qualifying observable price changes.

We evaluate our investments for impairment whenever events or changes in circumstances indicate that the carrying amounts of such investments may be impaired. If a decline in the value of an investment is determined to be other than temporary, a loss is recorded in earnings in the current period.

Our investments are classified in Other non-current assets on our Consolidated Balance Sheets. Distributions from joint ventures are classified as operating or investing activities in the Consolidated Statements of Cash Flows based upon an evaluation of the specific facts and circumstances of each distribution.

Restructuring and Other Exit Costs

We recognize charges for restructuring and other exit costs such as product line exits and facility closures at their fair value when incurred. In cases where employees are required to render service until they are terminated in order to receive the termination benefits and will be retained beyond the minimum retention period, we record the expense ratably over the future service period.

During fiscal 2021 and 2020, we incurred severance and furlough-related costs of $9.0 million and $7.1 million, respectively, which were included as a component of Cost of sales and services and Selling, general and administrative on our Consolidated Statements of Income.

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1. Summary of Significant Accounting Policies (Continued)

Income Taxes

We are subject to income taxes in the U.S., state, and several foreign jurisdictions. In the ordinary course of business, there can be transactions and calculations where the ultimate tax determination is uncertain. We recognize deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns in accordance with applicable accounting guidance for accounting for income taxes, using currently enacted tax rates in effect for the year in which the differences are expected to reverse.

We record a valuation allowance when necessary to reduce deferred tax assets to the amount expected to be realized. Deferred tax assets are reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Both positive and negative evidence are considered in forming our judgment as to whether a valuation allowance is appropriate, and more weight is given to evidence that can be objectively verified. Valuation allowances are reassessed whenever there are changes in circumstances that may cause a change in judgment.

The accounting for uncertainty in income taxes requires a more-likely-than-not threshold for financial statement recognition of tax positions taken or expected to be taken in a tax return. Where necessary, we record a liability for the difference between the benefit recognized for financial statement purposes and the tax position taken or expected to be taken on our tax return. To the extent that our assessment of such tax positions changes, the change in estimate is recorded in the period in which the determination is made.

Supplemental Information on Cash Flows

Supplemental information on cash flows is as follows:

	For the Year Ended May 31,		
	2021	**2020**	**2019**
Interest paid	$ 4.3	$ 8.6	$ 8.8
Income taxes paid	8.2	14.3	7.0
Income tax refunds and interest received	8.3	7.0	6.4

During fiscal 2021, treasury stock decreased $8.6 million reflecting restricted stock activity of $5.6 million and the re-issuance of shares upon exercise of stock options, net of shares withheld to satisfy statutory tax obligations, of $3.0 million.

During fiscal 2020, treasury stock decreased $5.0 million reflecting restricted stock activity of $0.8 million and the re-issuance of shares upon exercise of stock options, net of shares withheld to satisfy statutory tax obligations, of $8.3 million partially offset by the repurchase of common shares of $4.1 million.

During fiscal 2019, treasury stock increased $7.0 million reflecting the repurchase of common shares of $10.3 million, restricted stock activity of $0.8 million partially offset by the re-issuance of shares upon exercise of stock options, net of shares withheld to satisfy statutory tax obligations, of $4.1 million.

Use of Estimates

We have made estimates and utilized certain assumptions relating to the reporting of assets and liabilities and the disclosures of contingent liabilities to prepare these Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States. Actual results could differ from those estimates.

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2. Discontinued Operations

During the third quarter of fiscal 2018, we decided to pursue the sale of our Contractor-Owned, Contractor-Operated ("COCO") business previously included in our Expeditionary Services segment. Due to this strategic shift, the assets, liabilities, and results of operations of our COCO business have been reported as discontinued operations for all periods presented. Unless otherwise noted, amounts and disclosures throughout these Notes to Consolidated Financial Statements relate to our continuing operations.

In the fourth quarter of fiscal 2020, we completed the sale of the last operating contract of the COCO business shortly after government approval. Our continuing involvement in the COCO business is limited to the lease of certain aircraft which is an obligation of the acquirer of this contract. The assets and liabilities of our discontinued operations are primarily comprised of right-of-use assets, lease-related liabilities and reserves for certain legal proceedings which are discussed in Note 15.

3. Sale of Receivables

On February 23, 2018, we entered into a Purchase Agreement with Citibank N.A. ("Purchaser") for the sale, from time to time, of certain accounts receivable due from certain customers (the "Purchase Agreement"). Under the Purchase Agreement, the maximum amount of receivables sold is limited to $150 million and Purchaser may, but is not required to, purchase the eligible receivables we offer to sell. The term of the Purchase Agreement runs through February 22, 2022, however, the Purchase Agreement may also be terminated earlier under certain circumstances. The term of the Purchase Agreement shall be automatically extended for annual terms unless either party provides advance notice that they do not intend to extend the term.

We have no retained interests in the sold receivables, other than limited recourse obligations in certain circumstances, and only perform collection and administrative functions for the Purchaser. We account for these receivable transfers as sales under ASC 860, *Transfers and Servicing*, and de-recognize the sold receivables from our Consolidated Balance Sheet.

Receivables sold under the Purchase Agreement during fiscal 2021, 2020, and 2019 were $440.6 million, $746.4 million, and $744.2 million, respectively. Amounts remitted to the Purchaser on their behalf during fiscal 2021, 2020, and 2019 were $476.3 million, $758.3 million, and $729.7 million, respectively. As of May 31, 2021 and May 31, 2020, we had collected cash of $8.4 million and $20.0 million, respectively, which was not yet remitted to the Purchaser as of those dates and was classified as Restricted cash on our Consolidated Balance Sheets.

We recognize discounts on the sale of our receivables and other fees related to the Purchase Agreement in Other expense, net on our Consolidated Statements of Income. During fiscal 2021, 2020 and 2019, we incurred discounts on the sale of our receivables and other fees of $0.4 million, $1.8 million and $2.2 million, respectively.

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4. Financing Arrangements

Debt Outstanding

A summary of the carrying amount of our debt is as follows:

	May 31, 2021	May 31, 2020
Revolving Credit Facility expiring September 25, 2024 with interest payable monthly	$ 109.5	$ 579.5
Term loan due November 1, 2021 with interest payable monthly	25.7	22.5
Total debt	135.2	602.0
Debt issuance costs, net	(1.5)	(2.0)
Long-term debt	$ 133.7	$ 600.0

At May 31, 2021, our variable rate debt had a fair value that approximates its carrying value and is classified as Level 2 in the fair value hierarchy.

On October 18, 2017, we entered into a Credit Agreement with the Canadian Imperial Bank of Commerce, as lender (the “Credit Agreement”). The Credit Agreement provided a Canadian $31 million term loan with the proceeds used to fund the acquisition of two maintenance, repair, and overhaul (“MRO”) facilities in Canada from Premier Aviation. The term loan is due in full at the expiration of the Credit Agreement on November 1, 2021 unless terminated earlier pursuant to the terms of the Credit Agreement. Interest is payable monthly on the term loan at the offered fluctuating Canadian Dollar Offer Rate plus 125 to 225 basis points based on certain financial measurements if a Bankers' Acceptances loan, or at the offered fluctuating Prime Rate plus 25 to 125 basis points based on certain financial measurements, if a Prime Rate loan.

We maintain a Revolving Credit Facility with various financial institutions, as lenders, and Bank of America, N.A., as administrative agent for the lenders, which provides the Company an aggregate revolving credit commitment of $600 million and matures September 25, 2024. Under certain circumstances, we have the ability to request, but our lenders are not required to grant, an increase to the revolving credit commitment by an aggregate amount of up to $300 million, not to exceed $900 million in total.

Borrowings under the Revolving Credit Facility bear interest at the offered Eurodollar Rate plus 87.5 to 175 basis points based on certain financial measurements if a Eurodollar Rate loan, or at the offered fluctuating Base Rate plus 0 to 75 basis points based on certain financial measurements if a Base Rate loan.

Borrowings outstanding under the Revolving Credit Facility at May 31, 2021 were $109.5 million and there were approximately $19.2 million of outstanding letters of credit, which reduced the availability of this facility to $471.3 million.

The term loan under the Credit Agreement that matures on November 1, 2021 has been classified as a long-term liability due to our intent and ability to refinance this loan on a long-term basis using our Revolving Credit Facility.

Our financing arrangements also require us to comply with leverage and interest coverage ratios, maintain a minimum net working capital level, and comply with certain affirmative and negative covenants, including those relating to financial reporting and notification, payment of indebtedness, cash dividends, taxes and other obligations, compliance with applicable laws, and limitations on additional liens, indebtedness, acquisitions, investments and disposition of assets. The Revolving Credit Facility also requires our significant domestic subsidiaries, and any subsidiaries that guarantee our other indebtedness, to provide a guarantee of payment under the Revolving Credit Facility. At May 31, 2021, we were in compliance with the financial and other covenants in our financing agreements.

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4. Financing Arrangements (Continued)

Borrowing activity under the Revolving Credit Facility during fiscal 2021, 2020 and 2019 is as follows:

	For the Year Ended May 31,		
	2021	2020	2019
Maximum amount borrowed	$ 579.5	$ 579.5	$ 287.0
Average daily borrowings	257.5	280.7	207.8
Average interest rate during the year	1.20 %	2.62 %	3.41 %

We also have $10.4 million available under foreign lines of credit as of May 31, 2021.

5. Equity

Stock-Based Compensation

We have granted stock-based awards under the AAR CORP. 2013 Stock Plan, as Amended and Restated Effective July 13, 2020 (the “2013 Stock Plan”) and the AAR CORP. Stock Benefit Plan (“Stock Benefit Plan”) each of which has been approved by our stockholders. No further awards will be made under the Stock Benefit Plan. Under the 2013 Stock Plan, we are authorized to issue stock options to employees and non-employee directors that allow the grant recipients to purchase shares of common stock at a price not less than the fair market value of the common stock on the date of grant. Generally, stock options awarded expire ten years from the date of grant and are exercisable in three annual increments commencing one year after the date of grant. In addition to stock options, the 2013 Stock Plan also provides for the grant of time-based restricted stock awards and performance-based restricted stock awards. The 2013 Stock Plan also provides for the grant of stock appreciation units and restricted stock units; however, to date, no such awards have been granted.

Restricted stock grants (whether time-based or performance-based) are designed, among other things, to align employee interests with the interests of stockholders and to encourage the recipient to build a career with us. Restricted stock typically vests over periods of one to three years from the date of grant. Restricted stock grants may be performance-based with vesting to generally occur over a period of three years. All restricted stock that has been granted and, if performance-based, earned according to performance criteria carries full dividend and voting rights, regardless of whether it has vested.

Substantially all stock options and restricted stock are subject to forfeiture prior to vesting if the employee’s employment terminates for any reason other than death, disability or retirement. Since inception, a total of 11,149,000 shares have been granted under the Stock Benefit Plan. We have granted a total of 5,058,230 shares under the 2013 Stock Plan. All future stock awards will be made under the 2013 Stock Plan. There were 1,850,828 shares available for grant under the 2013 Stock Plan as of May 31, 2021.

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5. Equity (Continued)

Stock Options

During fiscal 2021, 2020, and 2019, we granted stock options with respect to 936,170 shares, 414,460 shares and 300,240 shares, respectively. The weighted average fair value per share of stock options granted during fiscal 2021, 2020 and 2019 was $5.89, $10.30 and $13.60, respectively. The fair value of each stock option grant was estimated on the date of grant using the Black-Scholes option pricing model using the following weighted average assumptions:

	Stock Options Granted In Fiscal Year		
	2021	2020	2019
Risk-free interest rate	0.4 %	1.9 %	2.7 %
Expected volatility of common stock	40.2 %	32.0 %	30.8 %
Dividend yield	1.6 %	0.8 %	0.6 %
Expected option term in years	4.8	4.5	4.5

The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. The expected volatility is based on historical volatility of our common stock, and the expected option term represents the period of time that the stock options granted are expected to be outstanding based on historical exercise trends. The dividend yield represents our anticipated cash dividends at the grant date over the expected option term.

A summary of stock option activity for the three years ended May 31, 2021 consisted of the following (shares in thousands):

	2021		2020		2019	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	1,851	$ 32.74	1,777	$ 30.37	2,082	$ 26.72
Granted	936	18.94	414	37.66	300	47.84
Exercised	(110)	23.93	(300)	24.99	(571)	25.56
Cancelled	(65)	25.59	(40)	36.72	(34)	42.02
Outstanding at end of year	2,612	$ 28.34	1,851	$ 32.74	1,777	$ 30.37
Options exercisable at end of year	1,371	$ 31.56	1,133	$ 28.32	981	$ 25.28

The total fair value of stock options that vested during fiscal 2021, 2020, and 2019 was $3.9 million, $3.7 million, and $5.6 million, respectively. The total intrinsic value of stock options exercised during fiscal 2021, 2020, and 2019 was $1.5 million, $6.2 million, and $12.2 million, respectively. The aggregate intrinsic value of options outstanding was $36.6 million and $0.5 million as of May 31, 2021 and 2020, respectively. The tax expense (benefit) realized from stock options exercised during fiscal 2021, 2020, and 2019 was $0.7 million, ($2.1) million, and ($2.7) million, respectively. Expense recognized in selling, general and administrative expenses for stock options during fiscal 2021, 2020, and 2019 was $4.0 million, $3.9 million, and $4.1 million, respectively. As of May 31, 2021, we had $5.4 million of unrecognized compensation expense related to stock options that will be expensed over an average period of 1.4 years.

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5. Equity (Continued)

Restricted Stock

We provide executives and other key employees an opportunity to be awarded performance-based and time-based restricted stock. The performance-based awards are contingent upon the achievement of certain objectives, which generally include cumulative income, average return on capital, and relative total shareholder return over a three-year performance period. Performance-based restricted shares of 52,475, and 43,680 were granted to executives and key employees during fiscal 2020 and 2019, respectively. No performance-based restricted shares were granted in fiscal 2021. Time-based restricted shares of 144,255, 56,535, and 46,470 were granted to executives and key employees during fiscal 2021, 2020, and 2019, respectively. We also award time-based restricted stock to our non-employee directors as part of their annual compensation. Time-based restricted shares of 72,021, 44,123, and 29,128 were granted to members of the Board of Directors during fiscal 2021, 2020, and 2019, respectively.

The fair value of restricted shares is the market value of our common stock on the date of grant. Expense recognized in selling, general and administrative expenses for all restricted share programs during fiscal 2021, 2020, and 2019 was $5.2 million, $3.4 million, and $9.4 million, respectively.

Restricted share activity during fiscal 2021 was as follows (shares in thousands):

	Number of Shares	Weighted Average Fair Value on Grant Date
Nonvested at May 31, 2020	385	$ 31.70
Granted	290	23.43
Vested	(292)	32.15
Forfeited	(14)	26.60
Nonvested at May 31, 2021	369	30.12

As of May 31, 2021 we had $2.5 million of unearned compensation related to restricted shares that will be expensed over a weighted average period of 2.0 years.

6. Income Taxes

The provision for income tax on income from continuing operations includes the following components:

	For the Year Ended May 31, 2021	2020	2019
Current:			
Federal	$ 5.2	$ 1.4	$ 4.8
State	1.2	0.9	0.1
Foreign	3.4	2.8	5.0
	9.8	5.1	9.9
Deferred	8.4	0.5	(5.0)
	$ 18.2	$ 5.6	$ 4.9

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6. Income Taxes (Continued)

The provision for income taxes on pre-tax income differs from the amount computed by applying the U.S. federal statutory income tax rate of 21.0% for fiscal 2021, 2020 and 2019 to income from continuing operations before provision for income taxes due to the following:

	For the Year Ended May 31,		
	2021	2020	2019
Provision for income tax at the federal statutory rate	$ 13.5	$ 6.4	$ 18.7
Tax expense (benefits) from stock-based compensation	0.7	(2.1)	(2.7)
State income taxes, net of federal benefit	2.4	1.1	1.9
Change in valuation allowance for state deferred tax assets	—	(0.1)	(6.9)
Effective settlement of prior tax positions	—	—	(4.7)
Other	1.6	0.3	(1.4)
Provision for income tax	$ 18.2	$ 5.6	$ 4.9

Income before provision for income taxes includes the following components:

	For the Year Ended May 31,		
	2021	2020	2019
Domestic	$ 43.7	$ 23.6	$ 68.9
Foreign	20.8	6.8	20.1
	$ 64.5	$ 30.4	$ 89.0

Our foreign earnings are comprised primarily of the results of our operations in the United Kingdom, Canada, and the Netherlands.

Deferred tax assets and liabilities result primarily from the differences in the timing of the recognition of transactions for financial reporting and income tax purposes. Our deferred tax assets and liabilities consist of the following components:

	May 31,	
	2021	2020
Deferred tax assets:		
Operating lease liabilities	$ 20.7	$ 24.9
Employee and retirement benefits	10.4	13.3
State net operating losses	6.8	9.4
Allowance for doubtful accounts	4.0	4.1
Credits and incentives	1.1	8.2
Other	1.5	5.0
Total deferred tax assets	44.5	64.9
Deferred tax liabilities:		
Tangible and intangible assets	(31.9)	(35.0)
ROU operating lease assets	(21.9)	(26.2)
Other	(0.2)	(0.2)
Total deferred tax liabilities	(54.0)	(61.4)
Net deferred tax assets (liabilities)	$ (9.5)	$ 3.5

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AAR CORP. AND SUBSIDIARIES
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6. Income Taxes (Continued)

As of May 31, 2021, we have determined that the realization of our deferred tax assets is more likely than not and that a valuation allowance is not required. Our net operating losses have carry forward periods that range from 5 to 20 years. Our history of operating earnings, our expectations for continued future earnings, the nature of certain of our deferred tax assets and the scheduled reversal of deferred tax liabilities, primarily related to depreciation, support the recoverability of the majority of the deferred tax assets. Our net deferred tax assets are included in Other non-current assets on our Consolidated Balance Sheets.

Income tax payable was $0.7 million at May 31, 2021 and was included in Accrued liabilities on the Consolidated Balance Sheet. Income tax receivable was $7.9 million at May 31, 2020 and was included in Prepaid expenses and other current assets on the Consolidated Balance Sheet.

Our federal income tax returns for fiscal years 2018 and subsequent are open for examination. Various states and foreign jurisdictions also remain open subject to their applicable statute of limitations.

7. Earnings Per Share

The computation of basic earnings per share is based on the weighted average number of common shares outstanding during each period. The computation of diluted earnings per share is based on the weighted average number of common shares outstanding during the period plus, when their effect is dilutive, incremental shares consisting of shares subject to stock options and shares issuable upon vesting of restricted stock awards.

In accordance with ASC 260-10-45, *Share-Based Payment Arrangements and Participating Securities and the Two-Class Method*, our unvested restricted stock awards are deemed participating securities since these shares are entitled to participate in dividends declared on common shares. During periods of net income, the calculation of earnings per share for common stock excludes income attributable to unvested restricted stock awards from the numerator and excludes the dilutive impact of those shares from the denominator. During periods of net loss, no effect is given to the participating securities because they do not share in the losses of the Company.

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7. Earnings Per Share (Continued)

The following tables provide a reconciliation of the computations of basic and diluted earnings per share information for each of the years in the three-year period ended May 31, 2021 (shares in millions).

	For the Year Ended May 31, 2021	2020	2019
Basic and Diluted EPS:			
Income from continuing operations	$ 46.3	$ 24.8	$ 84.1
Less income attributable to participating shares	(0.4)	(0.1)	(0.4)
Income from continuing operations attributable to common stockholders	45.9	24.7	83.7
Loss from discontinued operations attributable to common stockholders	(10.5)	(20.4)	(76.6)
Net income attributable to common stockholders for earnings per share	$ 35.4	$ 4.3	$ 7.1
Weighted average common shares outstanding - basic	35.0	34.8	34.5
Additional shares from assumed exercise of stock options	0.3	0.2	0.4
Weighted average common shares outstanding - diluted	35.3	35.0	34.9
Earnings per share – basic:			
Earnings from continuing operations	$ 1.31	$ 0.71	$ 2.42
Loss from discontinued operations	(0.30)	(0.59)	(2.22)
Earnings per share - basic	$ 1.01	$ 0.12	$ 0.20
Earnings per share – diluted:			
Earnings from continuing operations	$ 1.30	$ 0.71	$ 2.40
Loss from discontinued operations	(0.30)	(0.58)	(2.19)
Earnings per share - diluted	$ 1.00	$ 0.13	$ 0.21

At May 31, 2021, 2020 and 2019 respectively, outstanding options to purchase 1,054,400, 669,400 and 273,400 shares of common stock were not included in the computation of diluted earnings per share, because the exercise price of these options was greater than the average market price of the common shares for the year then ended.

8. Employee Benefit Plans

Defined Benefit Plans

Prior to January 1, 2000, the pension plan for domestic salaried and non-union hourly employees ("U.S. Retirement Plan") had a benefit formula based primarily on years of service and compensation. Effective January 1, 2000, we converted our defined benefit plan for substantially all domestic salaried and certain hourly employees to a cash balance pension plan. Under the cash balance pension plan, the retirement benefit is expressed as a dollar amount in an account that grows with annual pay-based credits and interest on the account balance. The interest crediting rate under our cash balance plan is determined quarterly and is equal to 100% of the average 30-year treasury rate for the second month preceding the applicable quarter published by the Internal Revenue Service. The average interest crediting rate under our cash balance plan for the fiscal year ended May 31, 2021 was 4.46%. Effective June 1, 2005, the existing cash balance plan was frozen and the annual pay-based credits were discontinued.

Our domestic plans also include a defined benefit pension plan for certain union hourly employees in which benefits are based primarily on a fixed amount per year of service. This plan was frozen in fiscal 2018.

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8. Employee Benefit Plans (Continued)

We also have a defined benefit pension plan covering certain employees in the Netherlands. Benefit formulas are based generally on years of service and compensation.

We also have a benefit plan which provides benefits to certain retired outside directors. In fiscal 2001, we froze the plan for any new members of the Board of Directors and no current directors participate in this plan.

The change to our projected benefit obligation and the fair value of our plan assets for our pension plans was as follows:

	May 31, 2021	May 31, 2020
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	$ 159.1	$ 149.2
Service cost	2.5	2.8
Interest cost	3.1	3.8
Participant contributions	0.3	0.3
Net actuarial (gain) loss	(4.4)	10.1
Benefits and administrative payments	(4.8)	(4.9)
Settlements	(2.0)	(2.2)
Curtailment	(2.5)	—
Foreign currency translation adjustment	7.7	—
Projected benefit obligation at end of year	$ 159.0	$ 159.1
Change in the fair value of plan assets:		
Fair value of plan assets at beginning of year	$ 131.8	$ 129.9
Actual return on plan assets	23.8	8.6
Employer contributions	2.7	0.4
Participant contributions	0.3	—
Benefits and administrative payments, including settlements	(6.8)	(7.1)
Foreign currency translation adjustment	6.6	—
Fair value of plan assets at end of year	$ 158.4	$ 131.8
Funded status at end of year	$ (0.6)	$ (27.3)

Amounts recognized in the Consolidated Balance Sheets consisted of the following:

	May 31, 2021	May 31, 2020
Other non-current assets	$ 10.4	$ —
Accrued liabilities	(0.4)	(0.4)
Other liabilities	(10.6)	(26.9)
Funded status at end of year	$ (0.6)	$ (27.3)
Accumulated other comprehensive loss	$ 37.8	$ 63.5

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8. Employee Benefit Plans (Continued)

The following tables provide the projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for all pension plans with a projected benefit obligation or accumulated benefit obligation in excess of plan assets:

	May 31,	
Projected benefit obligation in excess of plan assets	2021	2020
Projected benefit ohbligation	$ 88.1	$ 159.1
Fair value of plan assets	77.1	131.8

	May 31,	
Accumulated benefit obligation in excess of plan assets	2021	2020
Projected benefit obligation	$ 88.1	$ 159.1
Accumulated benefit obligation	82.1	83.4
Fair value of plan assets	77.1	131.8

The accumulated benefit obligation for all pension plans was $153.0 million and $151.9 million at May 31, 2021 and 2020, respectively.

Net Periodic Benefit Cost

Pension expense charged to the Consolidated Statements of Income includes the following components:

	For the Year Ended May 31,		
	2021	2020	2019
Service cost	$ 2.5	$ 2.8	$ 2.3
Interest cost	3.1	3.8	4.3
Expected return on plan assets	(6.6)	(6.8)	(7.1)
Settlements	0.9	1.5	0.1
Amortization of prior service credit	—	—	(0.1)
Recognized net actuarial loss	2.3	2.0	1.8
	$ 2.2	$ 3.3	$ 1.3

The non-service cost components above are classified in Other income (expense), net on the Statements of Income. The estimated amount of net actuarial loss to be amortized from accumulated other comprehensive loss into expense during fiscal 2022 is $1.6 million.

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8. Employee Benefit Plans (Continued)

Assumptions

The assumptions used in accounting for our plans are estimates of factors including, among other things, the amount and timing of future benefit payments. The following table presents the key weighted-average assumptions used in the measurement of our projected benefit obligations:

	May 31, 2021	May 31, 2020
Discount rate:		
Domestic plans	2.87 %	2.83 %
International plan	1.20	1.20
Rate of compensation increase:		
Domestic plans	n/a	n/a
International plans	3.00 %	3.00 %

A summary of the weighted-average assumptions used to determine net periodic pension expense is as follows:

	For the Year Ended May 31, 2021	2020	2019
Discount rate:			
Domestic plans	2.83 %	3.67 %	4.05 %
International plan	1.20	1.50	1.90
Expected long-term rate on plan assets:			
Domestic plans	7.25 %	7.25 %	7.25 %
International plan	2.50	2.90	3.60

The discount rate was determined by projecting the expected future benefit payments as defined for the projected benefit obligation, discounting those expected payments using a theoretical zero-coupon spot yield curve derived from a universe of high-quality bonds as of the measurement date, and solving for the single equivalent discount rate that resulted in the same projected benefit obligation.

Plan Assets

The following table sets forth the actual asset allocation and target allocations for our U.S. pension plans:

	May 31, 2021	May 31, 2020	Target Asset Allocation
Equity securities	62 %	60 %	45 – 75 %
Fixed income securities	18	20	15 – 45 %
Other	20	20	0 – 25 %
	100 %	100 %	

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8. Employee Benefit Plans (Continued)

The assets of U.S pension plans are invested in compliance with the Employee Retirement Income Security Act of 1974. The investment goals are to provide a total return that, over the long term, optimizes the long-term return on plan assets at an acceptable risk, and to maintain a broad diversification across asset classes and among investment managers. We believe that there are no significant concentrations of risk within our plan assets as of May 31, 2021. The use of derivatives for the purpose of speculation are not permitted. The assets of the U.S. pension plans are invested primarily in equity and fixed income mutual funds, individual common stocks, and fund-of-funds hedge funds. The assets of the non-domestic plan are invested in funds-of-funds where each fund holds a portfolio of equity and fixed income mutual funds.

To develop our expected long-term rate of return assumption on domestic plans, we use long-term historical return information for our targeted asset mix and current market conditions. The expected return for each asset class is weighted based on the target asset allocation to develop the expected long-term rate of return on plan assets assumption. While consideration is given to recent performance, the assumption represents a long-term, prospective rate of return.

The following table sets forth by level, within the fair value hierarchy, pension plan assets at their fair value as of May 31, 2021:

	Level 1(1)	Level 2(2)	Level 3(3)	Total
Equity securities:				
U.S. mutual funds	$ 40.3	$ —	$ —	$ 40.3
International mutual funds	11.1	—	—	11.1
Fixed income:				
Government securities and corporate bond mutual funds	—	13.3	—	13.3
Funds-of-funds	—	61.3	—	61.3
Insurance annuities	—	—	15.6	15.6
Cash and cash equivalents	0.7	—	—	0.7
	$ 52.1	$ 74.6	$ 15.6	142.3
Other investments measured at net asset value (4)				16.1
Total pension plan assets				$ 158.4

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AAR CORP. AND SUBSIDIARIES
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8. Employee Benefit Plans (Continued)

The following table sets forth by level, within the fair value hierarchy, pension plan assets at their fair value as of May 31, 2020:

	Level 1(1)	Level 2(2)	Level 3(3)	Total
Equity securities:				
U.S. mutual funds	$ 31.5	$ —	$ —	$ 31.5
International mutual funds	7.6	—	—	7.6
Fixed income:				
Government securities and corporate bond mutual funds	8.4	4.7	—	13.1
Funds-of-funds	—	54.6	—	54.6
Insurance annuities	—	—	11.7	11.7
Cash and cash equivalents	0.5	—	—	0.5
	$ 48.0	$ 59.3	$ 11.7	119.0
Other investments measured at net asset value (4)				12.8
Total pension plan assets				$ 131.8

(1) Quoted prices in active markets for identical assets that we have the ability to access as of the reporting date.
(2) Inputs other than quoted prices included within Level 1 that are directly observable for the asset or indirectly observable through corroboration with observable market data.
(3) Unobservable inputs, such as internally developed pricing models or third party valuations for the asset due to little or no market activity for the asset.
(4) Other investments measured at net asset value included alternative investments, such as hedge funds, which are valued using the net asset value as a practical expedient.

The following table presents the reconciliation of Level 3 pension assets and other investments measured at net asset value for the fiscal years ended May 31, 2021 and 2020:

	Hedge Funds	Fund-of-funds	Insurance Annuities	Total
Balance as of May 31, 2019	$ 4.2	$ 7.9	$ 9.9	$22.0
Purchases	—	—	1.8	1.8
Sales	(0.1)	—	—	(0.1)
Return on plan assets related to assets still held at May 31, 2020	0.2	0.6	—	0.8
Balance as of May 31, 2020	4.3	8.5	11.7	24.5
Purchases	—	—	3.9	3.9
Return on plan assets related to assets still held at May 31, 2021	0.8	2.5	—	3.3
Balance as of May 31, 2021	$ 5.1	$ 11.0	$ 15.6	$31.7

Valuation Techniques Used to Determine Fair Value

Cash equivalents are investments with maturities of three months or less when purchased. The fair values are based on observable market prices and categorized as Level 1.

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8. Employee Benefit Plans (Continued)

With respect to individually held equity securities, including investments in U.S. and international securities, the trustees obtain prices from pricing services, whose prices are obtained from direct feeds from market exchanges, which we are able to independently corroborate. Equity securities held individually are primarily traded on exchanges that contain only actively traded securities, due to the volume trading requirements imposed by these exchanges. Equity securities are valued based on quoted prices in active markets and categorized as Level 1.

Equity and fixed income mutual funds are maintained by investment companies that hold certain investments in accordance with a stated set of fund objectives, which are consistent with our overall investment strategy. The values of some of these funds are publicly quoted. For equity and fixed income mutual funds which are publicly quoted, the funds are valued based on quoted prices in active markets and have been categorized as Level 1. As certain of our funds-of-funds investments are also derived from quoted prices in active markets, we have categorized certain funds-of-funds investments as Level 2.

Insurance annuities require the utilization of unobservable inputs, including undiscounted cash flow techniques which results in Level 3 treatment in the fair value hierarchy.

Hedge fund investments include those seeking to maximize absolute returns using a broad range of strategies to enhance returns and provide additional diversification. The fair value of hedge funds is determined using net asset value or its equivalent subject to certain restrictions, such as a lock-up period and a redemption notice period.

Future Benefit Payments and Funding

The following table summarizes our estimated future pension payments by fiscal year:

	Fiscal Year					
	2022	2023	2024	2025	2026	2027 to 2031
Estimated future pension payments	$ 6.8	$ 6.4	$ 6.0	$ 7.0	$ 7.3	$35.0

Our contribution policy for the domestic plans is to contribute annually, at a minimum, an amount which is deductible for federal income tax purposes and that is sufficient to meet actuarially computed pension benefits. For our Netherlands pension plan, our policy is to fund at least the minimum amount required by the local laws and regulations. We anticipate contributing approximately $2.3 million to our pension plans during fiscal 2022.

Defined Contribution Plans

Our defined contribution plans are intended to qualify as a 401(k) plans under the Internal Revenue Code. Employees may contribute up to 75% of their pretax compensation, subject to applicable regulatory limits and we may make discretionary matching contributions up to 5% of employee compensation. We modified the contribution structure in fiscal 2020 to eliminate the profit sharing contribution for future years. Our contributions vest on a pro-rata basis during the first three years of employment. We also maintain a non-qualified retirement plan that makes up 401(k) benefits that would otherwise be lost as a result of Internal Revenue Code limits and provides additional employer contributions for certain executives and key employees to supplement the benefits provided by the defined contribution plans.

In response to the impact from COVID-19, we temporarily suspended our matching contributions to the defined contribution plans effective June 1, 2020. Contributions were reinstated effective December 1, 2020. Expense charged to the Consolidated Statements of Income for our matching contributions, including profit sharing contributions, was $4.0 million in fiscal 2021, $11.6 million in fiscal 2020 and $11.4 million in fiscal 2019 for these plans.

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9. Accumulated Other Comprehensive Loss

Changes in our accumulated other comprehensive loss ("AOCL") by component for each of the years in the three-year period ended May 31, 2021 were as follows (all amounts are net of tax):

	Currency Translation Adjustments	Pension Plans	Total
Balance as of June 1, 2018	$ 0.3	$ (32.3)	$ (32.0)
Other comprehensive loss before reclassifications	(2.4)	(8.0)	(10.4)
Amounts reclassified from AOCL	—	1.5	1.5
Total other comprehensive loss	(2.4)	(6.5)	(8.9)
Balance as of May 31, 2019	(2.1)	(38.8)	(40.9)
Other comprehensive income (loss) before reclassifications	0.1	(5.0)	(4.9)
Amounts reclassified from AOCL	—	1.2	1.2
Total other comprehensive income (loss)	0.1	(3.8)	(3.7)
Balance as of May 31, 2020	(2.0)	(42.6)	(44.6)
Other comprehensive income before reclassifications	5.9	4.4	10.3
Amounts reclassified from AOCL	—	16.0	16.0
Total other comprehensive income	5.9	20.4	26.3
Balance as of May 31, 2021	$ 3.9	$ (22.2)	$ (18.3)

10. Other Non-current Assets

At May 31, 2021 and 2020, other non-current assets consisted of the following:

	May 31, 2021	May 31, 2020
License fees	$ 25.0	$ 4.1
Contract assets	21.6	22.4
Investments in joint ventures	18.3	17.8
Assets under deferred compensation plan	12.6	13.1
Pension assets	10.4	—
Cash surrender value of life insurance	5.5	15.6
Other	5.4	8.5
	$ 98.8	$ 81.5

Investments in Joint Ventures

Under the terms of servicing agreements with certain of our aircraft joint ventures, we provide administrative services and technical advisory services, including aircraft evaluations, oversight and logistical support of the maintenance process and records management. We also provide evaluation and inspection services prior to the purchase of an aircraft and remarketing services with respect to the divestiture of aircraft by the joint ventures. During fiscal 2021, 2020, and 2019, we were paid $1.0 million, $1.6 million, and $0.4 million, respectively, for such services.

Our investments in joint ventures include $10.0 million for our 40% ownership interest in a joint venture in India to develop and operate an airframe maintenance facility. The facility is expected to receive regulatory certification in the first half of fiscal 2022 and would commence airframe maintenance operations shortly thereafter.

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10. Other Non-current Assets (Continued)

The investment balance as of May 31, 2021 includes $8.7 million related to the guarantee liability recognized in conjunction with our guarantee of 40% of the Indian joint venture's debt. The Indian joint venture is accounted for using the equity method. In addition, each of the partners in the Indian joint venture has a loan to the joint venture proportionate to its equity ownership. Our loan to the Indian joint venture under this arrangement was $3.1 million as of May 31, 2021.

In the fourth quarter of fiscal 2020, we decided to exit our joint venture which operates a landing gear wheel and brake repair and overhaul facility in Malaysia. In conjunction with the decision to exit the joint venture, we recognized an impairment charge of $1.9 million reflecting the anticipated net proceeds from our investment. The impairment charge is reported in Earnings (Loss) from joint ventures on the Consolidated Statement of Income.

License Fees

In June 2011, we entered into a ten-year agreement with Unison Industries ("Unison") to be the exclusive worldwide aftermarket distributor for Unison's electrical components, sensors, switches and other systems for aircraft and industrial uses. In June 2020, we entered into an extension and expansion of our agreement with Unison including a new termination date of December 31, 2031, an initial $25.0 million license fee paid in June 2020 to Unison, and annual license fees at a fixed percentage of our net sales of Unison products. The June 2020 payment of $25.0 million was capitalized and is being amortized on a straight-line basis over the term of the new agreement. As of May 31, 2021, the unamortized balance of the license is $23.8 million.

Split-Dollar Life Insurance Arrangements

We previously entered into split-dollar life insurance agreements to benefit certain former executives and officers. Under the terms of the arrangements, we made premium payments on the individuals' behalf and we retained a collateral interest in the policies generally to the extent of the premiums we previously paid. As of May 31, 2021, our Consolidated Balance Sheet included $5.5 million in Other non-current assets for cumulative premiums paid and expected to be reimbursed upon termination of the policies.

During the second quarter of fiscal 2021, certain split-dollar life insurance agreements were terminated and we received $12.0 million for reimbursement of both the life insurance premiums we previously paid and a portion of our prior tax payments made on the individuals' behalf related to their imputed income on the policies. The reimbursement of the premiums paid of $10.0 million has been classified as cash flow from investing activities with the remainder included in cash flow from operating activities as it represents the reimbursement of a portion of the income taxes previously paid and expensed. In the second quarter of fiscal 2021, we recognized a benefit of $1.3 million in Selling, general and administrative expenses on the Consolidated Statement of Income for the net recovery of the taxes previously paid on behalf of the individuals.

11. Leases

We lease facilities, offices, vehicles, and equipment. We determine at inception whether an arrangement that provides us control over the use of an asset is a lease. ROU assets and lease liabilities are recognized on the Consolidated Balance Sheet at lease commencement date based on the present value of the future minimum lease payments over the lease term. Our lease agreements do not provide a readily determinable implicit rate nor is it available to us from our lessors. We estimate our incremental borrowing rate based on information available at lease commencement in order to discount lease payments to present value.

Our lease costs are allocated over the remaining lease term on a straight-line basis unless another systematic or rational basis is more representative of the pattern in which the underlying asset is expected to be used. ROU assets are evaluated for impairment in a manner consistent with the treatment of other long-lived assets.

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11. Leases (Continued)

Certain leases include options to renew or extend the terms of the lease, which are included in the determination of the ROU assets and lease liabilities when it is reasonably certain that the option will be exercised. Our leases may also include variable lease payments such as escalation clauses based on consumer price index rates, maintenance costs and utilities. Variable lease payments that depend on an index or a rate are included in the determination of ROU assets and lease liabilities using the index or rate at the lease commencement date, whereas variable lease payments that do not depend on an index or rate are recorded as lease expense in the period incurred. Our lease agreements do not contain any significant residual value guarantees or restrictive covenants.

The summary of our operating lease cost is as follows:

	For the Year Ended May 31,	
	2021	2020
Operating lease cost	$ 16.4	$ 18.4
Short-term lease cost	1.7	5.3
Variable lease cost	3.5	7.4
	$ 21.6	$ 31.1

Rental expense for facilities and equipment during fiscal year 2019 was $25.9 million.

With the exception of a land lease for one of our airframe maintenance facilities that expires in 2108, our operating leases expire at various dates through 2034. Maturities of our operating lease payments as of May 31, 2021 are as follows:

2022	$ 13.7
2023	11.9
2024	9.9
2025	8.8
2026	7.7
Thereafter	32.9
Total undiscounted payments	84.9
Less: Imputed interest	(13.5)
Present value of minimum lease payments	71.4
Less: Operating lease liabilities – current	(11.5)
Operating lease liabilities – non-current	$ 59.9

The current portion of operating lease liabilities are presented within Accrued liabilities on our Consolidated Balance Sheet.

Excluding leases related to our discontinued operations, the weighted average remaining lease term and discount rate for our operating leases were approximately 8.5 years and 3.8%, respectively, as of May 31, 2021.

Supplemental cash flow information related to leases was as follows:

	For the Year Ended May 31,	
	2021	2020
Cash paid for amounts included in the measurement of lease liabilities	$ 15.3	$ 16.5
Operating lease liabilities arising from obtaining ROU assets	5.2	13.0

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12. Commitments and Contingencies

We enter into purchase obligations, which arise in the ordinary course of business and represent a binding commitment to acquire inventory, including raw materials, parts and components, as well as equipment to support the operations of our business. The aggregate amount of purchase obligations due in each of the next five fiscal years is $102.2 million in 2022, $208.5 million in 2023, $53.0 million in 2024, $15.2 in 2025 and $2.0 million in 2026.

We routinely issue letters of credit and performance bonds in the ordinary course of our business. These instruments are typically issued in conjunction with insurance contracts or other business requirements. The total of these instruments outstanding at May 31, 2021 was approximately $30.8 million which includes $11.6 million related to a guarantee of 40% of the outstanding debt of our Indian joint venture. We have recognized a current liability of $8.7 million based on the fair value of our guarantee obligation.

We are involved in various claims and legal actions, including environmental matters, arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on our consolidated financial condition or results of operations.

Government Subsidies

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was enacted in the U.S. in response to the COVID-19 pandemic. The CARES Act includes provisions relating to refundable payroll tax credits, deferral of the employer portion of certain payroll taxes, net operating loss carrybacks, and other areas. The payroll tax deferral requires that the deferred payroll taxes be paid over two years, with half of the amount required to be paid by December 31, 2021 and the other half by December 31, 2022. As of May 31, 2021, we deferred $12.4 million of payroll taxes of which $6.2 million are included in Accrued Liabilities and $6.2 million in Other liabilities on our Consolidated Balance Sheet.

During the three-month period ended August 31, 2020, we received $57.2 million from the U.S. Treasury Department through the Payroll Support Program under the CARES Act. This funding included a $48.5 million cash grant which is to be used exclusively for the continuation of payment of employee wages, salaries and benefits for employees of certain MRO facilities. The grant was recognized as contra-expense on our Consolidated Statement of Income as the eligible wages, salaries and benefits were incurred. In fiscal 2021, we recognized the full amount of the grant as contra-expense within Cost of sales and Selling, general and administrative expenses of $47.5 million and $1.0 million, respectively.

The remaining funding of $8.7 million was a low interest 10-year senior unsecured promissory note ("Promissory Note") which included interest at a rate per annum equal to the sum of (i) 1.0% for the first five years, and the applicable secured overnight financing rate plus 2.0% in years six through ten plus (ii) in kind interest of 3.0% for the first five years and increasing by 1.0% each year over the remaining term. The Promissory Note was pre-payable at par at any time and we re-paid the Promissory Note in full during the fourth quarter of fiscal 2021. Certain corporate restrictions continue to apply to us for approximately the next year which include restrictions on dividends, stock repurchases, employee compensation, and certain workforce actions.

Other countries have enacted legislation similar to the CARES Act to provide relief and stimulus measures to assist companies in mitigating the financial impact from COVID-19 and supporting their employees. During fiscal 2021, our foreign subsidiaries recognized subsidies of $7.9 million from foreign governments which have been deducted from the related expenses on our Consolidated Statement of Income.

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(Dollars in millions, except per share amounts)

13. Sale of Composites Business

On August 31, 2020, we completed the sale of our aerostructures and aerospace products operations located in Clearwater, Florida and Sacramento, California ("Composites"). The Composites business was formerly included in our Expeditionary Services segment. The sale of Composites is consistent with our multi-year strategy to focus our portfolio on our core services offerings and the transaction has allowed us to further prioritize our efforts in our principal businesses.

We recognized a loss on the sale of the Composites business of $20.2 million which included consideration of $1.6 million. Consideration from the sale includes contingent consideration of up to $6.5 million based on the achievement of sales targets over the next three years. Consideration included in the loss on sale was comprised of net cash received of $0.3 million and the fair value of the earn-out consideration of $1.3 million.

14. Business Segment Information

Segment Reporting

Consistent with how our chief operating decision making officer (Chief Executive Officer) evaluates performance and the way we are organized internally, we report our activities in two segments: *Aviation Services* comprised of supply chain and MRO activities and *Expeditionary Services* comprised of manufacturing activities.

The Aviation Services segment consists of aftermarket support and services offerings that provide spare parts and maintenance support for aircraft operated by our commercial and government/defense customers. Sales in the Aviation Services segment are derived from the sale and lease of a wide variety of new, overhauled and repaired engine and airframe parts and components to the commercial aviation and government and defense markets. We provide customized inventory supply chain management, performance-based logistics programs, customer fleet management and operations, and aircraft component repair management services. The segment also includes repair, maintenance and overhaul of aircraft, landing gear and components. Cost of sales consists principally of the cost of product, direct labor, and overhead.

The Expeditionary Services segment consists of primarily manufacturing operations with sales derived from the design and manufacture of pallets, shelters, and containers used to support the U.S. military's requirements for a mobile and agile force including engineering, design, and system integration services for specialized command and control systems. Cost of sales consists principally of the cost of material to manufacture products, direct labor and overhead.

The accounting policies for the segments are the same as those described in Note 1. Our chief operating decision making officer (Chief Executive Officer) evaluates performance based on the reportable segments and utilizes gross profit as a primary profitability measure. Gross profit is calculated by subtracting cost of sales from sales. The assets and certain expenses related to corporate activities are not allocated to the segments. Our reportable segments are aligned principally around differences in products and services.

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AAR CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions, except per share amounts)

14. Business Segment Information (Continued)

Selected financial information for each segment is as follows:

	For the Year Ended May 31, 2021	2020	2019
Net sales:			
Aviation Services	$1,553.7	$1,964.2	$1,920.6
Expeditionary Services	98.6	107.8	131.2
	$1,652.3	$2,072.0	$2,051.8

	For the Year Ended May 31, 2021	2020	2019
Gross profit:			
Aviation Services	$ 263.2	$ 267.3	$ 313.6
Expeditionary Services	12.7	1.9	16.2
	$ 275.9	$ 269.2	$ 329.8

	May 31, 2021	2020
Total assets:		
Aviation Services	$ 1,357.2	$ 1,502.5
Expeditionary Services	73.0	103.6
Corporate and discontinued operations	109.5	472.9
	$ 1,539.7	$ 2,079.0

	For the Year Ended May 31, 2021	2020	2019
Capital expenditures:			
Aviation Services	$ 8.1	$ 16.9	$ 15.1
Expeditionary Services	3.1	5.4	1.4
Corporate	0.1	1.3	0.9
Total continuing operations	11.3	23.6	17.4
Discontinued operations	—	—	0.5
	$ 11.3	$ 23.6	$ 17.9

	For the Year Ended May 31, 2021	2020	2019
Depreciation and amortization:[1]			
Aviation Services	$ 33.7	$ 39.2	$ 37.5
Expeditionary Services	2.3	3.7	4.1
Corporate	9.5	8.1	14.7
	$ 45.5	$ 51.0	$ 56.3

1 Includes amortization of stock-based compensation.

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AAR CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions, except per share amounts)

14. Business Segment Information (Continued)

The following table reconciles segment gross profit to income from continuing operations before provision for income taxes.

	For the Year Ended May 31, 2021	2020	2019
Segment gross profit	$ 275.9	$ 269.2	$ 329.8
Provision for doubtful accounts	(8.5)	(5.4)	(15.8)
Selling, general and administrative	(182.4)	(220.6)	(215.4)
Earnings (Loss) from joint ventures	0.2	(1.9)	(0.3)
Loss on sale of business	(20.2)	—	—
Other income (expenses), net	4.3	(2.1)	(0.8)
Interest expense	(5.0)	(9.3)	(9.5)
Interest income	0.2	0.5	1.0
Income from continuing operations before provision for income taxes	$ 64.5	$ 30.4	$ 89.0

The U.S. Department of Defense, U.S. Department of State, other U.S. government agencies and their contractors are our only customers representing 10% or more of total sales in any of the last three fiscal years. Sales by segment for these customers are as follows:

	For the Year Ended May 31, 2021	2020	2019
Aviation Services	$ 657.0	$ 588.7	$ 455.9
Expeditionary Services	81.8	79.5	90.3
	$ 738.8	$ 668.2	$ 546.2
Percentage of total sales	44.7 %	32.2 %	26.6 %

Sales across the major customer markets for each of our operating segments for the fiscal years ended May 31, 2021, 2020 and 2019 were as follows:

	For the Year Ended May 31, 2021	2020	2019
Aviation Services:			
Commercial	$ 793.9	$ 1,268.9	$ 1,342.3
Government and defense	759.8	695.3	578.3
	$ 1,553.7	$ 1,964.2	$ 1,920.6
Expeditionary Services:			
Commercial	$ 12.5	$ 24.3	$ 31.6
Government and defense	86.1	83.5	99.6
	$ 98.6	$ 107.8	$ 131.2

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AAR CORP. AND SUBSIDIARIES
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(Dollars in millions, except per share amounts)

14. Business Segment Information (Continued)

Sales by type of product/service was as follows:

	For the Year Ended May 31,		
	2021	2020	2019
Aviation supply chain	$1,172.7	$1,434.3	$1,395.2
Maintenance, repair and overhaul services	381.0	529.9	525.4
Mobility products	98.6	107.8	131.2
	$1,652.3	$2,072.0	$2,051.8

Geographic Data

Sales by geographic region for the fiscal years ended May 31, 2021, 2020 and 2019 were as follows:

	For the Year Ended May 31,		
	2021	2020	2019
Aviation Services:			
North America	$ 1,255.7	$ 1,505.6	$ 1,426.8
Europe/Africa	207.5	330.8	323.4
Other	90.5	127.8	170.4
	$ 1,553.7	$ 1,964.2	$ 1,920.6
Expeditionary Services:			
North America	$ 95.9	$ 98.4	$ 124.1
Europe/Africa	2.6	9.0	5.8
Other	0.1	0.4	1.3
	$ 98.6	$ 107.8	$ 131.2

	May 31,	
	2021	2020
Long-lived assets:		
United States	$ 419.1	$ 423.9
Europe	83.1	102.1
Other	100.5	114.3
	$ 602.7	$ 640.3

Sales to unaffiliated customers in foreign countries (including sales through foreign sales offices of domestic subsidiaries) were approximately $370.5 million (22.4% of total sales), $591.8 million (28.6% of total sales) and $661.8 million (32.3% of total sales) in fiscal 2021, 2020 and 2019, respectively.

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AAR CORP. AND SUBSIDIARIES
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(Dollars in millions, except per share amounts)

15. Legal Proceedings

We are not a party to any material pending legal proceeding (including any governmental or environmental proceeding) other than routine litigation incidental to our business except for the following:

Department of Justice Investigation

As previously reported, the U.S. Department of Justice ("DoJ"), acting through the U.S. Attorney's Office for the Southern District of Illinois, conducted an investigation of AAR Airlift Group, Inc. ("Airlift"), a wholly-owned subsidiary of AAR CORP., under the federal civil False Claims Act ("FCA"). The investigation related to Airlift's performance of several contracts awarded by the U.S. Transportation Command ("TRANSCOM") concerning the operations and maintenance of rotary-wing and fixed-wing aircraft in Afghanistan and Africa, as well as several U.S. Navy contracts. In June 2018, the DoJ informed Airlift that part of the investigation was precipitated by a lawsuit filed under the qui tam provisions of the FCA by a former employee of Airlift.

In June 2021, Airlift and the DoJ reached an agreement to settle the FCA investigation and related matters for approximately $11.5 million which concluded the DoJ investigation into Airlift's contracts with TRANSCOM and the U.S. Navy. As part of the settlement, Airlift and AAR did not admit any wrongdoing.

We recognized charges of $11.0 million in discontinued operations in fiscal 2021 related to this agreement and related matters. As of May 31, 2021, our reserve for the entire matter was $12.7 million.

Self-Reporting of Potential Foreign Corrupt Practices Act Violations

The Company retained outside counsel to investigate possible violations of the Company's Code of Conduct, the U.S. Foreign Corrupt Practices Act, and other applicable laws, relating to the Company's activities in Nepal and South Africa. Based on these investigations, in fiscal 2019, we self-reported these matters to the DoJ, the U.S. Securities and Exchange Commission and the UK Serious Fraud Office. The Company is fully cooperating with the reviews by these agencies, although we are unable at this time to predict what action, if any, they may take.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not Applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Act"), as of May 31, 2021. This evaluation was carried out under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures. Therefore, effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

Based upon our evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective as of May 31, 2021, ensuring that information required to be disclosed in the reports that are filed under the Act is recorded, processed, summarized and reported in a timely manner.

Management Report on Internal Control Over Financial Reporting

Management of AAR CORP. is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Act. The Company's internal control over financial reporting is a process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with U.S. GAAP and includes those policies and procedures that (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) 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. Internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems which are determined to be effective provide only reasonable assurance with respect to financial statement preparation and presentation. 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.

Management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer and oversight of the Board of Directors, assessed the effectiveness of our internal control over financial reporting as of May 31, 2021 based on the criteria for effective internal control over financial reporting described in Internal Control–Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on our assessment, management concluded that the Company maintained effective internal control over financial reporting as of May 31, 2021.

KPMG LLP, our independent registered public accounting firm, has issued a report on the effectiveness of our internal control over financial reporting. That report appears below.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the quarter ended May 31, 2021, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
AAR CORP.:

Opinion on Internal Control Over Financial Reporting

We have audited AAR CORP.'s and subsidiaries' (the Company) internal control over financial reporting as of May 31, 2021, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of May 31, 2021, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of May 31, 2021 and 2020, the related consolidated statements of income, comprehensive income (loss), changes in equity, and cash flows for each of the years in the three-year period ended May 31, 2021, and the related notes (collectively, the consolidated financial statements), and our report dated July 20, 2021 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the 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 audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. 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 audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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 (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) 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 (3) 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.

/s/ KPMG LLP

Chicago, Illinois
July 20, 2021

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ITEM 9B. OTHER INFORMATION

Not applicable.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item regarding the Directors of the Company and nominees for election of the Board is incorporated by reference to the information contained under the caption "Information about Our Director Nominees and Our Continuing Directors" in our definitive proxy statement for the 2021 Annual Meeting of Stockholders.

The information required by this item regarding the Executive Officers of the Company appears under the caption "Supplemental Item: Information about our Executive Officers" following Part I, Item 4 above.

The information required by this item regarding the compliance with Section 16(a) of the Securities Exchange Act of 1934 is incorporated by reference to the information contained under the caption "Delinquent Section 16(a) Reports" in our definitive proxy statement for the 2021 Annual Meeting of Stockholders.

The information required by this item regarding the identification of the Audit Committee as a separately-designated standing committee of the Board and the status of one or more members of the Audit Committee being an "audit committee financial expert" is incorporated by reference to the information contained under the caption "The Board's Role and Responsibilities – Role and Responsibilities of the Board Committees" in our definitive proxy statement for the 2021 Annual Meeting of Stockholders.

The information required by this item regarding our Code of Conduct applicable to our directors, officers and employees is incorporated by reference to the information contained under the caption "Board Practices and Policies – Code of Conduct" in our definitive proxy statement for the 2021 Annual Meeting of Stockholders.

There have been no material changes to the procedures by which stockholders may recommend nominees to the Company's board of directors. The information regarding these procedures is incorporated by reference to the information contained under the caption "Director Nominations and Qualifications" in our definitive proxy statement for the 2021 Annual Meeting of Stockholders.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to the information contained under the captions "Executive Compensation" and "Director Compensation" of our definitive proxy statement for the 2021 Annual Meeting of Stockholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item regarding security ownership of certain beneficial owners and management is incorporated by reference to the information contained under the caption "Stock Ownership Information" in our definitive proxy statement for the 2021 Annual Meeting of Stockholders.

The information required by this item regarding equity compensation plan information is incorporated by reference to the information contained under the caption "Equity Compensation Plan Information" in our definitive proxy statement for the 2021 Annual Meeting of Stockholders.

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ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated by reference to the information contained under the captions "Director Independence" and "Board Practices and Policies – Related Person Transaction Policy" in our definitive proxy statement for the 2021 Annual Meeting of Stockholders.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated by reference to the information contained under the caption "Independent Registered Public Accounting Firm Fees and Services" in our definitive proxy statement for the 2021 Annual Meeting of Stockholders.

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) (1) Financial Statements

Our consolidated financial statements are as set forth under Item 8 of this report on Form 10-K.

(a) (2) Financial Statement Schedules

All schedules are omitted because they are not applicable, not required, or the information is included in the consolidated financial statements.

(a) (3) Exhibits

Management contracts and compensatory arrangements have been marked with an asterisk (*) on the Exhibit Index which is contained below:

Index		Exhibits
3. Articles of Incorporation and By-Laws	3.1	Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 2004)
	3.2	By-Laws, as amended July 9, 2018 (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated July 13, 2018)
	3.3	Certificate of Designations for AAR CORP.'s Series A Junior Participating Preferred Stock (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated March 30, 2020)
	3.4	Certificate of Elimination of Series A Junior Participating Preferred Stock of AAR CORP. (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated October 5, 2020)
4. Instruments defining the rights of security holders	4.1	Restated Certificate of Incorporation (see Exhibit 3.1).
	4.2	By-Laws, as amended July 9, 2018 (See Exhibit 3.2).
	4.3	Description of Capital Stock (filed herewith)

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Index		Exhibits
	4.4	Rights Agreement, dated as of March 30, 2020, by and between AAR CORP. and Computershare Trust Company, N.A., as Rights Agent (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated March 30, 2020)
	4.5	Amendment and Termination of Rights Agreement, dated as of October 5, 2020, between AAR CORP. and Computershare Trust Company, N.A., as rights agent (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated October 5, 2020)
	4.6	Indenture providing for Issuance of Debt Securities between AAR CORP. as Issuer and U.S. Bank National Association, as Trustee dated as of December 1, 2010 (incorporated by reference to Exhibit 4.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended November 30, 2010)
	4.7	Indenture providing for Issuance of Subordinated Debt Securities between AAR CORP. as Issuer and U.S. Bank National Association, as Trustee dated as of December 1, 2010 (incorporated by reference to Exhibit 4.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended November 30, 2010)
		Pursuant to Item 601(b)(4)(iii)(A) of Regulation S-K, the Registrant is not filing certain documents. The Registrant agrees to furnish a copy of each such document upon the request of the Commission.
10. Material Contracts	10.1*	Amended and Restated AAR CORP. Stock Benefit Plan effective October 1, 2001 (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended November 30, 2001), as amended June 27, 2003 (incorporated by reference to Exhibit 10.1 to the Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 2003), as amended May 5, 2005 (incorporated by reference to Exhibit 10.1 to the Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 2005), as amended July 12, 2005 (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended February 28, 2006), as amended June 23, 2006 (incorporated by reference to Exhibit 10.1 to the Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 2007), as amended January 23, 2007 (incorporated by reference to Exhibit 10.1 to the Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 2007), as amended January 27, 2007 (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended February 29, 2008), and as amend July 11, 2011 (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended August 31, 2011)
	10.2*	AAR CORP. Directors' Retirement Plan, dated April 14, 1992 (incorporated by reference to Exhibits to the Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 1992), amended May 26, 2000 (incorporated by reference to Exhibit 10.5 to the Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 2000) and April 10, 2001 (incorporated by reference to Exhibit 10.5 to the Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 2001)

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Index	Exhibits
10.3*	AAR CORP. Supplemental Key Employee Retirement Plan, as Amended and Restated effective July 13, 2020 (incorporated by reference to Exhibit 10.3 to the Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 2020)
10.4*	AAR CORP. Nonemployee Directors' Deferred Compensation Plan, as Amended and Restated effective July 10, 2017 (incorporated by reference to Exhibit 10.4 to the Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 2019)
10.5*	Form of Non-Employee Director Non-Qualified Stock Option Agreement (incorporated by reference to Exhibit 10.13 to the Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 2012)
10.6*	Form of Fiscal 2022 Director Restricted Stock Agreement (filed herewith)
10.7*	Form of Split Dollar Insurance Agreement (incorporated by reference to Exhibit 10.24 to the Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 2006)
10.8*	Form of Directors' and Officers' Indemnification Agreement (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended August 31, 2008)
10.9*	Form of Policy for Recoupment of Incentive Compensation (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended August 31, 2012)
10.10*	AAR CORP. 2013 Stock Plan (as Amended and Restated Effective July 13, 2020) (incorporated by reference to Appendix C to the Registrant's Proxy Statement dated August 28, 2020)
10.11*	Form of Severance and Change in Control Agreement (incorporated by reference to Exhibit 10.15 to the Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 2020)
10.12	Credit Agreement dated April 12, 2011 among AAR CORP., Bank of America National Association, as administrative agent, and the various financial institutions party thereto, as amended on September 25, 2019 (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated September 27, 2019)
10.13	Credit Agreement among AAR CORP., as parent guarantor, AAR Canada Holdings ULC, as borrower, and Canadian Imperial Bank of Commerce, as lender, dated as of October 18, 2017 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated October 18, 2017)
10.14	Purchase Agreement dated February 23, 2018 by and among AAR CORP., as seller representative and servicer, the sellers time to time party thereto, and Citibank, N.A., as buyer (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated February 28, 2018)

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Index	Exhibits
10.15	First Amendment to Purchase Agreement dated as of May 22, 2018 by and among AAR CORP., as seller representative and servicer, the sellers time to time party thereto, and Citibank, N.A., as buyer (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated May 25, 2018)
10.16	Second Amendment to Purchase Agreement dated as of May 22, 2018 by and among AAR CORP., as seller representative and servicer, the sellers time to time party thereto, and Citibank, N.A., as buyer (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended November 30, 2020)
10.17	Third Amendment to Purchase Agreement dated as of May 22, 2018 by and among AAR CORP., as seller representative and servicer, the sellers time to time party thereto, and Citibank, N.A., as buyer (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended November 30, 2020)
10.18*	Post-Retirement Agreement dated May 24, 2018 between AAR CORP. and David P. Storch (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K dated May 25, 2018), as amended May 31, 2019 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated June 4, 2019), as amended July 11, 2019 (incorporated by reference to Exhibit 10.24 to the Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 2019), and as amended July 13, 2021 (filed herewith).
10.19*	Amended and Restated Employment Agreement dated as of May 24, 2018 between AAR CORP. and John M. Holmes (incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K dated May 25, 2018)
10.20*	First Amendment to the Amended and Restated Employment Agreement dated as of July 30, 2020 between AAR CORP. and John M. Holmes (incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended August 31, 2020)
10.21*	Form of AAR CORP. Fiscal 2021 Short-Term Incentive Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended August 31, 2020)
10.22*	Form of AAR CORP. Fiscal 2021 Non-Qualified Stock Option Agreement (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended August 31, 2020)
10.23*	Form of AAR CORP. Fiscal 2021 Restricted Stock Agreement (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended August 31, 2020)
10.24	Payroll Support Agreement dated July 30, 2020 by and between AAR Aircraft Services, Inc., Aviation Maintenance Staffing, Inc., AAR Landing Gear LLC, and the United States Treasury (incorporated by

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reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated July 31, 2020)

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Index		Exhibits
	10.25*	Deferred Cash Award Agreement dated July 13, 2021 between AAR CORP. and John M. Holmes (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated July 16, 2021)
21. Subsidiaries of the Registrant	21.1	Subsidiaries of AAR CORP. (filed herewith)
23. Consents of experts and counsel	23.1	Consent of Independent Registered Public Accounting Firm (filed herewith)
31.	31.1	Section 302 Certification dated July 20, 2021 of John M. Holmes, President and Chief Executive Officer of Registrant (filed herewith)
	31.2	Section 302 Certification dated July 20, 2021 of Sean M. Gillen, Vice President and Chief Financial Officer of Registrant (filed herewith)
32.	32.1	Section 906 Certification dated July 20, 2021 of John M. Holmes, President and Chief Executive Officer of Registrant (filed herewith)
	32.2	Section 906 Certification dated July 20, 2021 of Sean M. Gillen, Vice President and Chief Financial Officer of Registrant (filed herewith)
101.	101	The following materials from the Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 2021, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets at May 31, 2021 and 2020, (ii) Consolidated Statements of Income for the fiscal years ended May 31, 2021, 2020, and 2019 , (iii) Consolidated Statements of Comprehensive Income for fiscal years ended May 31, 2021, 2020, and 2019, (iv) Consolidated Statements of Cash Flows for the fiscal years ended May 31, 2021, 2020, and 2019, (v) Consolidated Statement of Changes in Equity for the three years ended May 31, 2021 and (vi) Notes to Consolidated Financial Statements.**

** Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

ITEM 16. FORM 10-K SUMMARY

Not applicable.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

AAR CORP.
(Registrant)

Date: July 20, 2021

BY: /s/ JOHN M. HOLMES
John M. Holmes
President and Chief Executive Officer

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Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K 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
/s/ JOHN M. HOLMES John M. Holmes	*President and Chief Executive Officer; Director (Principal Executive Officer)*	
/s/ SEAN M. GILLEN Sean M. Gillen	*Vice President and Chief Financial Officer (Principal Financial Officer)*	
/s/ ERIC S. PACHAPA Eric S. Pachapa	*Vice President, Controller and Chief Accounting Officer (Principal Accounting Officer)*	
/s/ DAVID P. STORCH David P. Storch	*Chairman of the Board; Director*	
/s/ ANTHONY K. ANDERSON Anthony K. Anderson	*Director*	
/s/ MICHAEL R. BOYCE Michael R. Boyce	*Director*	
/s/ H. JOHN GILBERTSON, JR. H. John Gilbertson, Jr.	*Director*	July 20, 2021
/s/ JAMES E. GOODWIN James E. Goodwin	*Director*	
/s/ ROBERT F. LEDUC Robert F. Leduc	*Director*	
/s/ ELLEN M. LORD Ellen M. Lord	*Director*	
/s/ DUNCAN J. MCNABB Duncan J. McNabb	*Director*	
/s/ PETER PACE Peter Pace	*Director*	
/s/ JENNIFER L. VOGEL Jennifer L. Vogel	*Director*	
/s/ MARC J. WALFISH Marc J. Walfish	*Director*	

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended August 31, 2021

or

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

For the transition period from to

Commission File No. **1-6263**

AAR CORP.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**36-2334820** (I.R.S. Employer Identification No.)
One AAR Place, 1100 N. Wood Dale Road **Wood Dale, Illinois** (Address of principal executive offices)	**60191** (Zip Code)

(630) 227-2000
(Registrant's telephone number, including area code)
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, $1.00 par value	**AIR**	**New York Stock Exchange** **Chicago Stock Exchange**

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 check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T 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 the 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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of August 31, 2021 there were 35,471,158 shares of the registrant's Common Stock, $1.00 par value per share, outstanding.

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AAR CORP. and Subsidiaries
Quarterly Report on Form 10-Q
For the Quarter Ended August 31, 2021
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PART I – FINANCIAL INFORMATION

Item 1 – Financial Statements

AAR CORP. and Subsidiaries
Condensed Consolidated Balance Sheets
As of August 31, 2021 and May 31, 2021
(In millions, except share data)

ASSETS

	August 31, 2021 (Unaudited)	May 31, 2021
Current assets:		
Cash and cash equivalents	$ 48.8	$ 51.8
Restricted cash	3.8	8.4
Accounts receivable, less allowances of $16.9 and $16.4, respectively	180.8	166.7
Contract assets	74.6	71.9
Inventories	525.8	540.6
Rotable assets and equipment on or available for short-term lease	52.3	50.4
Assets of discontinued operations	19.2	19.5
Prepaid expenses and other current assets	39.6	27.7
Total current assets	944.9	937.0
Property, plant and equipment, net of accumulated depreciation of $270.2 and $260.2 respectively	109.1	120.0
Other assets:		
Goodwill and intangible assets, net	122.1	123.8
Operating lease right-of-use assets, net	73.6	75.8
Rotable assets supporting long-term programs	178.0	184.3
Other non-current assets	108.0	98.8
	481.7	482.7
	$ 1,535.7	$ 1,539.7

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

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AAR CORP. and Subsidiaries
Condensed Consolidated Balance Sheets
As of August 31, 2021 and May 31, 2021
(In millions, except share data)

LIABILITIES AND EQUITY

	August 31, 2021 (Unaudited)	May 31, 2021
Current liabilities:		
Accounts payable	$ 144.2	$ 127.2
Accrued liabilities	159.8	174.2
Liabilities of discontinued operations	20.2	35.4
Total current liabilities	324.2	336.8
Long-term debt	127.6	133.7
Operating lease liabilities	58.0	59.9
Deferred revenue on long-term programs	7.7	5.4
Other liabilities	30.0	29.5
	223.3	228.5
Equity:		
Preferred stock, $1.00 par value, authorized 250,000 shares; none issued	—	—
Common stock, $1.00 par value, authorized 100,000,000 shares; issued 45,300,786 shares at cost	45.3	45.3
Capital surplus	479.9	479.8
Retained earnings	753.2	741.7
Treasury stock, 9,829,628 and 9,925,551 shares at cost, respectively	(271.6)	(274.1)
Accumulated other comprehensive loss	(18.6)	(18.3)
Total equity	988.2	974.4
	$ 1,535.7	$ 1,539.7

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

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AAR CORP. and Subsidiaries
Condensed Consolidated Statements of Operations
For the Three Months Ended August 31, 2021 and 2020
(Unaudited)
(In millions, except share data)

	Three Months Ended August 31, 2021	Three Months Ended August 31, 2020
Sales:		
Sales from products	$ 262.1	$ 236.3
Sales from services	193.0	164.5
	455.1	400.8
Cost and operating expenses:		
Cost of products	217.6	204.5
Cost of services	172.9	147.7
Selling, general and administrative	49.3	45.3
	439.8	397.5
Loss from joint ventures	(0.2)	(0.1)
Operating income	15.1	3.2
Loss on sale of business	—	(19.5)
Other income, net	0.7	0.2
Interest expense	(0.7)	(1.7)
Interest income	—	0.1
Income (Loss) from continuing operations before provision for income taxes	15.1	(17.7)
Provision for income taxes (benefit)	3.9	(3.8)
Income (Loss) from continuing operations	11.2	(13.9)
Income (Loss) from discontinued operations, net of tax	0.3	(0.6)
Net income (loss)	$ 11.5	$ (14.5)
Earnings (Loss) per share – basic:		
Earnings (Loss) from continuing operations	$ 0.32	$ (0.40)
Earnings (Loss) from discontinued operations	0.01	(0.02)
Earnings (Loss) per share – basic	$ 0.33	$ (0.42)
Earnings (Loss) per share – diluted:		
Earnings (Loss) from continuing operations	$ 0.31	$ (0.40)
Earnings (Loss) from discontinued operations	0.01	(0.02)
Earnings (Loss) per share – diluted	$ 0.32	$ (0.42)

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

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AAR CORP. and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income (Loss)
For the Three Months Ended August 31, 2021 and 2020
(Unaudited)
(In millions)

	Three Months Ended August 31, 2021	Three Months Ended August 31, 2020
Net income (loss)	$ 11.5	$ (14.5)
Other comprehensive income (loss), net of tax expense (benefit):		
Currency translation adjustments	(0.6)	1.2
Pension and other post-retirement plans:		
Amortization of actuarial loss and prior service cost included in net income, net of tax of $0.1 and $0.1	0.3	0.3
Other comprehensive income (loss), net of tax	(0.3)	1.5
Comprehensive income (loss)	$ 11.2	$ (13.0)

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

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AAR CORP. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
For the Three Months Ended August 31, 2021 and 2020
(Unaudited)
(In millions)

	Three Months Ended August 31, 2021	Three Months Ended August 31, 2020
Cash flows provided from (used in) operating activities:		
Net income (loss)	$ 11.5	$ (14.5)
Less: (Income) Loss from discontinued operations	(0.3)	0.6
Income (Loss) from continuing operations	11.2	(13.9)
Adjustments to reconcile income (loss) from continuing operations to net cash provided from operating activities:		
Depreciation and intangible amortization	8.9	9.0
Stock-based compensation	3.1	2.7
Deferred tax provision	0.2	1.4
Loss from joint ventures	0.2	0.1
Loss on sale of business	—	19.5
Customer contract termination costs	—	2.2
Impairment charges	2.3	5.8
Changes in certain assets and liabilities:		
Accounts receivable	(14.5)	2.7
Contract assets	(2.8)	(0.1)
Inventories	14.4	18.8
Prepaid expenses and other current assets	(4.9)	15.8
Rotable assets supporting long-term programs	0.9	1.0
Accounts payable	17.3	(9.9)
Accrued and other liabilities	(14.4)	(15.2)
Payroll Support Program deferred credit	—	40.8
Deferred revenue on long-term programs	(2.0)	(17.9)
Other	(2.4)	(23.0)
Net cash provided from operating activities - continuing operations	17.5	39.8
Net cash used in operating activities - discontinued operations	(14.6)	(0.9)
Net cash provided from operating activities	2.9	38.9
Cash flows used in investing activities:		
Property, plant and equipment expenditures	(2.2)	(3.3)
Other	(2.7)	1.6
Net cash used in investing activities - continuing operations	(4.9)	(1.7)
Cash flows used in financing activities:		
Short-term borrowings, net	(5.0)	(355.0)
Proceeds from Payroll Support Program note	—	8.7
Cash dividends	—	(0.1)
Stock compensation activity	(0.5)	(1.5)
Net cash used in financing activities - continuing operations	(5.5)	(347.9)
Effect of exchange rate changes on cash	(0.1)	0.1
Decrease in cash and cash equivalents	(7.6)	(310.6)
Cash, cash equivalents, and restricted cash at beginning of period	60.2	424.7
Cash, cash equivalents, and restricted cash at end of period	$ 52.6	$ 114.1

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

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AAR CORP. and Subsidiaries
Condensed Consolidated Statements of Changes in Equity
For the Three Months Ended August 31, 2021 and 2020
(Unaudited)
(In millions)

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance, May 31, 2021	$ 45.3	$ 479.8	$ 741.7	$ (274.1)	$ (18.3)	$ 974.4
Net income	—	—	11.5	—	—	11.5
Stock option activity	—	1.1	—	0.2	—	1.3
Restricted stock activity	—	(1.0)	—	2.3	—	1.3
Other comprehensive income, net of tax	—	—	—	—	(0.3)	(0.3)
Balance, August 31, 2021	$ 45.3	$ 479.9	$ 753.2	$ (271.6)	$ (18.6)	$ 988.2

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Treasury Stock	Comprehensive Income (Loss)	Total Equity
Balance, May 31, 2020	$ 45.3	$ 478.6	$ 706.0	$ (282.7)	$ (44.6)	$ 902.6
Net loss	—	—	(14.5)	—	—	(14.5)
Cash dividends	—	—	(0.1)	—	—	(0.1)
Stock option activity	—	0.5	—	0.5	—	1.0
Restricted stock activity	—	(6.0)	—	6.1	—	0.1
Other comprehensive income, net of tax	—	—	—	—	1.5	1.5
Balance, August 31, 2020	$ 45.3	$ 473.1	$ 691.4	$ (276.1)	$ (43.1)	$ 890.6

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

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AAR CORP. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
August 31, 2021
(Unaudited)
(Dollars in millions, except per share amounts)

Note 1 – Basis of Presentation

AAR CORP. and its subsidiaries are referred to herein collectively as "AAR," "Company," "we," "us," or "our," unless the context indicates otherwise. The accompanying Condensed Consolidated Financial Statements include the accounts of AAR and its subsidiaries after elimination of intercompany accounts and transactions.

We have prepared these statements without audit, pursuant to the rules and regulations of the United States Securities and Exchange Commission ("SEC"). The Condensed Consolidated Balance Sheet as of May 31, 2021 has been derived from audited financial statements. To prepare the financial statements in conformity with U.S. generally accepted accounting principles ("GAAP"), management has made a number of estimates and assumptions relating to the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities. Actual results could differ from those estimates. Certain information and note disclosures, normally included in comprehensive financial statements prepared in accordance with GAAP, have been condensed or omitted pursuant to such rules and regulations of the SEC. These Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes thereto included in our latest Annual Report on Form 10-K.

In the opinion of management, the Condensed Consolidated Financial Statements reflect all adjustments (which consist only of normal recurring adjustments) necessary to present fairly the Condensed Consolidated Balance Sheet of AAR CORP. and its subsidiaries as of August 31, 2021, the Condensed Consolidated Statements of Operations and Condensed Consolidated Statements of Comprehensive Income (Loss) for the three-month periods ended August 31, 2021 and 2020, the Condensed Consolidated Statements of Cash Flows for the three-month periods ended August 31, 2021 and 2020, and the Condensed Consolidated Statement of Changes in Equity for the three-month periods ended August 31, 2021 and 2020. The results of operations for such interim periods are not necessarily indicative of the results for the full year.

Note 2 – Discontinued Operations

During the third quarter of fiscal 2018, we decided to pursue the sale of our Contractor-Owned, Contractor-Operated ("COCO") business previously included in our Expeditionary Services segment. Due to this strategic shift, the assets, liabilities, and results of operations of our COCO business have been reported as discontinued operations for all periods presented. Unless otherwise noted, amounts and disclosures throughout these Notes to Condensed Consolidated Financial Statements relate to our continuing operations.

In the fourth quarter of fiscal 2020, we completed the sale of the last operating contract of the COCO business shortly after government approval. Our continuing involvement in the COCO business is limited to the lease of certain aircraft which is an obligation of the acquirer of this contract. The assets and liabilities of our discontinued operations are primarily comprised of right-of-use assets and lease-related liabilities.

Note 3 – Sale of Composites Business

On August 31, 2020, we completed the sale of our aerostructures and aerospace products operations located in Clearwater, Florida and Sacramento, California ("Composites"). The Composites business was formerly included in our Expeditionary Services segment. The sale of Composites is consistent with our multi-year strategy to focus our portfolio on our core services offerings and the transaction has allowed us to further prioritize our efforts in our principal businesses.

We recognized a loss on the sale of the Composites business of $19.5 million in the first quarter of fiscal 2021. In the fourth quarter of fiscal 2021, the post-closing working capital adjustment was finalized resulting in an additional loss of $0.7 million. The sale also included contingent consideration of up to $6.5 million based on the achievement of sales targets over the next two years. The fair value of the earn-out consideration is $1.3 million as of August 31, 2021.

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Note 4 – Revenue Recognition

Revenue is measured based on the consideration specified in a contract with a customer, and excludes any sales incentives and amounts collected on behalf of third parties. We recognize revenue when we satisfy a performance obligation by transferring control over a product or service to a customer.

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AAR CORP. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
August 31, 2021
(Unaudited)
(Dollars in millions, except per share amounts)

Our unit of accounting for revenue recognition is a performance obligation included in our customer contracts. A performance obligation reflects the distinct good or service that we must transfer to a customer. At contract inception, we evaluate if the contract should be accounted for as a single performance obligation or if the contract contains multiple performance obligations. In some cases, our contract with the customer is considered one performance obligation as it includes factors such as the good or service being provided is significantly integrated with other promises in the contract, the service provided significantly modifies or customizes another good or service or the good or service is highly interdependent or interrelated. If the contract has more than one performance obligation, we determine the standalone price of each distinct good or service underlying each performance obligation and allocate the transaction price based on their relative standalone selling prices.

The transaction price of a contract, which can include both fixed and variable amounts, is allocated to each performance obligation identified. Some contracts contain variable consideration, which could include incremental fees or penalty provisions related to performance. Variable consideration that can be reasonably estimated based on current assumptions and historical information is included in the transaction price at the inception of the contract but limited to the amount that is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Variable consideration that cannot be reasonably estimated is recorded when known.

Our performance obligations are satisfied over time as work progresses or at a point in time based on transfer of control of products and services to our customers. The majority of our sales from products are recognized at a point in time upon transfer of control to the customer, which generally occurs upon shipment. In connection with certain sales of products, we also provide logistics services, which include inventory management, replenishment, and other related services. The price of such services is generally included in the price of the products delivered to the customer, and revenues are recognized upon delivery of the product, at which point the customer has obtained control of the product. We do not account for these services separate from the related product sales as the services are inputs required to fulfill part orders received from customers.

For our performance obligations that are satisfied over time, we measure progress in a manner that depicts the performance of transferring control to the customer. As such, we utilize the input method of cost-to-cost to recognize revenue over time as this depicts when control of the promised goods or services is transferred to the customer. Revenue is recognized based on the relationship of actual costs incurred to date to the estimated total cost at completion of the performance obligation. We are required to make certain judgments and estimates, including estimated revenues and costs, as well as inflation and the overall profitability of the arrangement. Key assumptions involved include future labor costs and efficiencies, overhead costs, and ultimate timing of product delivery. Differences may occur between the judgments and estimates made by management and actual program results. For contracts that are deemed to be loss contracts, we establish forward loss reserves for total estimated costs that are in excess of total estimated consideration in the period in which they become known.

When contracts are modified, we consider whether the modification either creates new or changes the existing enforceable rights and obligations. Contract modifications that are for goods or services that are not distinct from the existing contract, due to the significant integration with the original goods or services provided, are accounted for as if they were part of that existing contract with the effect of the contract modification recognized as an adjustment to revenue on a cumulative catch-up basis. When the modifications include additional performance obligations that are distinct, they are accounted for as a new contract and performance obligation, which are recognized prospectively.

Changes in estimates and assumptions related to our arrangements accounted for using the cost-to-cost method are recorded using the cumulative catch-up method of accounting. These changes are primarily adjustments to the estimated profitability for our long-term programs where we provide component inventory management and/or repair services.

For the three-month period ended August 31, 2021, we recognized an unfavorable cumulative catch-up adjustment of $1.0 million. For the three-month period ended August 31, 2020, we recognized favorable cumulative catch-up adjustments of $0.3 million.

Under most of our U.S. government contracts, if the contract is terminated for convenience, we are entitled to payment for items delivered and fair compensation for work performed, the costs of settling and paying other claims, and a reasonable profit on the costs incurred or committed.

(Dollars in millions, except per share amounts)

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We have elected to use certain practical expedients permitted under ASU No. 2014-09, *Revenue from Contracts with Customers*. Shipping and handling fees and costs incurred associated with outbound freight after control over a product has transferred to a customer are accounted for as a fulfillment cost and are included in Cost of sales on our Condensed Consolidated Statements of Income, and are not considered a performance obligation to our customers. Our reported sales on our Condensed Consolidated Statements of Income are net of any sales or related non-income taxes. We also utilize the “as invoiced” practical expedient in certain cases where performance obligations are satisfied over time and the invoiced amount corresponds directly with the value we are providing to the customer.

Contract Assets and Liabilities

The timing of revenue recognition, customer billings, and cash collections results in a contract asset or contract liability at the end of each reporting period. Contract assets consist of costs incurred where revenue recognized over time using the cost-to-cost model exceeds the amounts billed to customers. Contract liabilities include advance payments and billings in excess of revenue recognized. Certain customers make advance payments prior to the satisfaction of our performance obligations on the contract. These amounts are recorded as contract liabilities until such performance obligations are satisfied, either over time as costs are incurred or at a point in time when deliveries are made. Contract assets and contract liabilities are determined on a contract-by-contract basis.

Net contract assets and liabilities are as follows:

	August 31, 2021	May 31, 2021	Change
Contract assets – current	$ 74.6	$ 71.9	$ 2.7
Contract assets – non-current	25.9	21.6	4.3
Contract liabilities:			
Deferred revenue – current	(25.3)	(25.9)	0.6
Deferred revenue on long-term contracts	(7.7)	(5.4)	(2.3)
Net contract assets	$ 67.5	$ 62.2	$ 5.3

Contract assets – non-current is reported within Other non-current assets, and Contract liabilities – current is reported within Accrued liabilities on our Condensed Consolidated Balance Sheets. Changes in contract assets and contract liabilities primarily result from the timing difference between our performance of services and payments from customers.

During the three-month period ended August 31, 2020, we terminated a commercial power-by-the-hour (“PBH”) customer contract which resulted in a charge of $2.2 million.

One of our PBH customers notified us in June 2021 that the customer would terminate its contract with us earlier than we originally anticipated. In conjunction with the early termination, we recognized a charge of $5.2 million in the three-month period ended August 31, 2021, which included a reduction in contract assets and revenue of $1.0 million and the establishment of loss reserves of $4.2 million.

During fiscal 2020, we established forward loss reserves for a certain PBH contract where total estimated costs are in excess of the total estimated consideration over the remainder of the contract. As of August 31, 2021, our Condensed Consolidated Balance Sheet included remaining forward loss reserves of $2.3 million classified in Accrued liabilities.

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AAR CORP. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
August 31, 2021
(Unaudited)
(Dollars in millions, except per share amounts)

To support our PBH customer contracts, we previously entered into an agreement with a component repair facility to outsource a portion of the component repair and overhaul services. The agreement included certain minimum repair volume guarantees, which we have not met due to the impact of COVID-19 on commercial passenger aircraft flight hours. During fiscal 2021, we recognized a $4.5 million charge to reflect our estimated obligation over the remainder of the agreement for not achieving the minimum volume guarantees. During the three-month period ended August 31, 2021, we recognized a $1.7 million charge to increase the obligation reflecting the revised estimated shortfall on the minimum volume guarantee. As of August 31, 2021, our Consolidated Balance Sheet included remaining loss reserves of $4.6 million with $1.5 million classified as current in Accrued liabilities and $3.1 million classified as long-term in Other liabilities.

Changes in our deferred revenue were as follows for the three-month periods ended August 31, 2021 and 2020:

	Three Months Ended August 31,	
	2021	2020
Deferred revenue at beginning of period	$ (31.3)	$ (99.2)
Revenue deferred	(50.1)	(72.2)
Revenue recognized	46.4	88.5
Other	2.0	(2.5)
Deferred revenue at end of period	$ (33.0)	$ (85.4)

Remaining Performance Obligations

As of August 31, 2021, we had approximately $760 million of remaining performance obligations, also referred to as firm backlog, which excludes unexercised contract options and potential orders under our indefinite-delivery, indefinite-quantity (IDIQ) contracts. We expect that approximately 50% of this backlog will be recognized as revenue over the next 12 months with approximately 50% of the remainder recognized over the next three years. The amount of remaining performance obligations that are expected to be recognized as revenue beyond 12 months, primarily relates to our long-term programs where we provide component inventory management and/or repair services.

Disaggregation of Revenue

Sales across the major customer markets for each of our reportable segments for the three-month periods ended August 31, 2021 and 2020 were as follows:

	Three Months Ended August 31,	
	2021	2020
Aviation Services		
Commercial	$ 267.2	$ 169.6
Government and defense	168.4	194.0
	$ 435.6	$ 363.6
Expeditionary Services		
Commercial	$ 0.1	$ 5.7
Government and defense	19.4	31.5
	$ 19.5	$ 37.2

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AAR CORP. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
August 31, 2021
(Unaudited)
(Dollars in millions, except per share amounts)

Sales by geographic region for the three-month periods ended August 31, 2021 and 2020 were as follows:

	Three Months Ended August 31, 2021	Three Months Ended August 31, 2020
Aviation Services		
North America	$ 347.6	$ 294.8
Europe/Africa	62.0	51.0
Other	26.0	17.8
	$ 435.6	$ 363.6
Expeditionary Services		
North America	$ 19.3	$ 34.9
Europe/Africa	0.2	2.2
Other	—	0.1
	$ 19.5	$ 37.2

Note 5 – Accounts Receivable

Financial instruments that potentially subject us to concentrations of market or credit risk consist principally of trade receivables. While our trade receivables are diverse and represent a number of entities and geographic regions, the majority are with the U.S. government and its contractors and entities in the aviation industry. The composition of our accounts receivable is as follows:

	August 31, 2021	May 31, 2021
U.S. Government contracts:		
Trade receivables	$ 23.0	$ 24.1
Unbilled receivables	21.2	25.2
	44.2	49.3
All other customers:		
Trade receivables	120.5	104.9
Unbilled receivables	16.1	12.5
	136.6	117.4
	$ 180.8	$ 166.7

We currently have past due accounts receivable owed by former commercial program customers primarily related to our exit from customer contracts in certain geographies, including Colombia and Peru. Our past due accounts receivable owed by these customers was $2.2 million as of August 31, 2021, which was net of allowance for doubtful accounts of $5.0 million.

Note 6 – Restructuring and Impairment Costs

During the three-month period ended August 31, 2020, we incurred severance and furlough-related costs of $6.0 million, which were included as a component of Cost of sales and Selling, general and administrative on our Condensed Consolidated Statements of Operations.

In accordance with ASC 360, *Property, Plant and Equipment*, we are required to test for impairment of long-lived assets whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable from its undiscounted cash flows. We utilize certain assumptions to estimate future undiscounted cash flows, including demand for our services, future market conditions and trends, business development pipeline of opportunities, current and future lease rates, lease terms, and residual values.

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In light of declines in commercial airline volumes and commercial program contract terminations in fiscal 2020 and 2021, we evaluated future cash flows related to certain rotable assets supporting long-term programs and recognized asset impairment charges of $5.8 million in the three-month period ended August 31, 2020.

In conjunction with the early termination notice we received in June 2021 from one of our PBH customers, we evaluated future cash flows related to the rotable assets supporting that fleet type and recognized asset impairment charges of $2.3 million in the three-month period ended August 31, 2021.

Note 7 – Accounting for Stock-Based Compensation

Restricted Stock

In the three-month period ended August 31, 2021, as part of our annual long-term stock incentive compensation, we granted 43,010 shares of performance-based restricted stock and 50,845 shares of time-based restricted stock to eligible employees. The grant date fair value per share for these shares was $37.74 (the closing price on the grant date). We also granted 32,307 shares of time-based restricted stock to members of the Board of Directors with a grant date fair value per share of $42.56 (the closing price on the grant date).

Expense charged to operations for restricted stock during each of the three-month periods ended August 31, 2021 and 2020 was $1.9 million and $1.9 million, respectively.

Stock Options

In July 2021, as part of our annual long-term stock incentive compensation, we granted 143,745 stock options to eligible employees at an exercise price of $37.74 and grant date fair value of $13.36. The fair value of stock options was estimated using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	0.8 %
Expected volatility of common stock	41.6 %
Dividend yield	0.8 %
Expected option term in years	5.3

The total intrinsic value of stock options exercised during the three-month periods ended August 31, 2021 and 2020 was $0.1 million and $0.1 million, respectively. Expense charged to operations for stock options during the three-month periods ended August 31, 2021 and 2020 was $1.2 million and $0.8 million, respectively.

Note 8 – Inventories

The summary of inventories is as follows:

	August 31, 2021	May 31, 2021
Aircraft and engine parts, components and finished goods	$ 450.2	$ 468.4
Raw materials and parts	57.2	53.0
Work-in-process	18.4	19.2
	$ 525.8	$ 540.6

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Note 9 – Supplemental Cash Flow Information

	Three Months Ended August 31, 2021	Three Months Ended August 31, 2020
Interest paid	$ 0.3	$ 1.6
Income taxes paid	5.3	0.7
Income tax refunds received	0.2	0.1

Note 10 – Sale of Receivables

On February 23, 2018, we entered into a Purchase Agreement with Citibank N.A. ("Purchaser") for the sale, from time to time, of certain accounts receivable due from certain customers (the "Purchase Agreement"). Under the Purchase Agreement, the maximum amount of receivables sold is limited to $150 million and Purchaser may, but is not required to, purchase the eligible receivables we offer to sell. The term of the Purchase Agreement runs through February 22, 2022, however, the Purchase Agreement may also be terminated earlier under certain circumstances. The term of the Purchase Agreement shall be automatically extended for annual terms unless either party provides advance notice that they do not intend to extend the term.

We have no retained interests in the sold receivables, other than limited recourse obligations in certain circumstances, and only perform collection and administrative functions for the Purchaser. We account for these receivable transfers as sales under ASC 860, *Transfers and Servicing*, and de-recognize the sold receivables from our Condensed Consolidated Balance Sheet.

During the three-month periods ended August 31, 2021 and 2020, we sold $87.5 million and $129.0 million, respectively, of receivables under the Purchase Agreement and remitted $95.9 million and $147.6 million, respectively, to the Purchaser on their behalf. As of August 31, 2021 and May 31, 2021, we had collected cash of $3.8 million and $8.4 million, respectively, which was not yet remitted to the Purchaser as of those dates and was classified as Restricted cash on our Condensed Consolidated Balance Sheets.

We recognize discounts on the sale of our receivables and other fees related to the Purchase Agreement in Other expense, net on our Condensed Consolidated Statements of Income. We incurred discounts on the sale of our receivables of $0.1 million and $0.1 million during the three-month periods ended August 31, 2021 and 2020, respectively.

Note 11 – Government Subsidies

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was enacted in the U.S. in response to the COVID-19 pandemic. The CARES Act includes provisions relating to refundable payroll tax credits, deferral of the employer portion of certain payroll taxes, net operating loss carrybacks, and other areas. The payroll tax deferral requires that the deferred payroll taxes be paid over two years, with half of the amount required to be paid by December 31, 2021 and the other half by December 31, 2022. As of August 31, 2021, we have deferred payroll taxes of $12.4 million of which $6.2 million are included in Accrued Liabilities and $6.2 million in Other liabilities on our Condensed Consolidated Balance Sheet.

During the three-month period ended August 31, 2020, we received $57.2 million from the U.S. Treasury Department through the Payroll Support Program under the CARES Act. This funding included a $48.5 million cash grant which is to be used exclusively for the continuation of payment of employee wages, salaries and benefits for employees of certain maintenance, repair, and overhaul ("MRO") facilities. The grant was recognized as contra-expense on our Condensed Consolidated Statement of Income as the eligible wages, salaries and benefits were

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incurred. In fiscal 2021, we recognized the full amount of the grant as contra-expense within Cost of sales and Selling, general and administrative expenses of $47.5 million and $1.0 million, respectively.

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The remaining funding of $8.7 million was a low interest 10-year senior unsecured promissory note ("Promissory Note") which included interest at a rate per annum equal to the sum of (i) 1.0% for the first five years, and the applicable secured overnight financing rate plus 2.0% in years six through ten plus (ii) in kind interest of 3.0% for the first five years and increasing by 1.0% each year over the remaining term. The Promissory Note was pre-payable at par at any time and we re-paid the Promissory Note in full during the fourth quarter of fiscal 2021. Certain corporate restrictions continue to apply to us which include restrictions on dividends, stock repurchases, employee compensation, and certain workforce actions.

Other countries have enacted legislation similar to the CARES Act to provide relief and stimulus measures to assist companies in mitigating the financial impact from COVID-19 and supporting their employees. During the three-month periods ended August 31, 2021 and 2020, respectively, our foreign subsidiaries recognized employment subsidies of $0.3 million and $3.3 million from foreign governments which have been deducted from the related expenses on our Condensed Consolidated Statements of Operations.

Note 12 – Financing Arrangements

A summary of the carrying amount of our debt is as follows:

	August, 2021	May 31, 2021
Revolving Credit Facility expiring September 25, 2024 with interest payable monthly	$ 104.5	$ 109.5
Term loan due November 1, 2021 with interest payable monthly	24.5	25.7
Total debt	129.0	135.2
Debt issuance costs, net	(1.4)	(1.5)
Long-term debt	$ 127.6	$ 133.7

At August 31, 2021, our debt had a fair value that approximates its carrying value and is classified as Level 2 in the fair value hierarchy.

On October 18, 2017, we entered into a Credit Agreement with the Canadian Imperial Bank of Commerce, as lender (the "Credit Agreement"). The Credit Agreement provided a Canadian $31 million term loan with the proceeds used to fund the acquisition of two MRO facilities in Canada from Premier Aviation. This term loan is due in full at the expiration of the Credit Agreement on November 1, 2021 unless terminated earlier pursuant to the terms of the Credit Agreement. Interest is payable monthly on the term loan at the offered fluctuating Canadian Dollar Offer Rate plus 125 to 225 basis points based on certain financial measurements if a Bankers' Acceptances loan, or at the offered fluctuating Prime Rate plus 25 to 125 basis points based on certain financial measurements, if a Prime Rate loan.

We maintain a Revolving Credit Facility with various financial institutions, as lenders, and Bank of America, N.A., as administrative agent for the lenders, which provides the Company an aggregate revolving credit commitment of $600 million and matures on September 25, 2024. Under certain circumstances, we have the ability to request, but our lenders are not required to grant, an increase to the revolving credit commitment by an aggregate amount of up to $300 million, not to exceed $900 million in total. Borrowings under the Revolving Credit Facility bear interest at the offered Eurodollar Rate plus 87.5 to 175 basis points based on certain financial measurements if a Eurodollar Rate loan, or at the offered fluctuating Base Rate plus 0 to 75 basis points based on certain financial measurements if a Base Rate loan.

Borrowings outstanding under the Revolving Credit Facility at August 31, 2021 were $104.5 million and there were approximately $12.6 million of outstanding letters of credit, which reduced the availability under this facility to $482.9 million as of August 31, 2021.

The term loan under the Credit Agreement that matures on November 1, 2021 has been classified as a long-term liability due to our intent and ability to refinance this loan on a long-term basis using borrowings under our

Revolving Credit Facility.

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Our financing arrangements also require us to comply with leverage and interest coverage ratios, maintain a minimum net working capital level, and comply with certain affirmative and negative covenants, including those relating to financial reporting and notification, payment of indebtedness, cash dividends, taxes and other obligations, compliance with applicable laws, and limitations on additional liens, indebtedness, acquisitions, investments and disposition of assets. The Revolving Credit Facility also requires our significant domestic subsidiaries, and any subsidiaries that guarantee our other indebtedness, to provide a guarantee of payment under the Revolving Credit Facility. At August 31, 2021, we were in compliance with the financial and other covenants in our financing agreements.

Note 13 – Other Non-current Assets

Investments in Joint Ventures

Our investments in joint ventures include $10.8 million for our 40% ownership interest in a joint venture in India to develop and operate an airframe maintenance facility. The facility received certain regulatory approvals and commenced airframe maintenance operations in the second quarter of fiscal 2022.

The investment balance as of August 31, 2021 includes $9.5 million related to the guarantee liability recognized in conjunction with our guarantee of 40% of the Indian joint venture's debt. The Indian joint venture is accounted for using the equity method. In addition, each of the partners in the Indian joint venture has a loan to the joint venture proportionate to its equity ownership. Our loan to the Indian joint venture under this arrangement was $3.1 million as of August 31, 2021.

License Fees

In June 2011, we entered into a ten-year agreement with Unison Industries ("Unison") to be the exclusive worldwide aftermarket distributor for Unison's electrical components, sensors, switches and other systems for aircraft and industrial uses. In June 2020, we entered into an extension and expansion of our agreement with Unison including a new termination date of December 31, 2031, an initial $25.0 million license fee paid in June 2020 to Unison, and annual license fees at a fixed percentage of our net sales of Unison products. The June 2020 payment of $25.0 million was capitalized and is being amortized on a straight-line basis over the term of the new agreement.

Note 14 – Earnings per Share

The computation of basic earnings per share is based on the weighted average number of common shares outstanding during each period. The computation of diluted earnings per share is based on the weighted average number of common shares outstanding during the period plus, when their effect is dilutive, incremental shares consisting of shares subject to stock options and shares issuable upon vesting of restricted stock awards.

In accordance with ASC 260-10-45, *Share-Based Payment Arrangements and Participating Securities and the Two-Class Method*, our unvested restricted stock awards are deemed participating securities since these shares are entitled to participate in dividends declared on common shares. During periods of net income, the calculation of earnings per share for common stock excludes income attributable to unvested restricted stock awards from the numerator and excludes the dilutive impact of those shares from the denominator. During periods of net loss, no effect is given to the participating securities because they do not share in the losses of the Company.

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A reconciliation of the computations of basic and diluted earnings per share information for the three-month periods ended August 31, 2021 and 2020 is as follows:

	Three Months Ended August 31, 2021	Three Months Ended August 31, 2020
Basic and Diluted EPS:		
Income (Loss) from continuing operations	$ 11.2	$ (13.9)
Less income attributable to participating shares	(0.1)	—
Income (Loss) from continuing operations attributable to common shareholders	11.1	(13.9)
Income (Loss) from discontinued operations attributable to common shareholders	0.3	(0.6)
Net income (loss) attributable to common shareholders for earnings per share	11.4	$ (14.5)
Weighted Average Shares:		
Weighted average common shares outstanding–basic	35.1	34.9
Additional shares from assumed exercise of stock options	0.6	0.1
Weighted average common shares outstanding–diluted	35.7	35.0
Earnings (Loss) per share – basic:		
Earnings (Loss) from continuing operations	$ 0.32	$ (0.40)
Loss from discontinued operations	0.01	(0.02)
Earnings (Loss) per share - basic	$ 0.33	$ (0.42)
Earnings (Loss) per share – diluted:		
Earnings (Loss) from continuing operations	$ 0.31	$ (0.40)
Loss from discontinued operations	0.01	(0.02)
Earnings (Loss) per share - diluted	$ 0.32	$ (0.42)

The potential dilutive effect of 793,000 and 1,750,000 shares relating to stock options was excluded from the computation of weighted average common shares outstanding – diluted for the three-month periods ended August 31, 2021 and 2020, respectively, as the shares would have been anti-dilutive.

Note 15 – Accumulated Other Comprehensive Loss

Changes in our accumulated other comprehensive loss ("AOCL") by component for the three-month periods ended August 31, 2021 and 2020 were as follows:

	Currency Translation Adjustments	Pension Plans	Total
Balance at June 1, 2021	$ 3.9	$ (22.2)	$ (18.3)
Other comprehensive income before reclassifications	(0.6)	—	(0.6)
Amounts reclassified from AOCL	—	0.3	0.3
Total other comprehensive loss	(0.6)	0.3	(0.3)
Balance at August 31, 2021	$ 3.3	$ (21.9)	$ (18.6)
Balance at June 1, 2020	$ (2.0)	$ (42.6)	$ (44.6)
Other comprehensive loss before reclassifications	1.2	—	1.2
Amounts reclassified from AOCL	—	0.3	0.3
Total other comprehensive income	1.2	0.3	1.5

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Balance at August 31, 2020	$ (0.8)	$ (42.3)	$ (43.1)

(Dollars in millions, except per share amounts)

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Note 16 – Business Segment Information

Consistent with how our chief operating decision making officer (our Chief Executive Officer) evaluates performance and the way we are organized internally, we report our activities in two reportable segments: *Aviation Services* comprised of supply chain and MRO activities and *Expeditionary Services* comprised of manufacturing activities.

The Aviation Services segment consists of aftermarket support and services offerings that provide spare parts and maintenance support for aircraft operated by our commercial and government/defense customers. Sales in the Aviation Services segment are derived from the sale and lease of a wide variety of new, overhauled and repaired engine and airframe parts and components to the commercial aviation and government and defense markets. We provide customized inventory supply chain management, performance-based logistics programs, customer fleet management and operations, and aircraft component repair management services. The segment also includes repair, maintenance and overhaul of aircraft, landing gear and components. Cost of sales consists principally of the cost of product, direct labor, and overhead.

The Expeditionary Services segment consists of primarily manufacturing operations with sales derived from the design and manufacture of pallets, shelters, and containers used to support the U.S. military's requirements for a mobile and agile force, including engineering, design, and system integration services for specialized command and control systems. Cost of sales consists principally of the cost of material to manufacture products, direct labor and overhead.

The accounting policies for the segments are the same as those described in Note 1 of Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended May 31, 2021.

Our chief operating decision making officer (our Chief Executive Officer) evaluates performance based on our segments and utilizes gross profit as a primary profitability measure. Gross profit is calculated by subtracting cost of sales from sales. The assets and certain expenses related to corporate activities are not allocated to the segments.

Selected financial information for each segment is as follows:

	Three Months Ended August 31, 2021	Three Months Ended August 31, 2020
Net sales:		
Aviation Services	$ 435.6	$ 363.6
Expeditionary Services	19.5	37.2
	$ 455.1	$ 400.8

	Three Months Ended August 31, 2021	Three Months Ended August 31, 2020
Gross profit:		
Aviation Services	$ 60.9	$ 44.6
Expeditionary Services	3.7	4.0
	$ 64.6	$ 48.6

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The following table reconciles segment gross profit to income from continuing operations before provision for income taxes:

	Three Months Ended August 31, 2021	Three Months Ended August 31, 2020
Segment gross profit	$ 64.6	$ 48.6
Selling, general and administrative	(49.3)	(45.3)
Loss from joint ventures	(0.2)	(0.1)
Loss on sale of business	—	(19.5)
Other income, net	0.7	0.2
Interest expense	(0.7)	(1.7)
Interest income	—	0.1
Income (Loss) from continuing operations before provision for income taxes	$ 15.1	$ (17.7)

Note 17 – Legal Proceedings

We are not a party to any material pending legal proceeding (including any governmental or environmental proceeding) other than routine litigation incidental to our business, except for the following:

Department of Justice Investigation

As previously reported, the U.S. Department of Justice ("DoJ"), acting through the U.S. Attorney's Office for the Southern District of Illinois, conducted an investigation of AAR Airlift Group, Inc. ("Airlift"), a wholly-owned subsidiary of AAR CORP., under the federal civil False Claims Act ("FCA"). The investigation related to Airlift's performance of several contracts awarded by the U.S. Transportation Command ("TRANSCOM") concerning the operations and maintenance of rotary-wing and fixed-wing aircraft in Afghanistan and Africa, as well as several U.S. Navy contracts. In June 2018, the DoJ informed Airlift that part of the investigation was precipitated by a lawsuit filed under the qui tam provisions of the FCA by a former employee of Airlift.

In June 2021, Airlift and the DoJ reached an agreement to settle the FCA investigation and related matters for approximately $11.5 million which concluded the DoJ investigation into Airlift's contracts with TRANSCOM and the U.S. Navy. As part of the settlement, Airlift and AAR did not admit any wrongdoing.

We recognized charges of $11.0 million in discontinued operations in fiscal 2021 related to this agreement and related matters. As of May 31, 2021, our reserve was $12.7 million and payment for the entire matter was made in the first quarter of fiscal 2022.

Self-Reporting of Potential Foreign Corrupt Practices Act Violations

The Company retained outside counsel to investigate possible violations of the Company's Code of Conduct, the U.S. Foreign Corrupt Practices Act, and other applicable laws, relating to the Company's activities in Nepal and South Africa. Based on these investigations, in fiscal 2019, we self-reported these matters to the DoJ, the U.S. Securities and Exchange Commission and the UK Serious Fraud Office. The Company is fully cooperating with the reviews by these agencies, although we are unable at this time to predict what action, if any, they may take.

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Item 2 — Management's Discussion and Analysis of Financial Condition and Results of Operations (Dollars in millions)

General Overview

We report our activities in two reportable segments: *Aviation Services* comprised of supply chain and maintenance, repair, and overhaul ("MRO") activities and *Expeditionary Services* comprised of manufacturing activities.

The Aviation Services segment consists of aftermarket support and services offerings that provide spare parts and maintenance support for aircraft operated by our commercial and government/defense customers. Sales in the Aviation Services segment are derived from the sale and lease of a wide variety of new, overhauled and repaired engine and airframe parts and components to the commercial aviation and government and defense markets. We provide customized inventory supply chain management, performance-based logistics programs, customer fleet management and operations, and aircraft component repair management services. The segment also includes repair, maintenance and overhaul of aircraft, landing gear and components. Cost of sales consists principally of the cost of product, direct labor, and overhead.

The Expeditionary Services segment consists of primarily manufacturing operations with sales derived from the design and manufacture of pallets, shelters, and containers used to support the U.S. military's requirements for a mobile and agile force, including engineering, design, and system integration services for specialized command and control systems. Cost of sales consists principally of the cost of material to manufacture products, direct labor and overhead.

Our chief operating decision making officer (our Chief Executive Officer) evaluates performance based on our segments and utilizes gross profit as a primary profitability measure. Gross profit is calculated by subtracting cost of sales from sales. The assets and certain expenses related to corporate activities are not allocated to the segments.

The accounting policies for the segments are the same as those described in Note 1 of Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended May 31, 2021.

Business Trends and Outlook

Consolidated sales for the first quarter of fiscal 2022 increased $54.3 million or 13.5% over the prior year quarter primarily due to an increase in sales of $72.0 million or 19.8% in our Aviation Services segment. Consolidated sales to commercial customers increased $92.0 million or 52.5% over the prior year quarter due to the partial recovery in commercial passenger air traffic. Our consolidated sales to government customers decreased $37.7 million or 16.7% primarily due to less volume across certain U.S. Government contracts.

Over the long-term, we expect to see strength in our Aviation Services segment given its offerings of value-added services to both commercial and government and defense customers. We believe long-term commercial and government growth trends are favorable. As we continue to experience recovery and growth in our operations, our long-term strategy continues to emphasize investing in the business and capitalizing on opportunities in those markets.

Both our commercial and government businesses are subject to the economic environment, impact of COVID-19, public policy decisions or other factors that could adversely impact our business, financial condition or results of operations in the future. A recent example of this was the U.S. Government's decision to withdraw its presence in Afghanistan. In conjunction with the U.S. exit from Afghanistan, we have concluded our activities in country under our WASS and U.S. Department of Defense contracts. The operations related to our activities in Afghanistan contributed revenue of $67 million in fiscal 2021.

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Results of Operations

Three-Month Periods Ended August 31, 2021

Sales and gross profit for our two business segments for the three-months ended August 31, 2021 and 2020 were as follows:

	Three Months Ended August 31,		
	2021	2020	% Change
Sales:			
Aviation Services			
Commercial	267.2	$ 169.6	57.5 %
Government and defense	168.4	194.0	(13.2)%
	435.6	$ 363.6	19.8 %
Expeditionary Services			
Commercial	0.1	$ 5.7	*nm*
Government and defense	19.4	31.5	(38.4)%
	19.5	$ 37.2	(47.6)%

	Three Months Ended August 31,		
	2021	2020	% Change
Gross Profit:			
Aviation Services			
Commercial	$ 30.5	$ 16.3	87.1 %
Government and defense	30.4	28.3	7.4 %
	$ 60.9	$ 44.6	36.5 %
Expeditionary Services			
Commercial	$ —	$ (1.3)	*nm*
Government and defense	3.7	5.3	(30.2)%
	$ 3.7	$ 4.0	(7.5)%

nm – Percentage change is not meaningful.

Aviation Services Segment

Sales in the Aviation Services segment increased $72.0 million or 19.8%, over the prior year period due to a $97.6 million, or 57.5% increase in sales to commercial customers. The increase in sales to commercial customers was attributable to increased sales of $38.7 million in our MRO activities as commercial passenger air traffic continues to recover from the impact of COVID-19. In addition, sales increased $30.9 million in our aftermarket parts trading activities which included whole asset sales of $22.0 million during the first quarter of fiscal 2022 compared to $14.0 million in the prior year.

During the first quarter of fiscal 2022, sales in this segment to government and defense customers decreased $25.6 million or 13.2%, from the prior year period. The prior year quarter include sales of $19.8 million related to the installation of engines on the C-40 aircraft we are delivering to the Naval Air Systems Command in support of the U.S. Marine Corps. No engine installation activities occurred in the first quarter of fiscal 2022.

Changes in estimates and assumptions related to our arrangements accounted for using the cost-to-cost method are recorded using the cumulative catch-up method of accounting. In the first quarter of fiscal 2022, we had an unfavorable cumulative catch-up adjustment of $1.0 million. In the first quarter of fiscal 2021, we had net favorable cumulative catch-up adjustments of $0.3 million. These adjustments primarily relate to our long-term, power-by-the-hour programs where we provide component inventory management and repair services as well as certain long-term government programs.

Cost of sales in Aviation Services increased $55.7 million, or 17.5%, over the prior year period which was in line with the sales increase discussed above.

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Gross profit in the Aviation Services segment increased $16.3 million, or 36.5%, over the prior year period. Gross profit on sales to commercial customers increased $14.2 million, or 87.1%, over the prior year period primarily due to the COVID-19 recovery discussed above. The gross profit margin on sales to commercial customers increased to 11.4% from 9.6% in the prior year period, primarily from our actions to reduce both our fixed and variable cost structure.

Gross profit on sales to government and defense customers increased $2.1 million over the prior year period. Gross profit margin on sales to government and defense customers increased to 18.1% from 14.6% in the prior year period, primarily as a result of the mix of products and services sold.

Expeditionary Services Segment

Sales in the Expeditionary Services segment decreased $17.7 million from the prior year period. The decrease was primarily due to strong volumes in the prior year quarter on the contract award from the U.S. Air Force to produce and repair 463L cargo pallets within our Mobility business. In addition, our composites manufacturing business, which was divested in the first quarter of fiscal 2021, contributed sales of $6.7 million in the prior year quarter.

Gross profit in the Expeditionary Services segment decreased $0.3 million from the prior period, primarily due to the lower sales volumes in our Mobility business. Gross profit margin increased to 19.0% from 10.8% in the prior year period, primarily as a result of the divestiture of our composites manufacturing business as it was not profitable in the prior year quarter.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased $4.0 million, or 8.8%, over the prior year period. As a percent of sales, selling, general and administrative expenses decreased to 10.8% from 11.3% in the prior year period reflecting the favorable impact from our cost reduction actions.

Income Taxes

Our effective income tax rate for continuing operations was 25.8% for the income in the first quarter of fiscal 2022 compared to 21.5% for the loss in the prior year period. The prior year quarter included excess tax expense from stock option exercises of $0.9 million, which reduced the effective income tax rate.

Liquidity, Capital Resources and Financial Position

Our operating activities are funded and commitments met through the generation of cash from operations. In addition to operations, our current capital resources include an unsecured Revolving Credit Facility and an accounts receivable financing program. Periodically, we may also raise capital through common stock and debt financings in the public or private markets. We continually evaluate various financing arrangements, including the issuance of common stock or debt, which would allow us to improve our liquidity position and finance future growth on commercially reasonable terms. Our continuing ability to borrow from our lenders and issue debt and equity securities to the public and private markets in the future may be negatively affected by a number of factors, including the overall health of the credit markets, general economic conditions, airline industry conditions, geo-political events, and our operating performance. Our ability to generate cash from operations is influenced primarily by our operating performance and changes in working capital.

At August 31, 2021, our liquidity and capital resources included working capital of $620.7 million inclusive of cash of $48.8 million.

We maintain an unsecured Revolving Credit Facility with various financial institutions, as lenders, and Bank of America, N.A., as administrative agent for the lenders, which provides the Company an aggregate revolving credit commitment of $600 million and matures on September 25, 2024. Under certain circumstances, we have the ability to request, but our lenders are not required to grant, an increase to the credit commitment under the Revolving Credit Facility by an aggregate amount of up to $300 million, not to exceed $900 million in total.

Borrowings under the Revolving Credit Facility bear interest at the offered Eurodollar Rate plus 87.5 to 175 basis points based on certain financial measurements if a Eurodollar Rate loan, or at the offered fluctuating Base Rate plus 0 to 75 basis points based on certain financial measurements if a Base Rate loan.

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Borrowings outstanding under the Revolving Credit Facility at August 31, 2021 were $104.5 million and there were approximately $12.6 million of outstanding letters of credit, which reduced the availability under this facility to $482.9 million as of August 31, 2021. There are no other terms or covenants limiting the availability of this facility.

In the first quarter of fiscal 2021, we received $57.2 million from the U.S. Treasury Department through the Payroll Support Program under the CARES Act. This funding included a $48.5 million cash grant, which is to be used exclusively for the continuation of payment of employee wages, salaries and benefits for employees of certain MRO facilities, and a low interest 10-year senior unsecured promissory note of $8.7 million. In fiscal 2021, we recognized the full amount of the grant as contra-expense within Cost of sales and Selling, general and administrative expenses. The Promissory Note was re-paid in full during the fourth quarter of fiscal 2021.

As of August 31, 2021, we also had other financing arrangements that did not limit our availability on the Revolving Credit Facility, including outstanding letters of credit of $11.6 million and foreign lines of credit of $10.1 million.

We maintain a Purchase Agreement with Citibank N.A. (“Purchaser”) for the sale, from time to time, of certain accounts receivable due from certain customers (the “Purchase Agreement”). Under the Purchase Agreement, the maximum amount of receivables sold is limited to $150 million and Purchaser may, but is not required to, purchase the eligible receivables we offer to sell. The term of the Purchase Agreement runs through February 22, 2022, however, the Purchase Agreement may also be terminated earlier under certain circumstances. The term of the Purchase Agreement shall be automatically extended for annual terms unless either party provides advance notice that they do not intend to extend the term.

We have no retained interests in the sold receivables, other than limited recourse obligations under certain circumstances, and only perform collection and administrative functions for the Purchaser. We account for these receivable transfers as sales under ASC 860, *Transfers and Servicing*, and de-recognize the sold receivables from our Condensed Consolidated Balance Sheet.

During the three-month periods ended August 31, 2021 and 2020, we sold $87.5 million and $129.0 million, respectively, of receivables under the Purchase Agreement and remitted $95.9 million and $147.6 million, respectively, to the Purchaser on their behalf. As of August 31, 2021 and May 31, 2021, we had collected cash of $3.8 million and $8.4 million, respectively, which was not yet remitted to the Purchaser as of those dates and was classified as Restricted cash on our Condensed Consolidated Balance Sheets.

At August 31, 2021, we were in compliance with all financial and other covenants under our financing arrangements.

Cash Flows from Operating Activities

Net cash provided by operating activities–continuing operations was $17.5 million in the three-month period ended August 31, 2021 compared to $39.8 million in the prior year period. The decrease from the prior period of $22.3 million was primarily attributable to the proceeds of a $48.5 million grant in the prior period from the Payroll Support Program of the CARES Act partially offset by a $25 million license fee paid to Unison Industries in the prior period for our expanded and extended exclusive distribution agreement.

Net cash used in operating activities–discontinued operations was $14.6 million in the three-month period ended August 31, 2021 compared to $0.9 million in the prior year period. The decrease from the prior period of $13.7 million was primarily attributable to the payment of the settlement with the U.S. Department of Justice for their False Claims Act investigation.

Cash Flows from Investing Activities

Net cash used in investing activities–continuing operations was $4.9 million during the three-month period ended August 31, 2021 compared to $1.7 million in the prior year period. The increase over the prior period was primarily related to investments in joint ventures of $2.7 million in the current year period.

Cash Flows from Financing Activities

Net cash used in financing activities–continuing operations was $5.5 million during the three-month period ended August 31, 2021 compared to $347.9 million in the prior year period. The decrease was primarily related to the repayment in the prior year period of our additional draw down on our Revolving Credit Facility. These funds were originally drawn in late fiscal 2020 as a precautionary measure in light of the economic and market uncertainty presented by COVID-19.

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Critical Accounting Policies and Significant Estimates

We make a number of significant estimates, assumptions and judgments in the preparation of our financial statements. See *Management's Discussion and Analysis of Financial Condition and Results of Operations* in our 2021 Form 10-K for a discussion of our critical accounting policies. There have been no significant changes to the application of our critical accounting policies during the first quarter of fiscal 2022.

Forward-Looking Statements

This report contains certain forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on beliefs of our management, as well as assumptions and estimates based on information available to us as of the dates such assumptions and estimates are made, and are subject to certain risks and uncertainties that could cause actual results to differ materially from historical results or those anticipated, depending on a variety of factors, including those factors set forth under Part I, Item 1A in our Annual Report on Form 10-K for the year ended May 31, 2021. Should one or more of those risks or uncertainties materialize adversely, or should underlying assumptions or estimates prove incorrect, actual results may vary materially from those described. Those events and uncertainties are difficult or impossible to predict accurately and many are beyond our control. We assume no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

Item 3 — Quantitative and Qualitative Disclosures About Market Risk

Our exposure to market risk includes fluctuating interest rates under our credit agreements, changes in foreign exchange rates, and credit losses on accounts receivable. See Note 1 of Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended May 31, 2021 for a discussion of accounts receivable exposure.

Foreign Currency Risk. Revenues and expenses of our foreign operations are translated at average exchange rates during the period, and balance sheet accounts are translated at period-end exchange rates. Balance sheet translation adjustments are excluded from the results of operations and are recorded in stockholders' equity as a component of accumulated other comprehensive loss. A hypothetical 10 percent devaluation of the U.S. dollar against foreign currencies would not have had a material impact on our financial position or continuing operations for the quarter ended August 31, 2021.

Interest Rate Risk. Refer to the section Quantitative and Qualitative Disclosures about Market Risk in our Annual Report on Form 10-K for the year ended May 31, 2021. There were no significant changes during the quarter ended August 31, 2021.

Item 4 — Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As required by Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of August 31, 2021. This evaluation was carried out under the supervision and with participation of our Chief Executive Officer and our Chief Financial Officer. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures. Therefore, effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective as of August 31, 2021, ensuring that information required to be disclosed in the reports that are filed under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported in a timely manner.

There were no changes in our internal control over financial reporting during the quarter ended August 31, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II — OTHER INFORMATION

Item 1 – Legal Proceedings

The information in Note 17 to the Condensed Consolidated Financial Statements contained in Part I, Item 1 of this Quarterly Report on Form 10-Q is incorporated herein by reference. There are no matters which constitute material pending legal proceedings to which we are a party other than those incorporated into this item by reference from Note 17 to our Condensed Consolidated Financial Statements for the quarter ended August 31, 2021 contained in this Quarterly Report on Form 10-Q.

Item 1A — Risk Factors

There is no material change in the information reported under Part I-Item 1A "Risk Factors" contained in our Annual Report on Form 10-K for the fiscal year ended May 31, 2021.

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Item 6 — Exhibits

The exhibits to this report are listed on the following index:

Exhibit No.	Description		Exhibits
10.	Material Contracts	10.1*	Form of AAR CORP. Fiscal 2022 Short-Term Incentive Plan (filed herewith).
		10.2*	Form of AAR CORP. Fiscal 2022 Non-Qualified Stock Option Agreement (filed herewith).
		10.3*	Form of AAR CORP. Fiscal 2022 Restricted Stock Agreement (filed herewith).
		10.4*	Form of AAR CORP. Fiscal 2022 Performance Restricted Stock Agreement (filed herewith)
		10.5*	Form of Fiscal 2022 Director Restricted Stock Agreement (incorporated by reference to Exhibit 10.6 to the Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 2021).
		10.6*	Deferred Cash Award Agreement dated July 12, 2021 between AAR CORP. and John M. Holmes (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated July 16, 2021).
		10.7*	Amendment dated July 13, 2021 to the Post-Retirement Agreement dated May 24, 2018 between AAR CORP. and David P. Storch (incorporated by reference to Exhibit 10.18 to the Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 2021).
31.	Rule 13a-14(a)/15(d)-14(a) Certifications	31.1	Section 302 Certification dated September 23, 2021 of John M. Holmes, President and Chief Executive Officer of Registrant (filed herewith).
		31.2	Section 302 Certification dated September 23, 2021 of Sean M. Gillen, Vice President and Chief Financial Officer of Registrant (filed herewith).
32.	Section 1350 Certifications	32.1	Section 906 Certification dated September 23, 2021 of John M. Holmes, President and Chief Executive Officer of Registrant (filed herewith).
		32.2	Section 906 Certification dated September 23, 2021 of Sean M. Gillen, Vice President and Chief Financial Officer of Registrant (filed herewith).
101.	Interactive Data File	101	The following materials from the Registrant's Quarterly Report on Form 10-Q for the quarter ended August 31, 2021, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at August 31, 2021 and May 31, 2021, (ii) Condensed Consolidated Statements of Operations for the three-months ended August 31, 2021 and 2020, (iii) Condensed Consolidated Statements of Comprehensive Income (Loss) for the three-months ended August 31, 2021 and 2020, (iv) Condensed Consolidated Statements of Cash Flows for the three months ended August 31, 2021 and

			2020, (v) Condensed Consolidated Statement of Changes in Equity for the three-months ended August 31, 2021 and 2020 (vi) Notes to Condensed Consolidated Financial Statements.**
104.	Cover Page Interactive Data File	104	Cover Page Interactive Data File (embedded within the Inline XBRL document and contained in Exhibit 101)

* Management contract and compensatory arrangement.

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** Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AAR CORP.
(Registrant)

Date: September 23, 2021

/s/ SEAN M. GILLEN
Sean M. Gillen
Vice President and Chief Financial Officer
(Principal Financial Officer)

/s/ ERIC S. PACHAPA
Eric S. Pachapa
Vice President, Controller and Chief Accounting Officer
(Principal Accounting Officer)

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended November 30, 2021

or

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

For the transition period from _________ to _________

Commission File No. **1-6263**

AAR CORP.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**36-2334820** (I.R.S. Employer Identification No.)
One AAR Place, 1100 N. Wood Dale Road **Wood Dale, Illinois** (Address of principal executive offices)	**60191** (Zip Code)

(630) 227-2000
(Registrant's telephone number, including area code)
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, $1.00 par value	**AIR**	**New York Stock Exchange** **Chicago Stock Exchange**

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 check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T 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 the 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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of November 30, 2021 there were 35,468,871 shares of the registrant's Common Stock, $1.00 par value per share, outstanding.

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AAR CORP. and Subsidiaries
Quarterly Report on Form 10-Q
For the Quarter Ended November 30, 2021
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PART I – FINANCIAL INFORMATION

Item 1 – Financial Statements

AAR CORP. and Subsidiaries
Condensed Consolidated Balance Sheets
As of November 30, 2021 and May 31, 2021
(In millions, except share data)

ASSETS

	November 30, 2021 (Unaudited)	May 31, 2021
Current assets:		
Cash and cash equivalents	$ 42.7	$ 51.8
Restricted cash	3.7	8.4
Accounts receivable, less allowances of $17.8 and $16.4, respectively	192.1	166.7
Contract assets	68.5	71.9
Inventories	531.7	540.6
Rotable assets and equipment on or available for short-term lease	53.9	50.4
Assets of discontinued operations	17.9	19.5
Other current assets	36.2	27.7
Total current assets	946.7	937.0
Property, plant and equipment, net of accumulated depreciation of $254.8 and $260.2 respectively	106.2	120.0
Other assets:		
Goodwill and intangible assets, net	120.9	123.8
Operating lease right-of-use assets, net	76.3	75.8
Rotable assets supporting long-term programs	173.6	184.3
Other non-current assets	105.9	98.8
	476.7	482.7
	$ 1,529.6	$ 1,539.7

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

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AAR CORP. and Subsidiaries
Condensed Consolidated Balance Sheets
As of November 30, 2021 and May 31, 2021
(In millions, except share data)

LIABILITIES AND EQUITY

	November 30, 2021 (Unaudited)	May 31, 2021
Current liabilities:		
Accounts payable	$ 124.3	$ 127.2
Accrued liabilities	143.1	148.3
Deferred revenue	33.6	25.9
Liabilities of discontinued operations	19.2	35.4
Total current liabilities	320.2	336.8
Long-term debt	103.2	133.7
Operating lease liabilities	60.5	59.9
Other liabilities	38.7	34.9
	202.4	228.5
Equity:		
Preferred stock, $1.00 par value, authorized 250,000 shares; none issued	—	—
Common stock, $1.00 par value, authorized 100,000,000 shares; issued 45,300,786 shares at cost	45.3	45.3
Capital surplus	481.5	479.8
Retained earnings	774.0	741.7
Treasury stock, 9,831,915 and 9,925,551 shares at cost, respectively	(271.6)	(274.1)
Accumulated other comprehensive loss	(22.2)	(18.3)
Total equity	1,007.0	974.4
	$ 1,529.6	$ 1,539.7

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

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AAR CORP. and Subsidiaries
Condensed Consolidated Statements of Operations
For the Three and Six Months Ended November 30, 2021 and 2020
(Unaudited)
(In millions, except share data)

	Three Months Ended November 30, 2021	Three Months Ended November 30, 2020	Six Months Ended November 30, 2021	Six Months Ended November 30, 2020
Sales:				
Sales from products	$ 252.0	$ 233.1	$ 514.1	$ 469.4
Sales from services	184.6	170.5	377.6	335.0
	436.6	403.6	891.7	804.4
Cost and operating expenses:				
Cost of products	202.1	194.3	419.7	398.8
Cost of services	156.1	139.8	329.0	287.5
Provision for doubtful accounts	0.8	4.4	0.8	4.4
Selling, general and administrative	47.1	43.4	96.4	88.7
	406.1	381.9	845.9	779.4
Loss from joint ventures	(0.4)	(0.1)	(0.6)	(0.2)
Operating income	30.1	21.6	45.2	24.8
Loss on sale of business	(1.3)	—	(1.3)	(19.5)
Other income (expense), net	0.3	(0.7)	1.0	(0.5)
Interest expense	(0.5)	(1.3)	(1.2)	(3.0)
Interest income	0.1	—	0.1	0.1
Income from continuing operations before provision for income taxes	28.7	19.6	43.8	1.9
Provision for income taxes	7.9	5.2	11.8	1.4
Income from continuing operations	20.8	14.4	32.0	0.5
Income (Loss) from discontinued operations, net of tax	—	(6.2)	0.3	(6.8)
Net income (loss)	$ 20.8	$ 8.2	$ 32.3	$ (6.3)
Earnings (Loss) per share – basic:				
Earnings from continuing operations	$ 0.59	$ 0.41	$ 0.90	$ 0.01
Income (Loss) from discontinued operations	—	(0.18)	0.01	(0.20)
Earnings (Loss) per share – basic	$ 0.59	$ 0.23	$ 0.91	$ (0.19)
Earnings (Loss) per share – diluted:				
Earnings from continuing operations	$ 0.58	$ 0.41	$ 0.89	$ 0.01
Income (Loss) from discontinued operations	—	(0.18)	0.01	(0.19)
Earnings (Loss) per share – diluted	$ 0.58	$ 0.23	$ 0.90	$ (0.18)

The accompanying Notes to Condensed Consolidated Financial
Statements are an integral part of these statements.

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AAR CORP. and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income
For the Three and Six Months Ended November 30, 2021 and 2020
(Unaudited)
(In millions)

	Three Months Ended November 30,		Six Months Ended November 30,	
	2021	2020	2021	2020
Net income (loss)	$ 20.8	$ 8.2	$ 32.3	$ (6.3)
Other comprehensive income (loss), net of tax:				
Currency translation adjustments	(3.9)	1.1	(4.5)	2.3
Pension and other post-retirement plans, net of tax of $0 and ($0.5) for the three months ended November 30, 2021 and 2020, respectively, and $0.1 and ($0.4) for the six months ended November 30, 2021 and 2020, respectively	0.3	(1.0)	0.6	(0.7)
Other comprehensive income (loss), net of tax	(3.6)	0.1	(3.9)	1.6
Comprehensive income (loss)	$ 17.2	$ 8.3	$ 28.4	$ (4.7)

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

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AAR CORP. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
For the Six Months Ended November 30, 2021 and 2020
(Unaudited)
(In millions)

	Six Months Ended November 30, 2021	Six Months Ended November 30, 2020
Cash flows provided from operating activities:		
Net income (loss)	$ 32.3	$ (6.3)
Less: (Income) Loss from discontinued operations	(0.3)	6.8
Income from continuing operations	32.0	0.5
Adjustments to reconcile income from continuing operations to net cash provided from operating activities:		
Depreciation and intangible amortization	17.8	18.2
Stock-based compensation	4.7	4.5
Provision for doubtful accounts	0.8	4.4
Deferred tax provision	(0.1)	1.0
Loss from joint ventures	0.6	0.2
Loss on sale of business	1.3	19.5
Customer contract termination costs	—	2.2
Impairment charges	2.9	7.0
Changes in certain assets and liabilities:		
Accounts receivable	(26.2)	(4.8)
Contract assets	3.2	(7.5)
Inventories	8.0	30.2
Prepaid expenses and other current assets	(8.7)	36.8
Rotable assets supporting long-term programs	1.8	(0.9)
Accounts payable	(2.3)	8.8
Accrued and other liabilities	0.9	0.2
Payroll Support Program deferred credit	—	23.6
Deferred revenue on long-term programs	0.7	(60.4)
Other	(4.0)	(16.1)
Net cash provided from operating activities - continuing operations	33.4	67.4
Net cash used in operating activities - discontinued operations	(14.2)	(1.9)
Net cash provided from operating activities	19.2	65.5
Cash flows provided from (used in) investing activities:		
Property, plant and equipment expenditures	(6.0)	(6.0)
Proceeds from termination of life insurance policies	—	10.0
Proceeds from asset disposals	7.3	—
Investments in joint ventures	(4.0)	—
Proceeds from sale of business	—	1.6
Net cash provided from (used in) investing activities	(2.7)	5.6
Cash flows used in financing activities:		
Short-term borrowings, net	(5.0)	(390.0)
Repayment of long-term borrowings	(24.7)	—
Proceeds from Payroll Support Program note	—	8.7
Cash dividends	—	(0.1)
Stock compensation activity	(0.4)	(1.5)
Net cash used in financing activities	(30.1)	(382.9)
Effect of exchange rate changes on cash	(0.2)	0.1
Decrease in cash and cash equivalents	(13.8)	(311.7)
Cash, cash equivalents, and restricted cash at beginning of period	60.2	424.7
Cash, cash equivalents, and restricted cash at end of period	$ 46.4	$ 113.0

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

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AAR CORP. and Subsidiaries
Condensed Consolidated Statements of Changes in Equity
For the Three and Six Months Ended November 30, 2021 and 2020
(Unaudited)
(In millions)

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance, May 31, 2021	$ 45.3	$ 479.8	$ 741.7	$ (274.1)	$ (18.3)	$ 974.4
Net income	—	—	11.5	—	—	11.5
Stock option activity	—	1.1	—	0.2	—	1.3
Restricted stock activity	—	(1.0)	—	2.3	—	1.3
Other comprehensive income, net of tax	—	—	—	—	(0.3)	(0.3)
Balance, August 31, 2021	$ 45.3	$ 479.9	$ 753.2	$ (271.6)	$ (18.6)	$ 988.2
Net income	—	—	20.8	—	—	20.8
Stock option activity	—	0.9	—	—	—	0.9
Restricted stock activity	—	0.7	—	—	—	0.7
Other comprehensive income, net of tax	—	—	—	—	(3.6)	(3.6)
Balance, November 30, 2021	$ 45.3	$ 481.5	$ 774.0	$ (271.6)	$ (22.2)	$ 1,007.0

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance, May 31, 2020	$ 45.3	$ 478.6	$ 706.0	$ (282.7)	$ (44.6)	$ 902.6
Net loss	—	—	(14.5)	—	—	(14.5)
Cash dividends	—	—	(0.1)	—	—	(0.1)
Stock option activity	—	0.5	—	0.5	—	1.0
Restricted stock activity	—	(6.0)	—	6.1	—	0.1
Other comprehensive income, net of tax	—	—	—	—	1.5	1.5
Balance, August 31, 2020	$ 45.3	$ 473.1	$ 691.4	$ (276.1)	$ (43.1)	$ 890.6
Net income	—	—	8.2	—	—	8.2
Stock option activity	—	1.1	—	0.1	—	1.2
Restricted stock activity	—	0.9	—	(0.3)	—	0.6
Other comprehensive income, net of tax	—	—	—	—	0.1	0.1
Balance, November 30, 2020	$ 45.3	$ 475.1	$ 699.6	$ (276.3)	$ (43.0)	$ 900.7

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

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AAR CORP. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
November 30, 2021
(Unaudited)
(Dollars in millions, except per share amounts)

Note 1 – Basis of Presentation

AAR CORP. and its subsidiaries are referred to herein collectively as "AAR," "Company," "we," "us," or "our," unless the context indicates otherwise. The accompanying Condensed Consolidated Financial Statements include the accounts of AAR and its subsidiaries after elimination of intercompany accounts and transactions.

We have prepared these statements without audit, pursuant to the rules and regulations of the United States Securities and Exchange Commission ("SEC"). The Condensed Consolidated Balance Sheet as of May 31, 2021 has been derived from audited financial statements. To prepare the financial statements in conformity with U.S. generally accepted accounting principles ("GAAP"), management has made a number of estimates and assumptions relating to the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities. Actual results could differ from those estimates. Certain information and note disclosures, normally included in comprehensive financial statements prepared in accordance with GAAP, have been condensed or omitted pursuant to such rules and regulations of the SEC. These Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended May 31, 2021.

In the opinion of management, the Condensed Consolidated Financial Statements reflect all adjustments (which consist only of normal recurring adjustments) necessary to present fairly the Condensed Consolidated Balance Sheet of AAR CORP. and its subsidiaries as of November 30, 2021, the Condensed Consolidated Statements of Operations and Condensed Consolidated Statements of Comprehensive Income (Loss) for the three- and six-month periods ended November 30, 2021 and 2020, the Condensed Consolidated Statements of Cash Flows for the six-month periods ended November 30, 2021 and 2020, and the Condensed Consolidated Statement of Changes in Equity for the three- and six-month periods ended November 30, 2021 and 2020. The results of operations for such interim periods are not necessarily indicative of the results for the full year.

Note 2 – Discontinued Operations

During the third quarter of fiscal 2018, we decided to pursue the sale of our Contractor-Owned, Contractor-Operated ("COCO") business previously included in our Expeditionary Services segment. Due to this strategic shift, the assets, liabilities, and results of operations of our COCO business have been reported as discontinued operations for all periods presented. Unless otherwise noted, amounts and disclosures throughout these Notes to Condensed Consolidated Financial Statements relate to our continuing operations.

In the fourth quarter of fiscal 2020, we completed the sale of the last operating contract of the COCO business shortly after government approval. Our continuing involvement in the COCO business is limited to the lease of certain aircraft which is an obligation of the acquirer of this contract. The assets and liabilities of our discontinued operations are primarily comprised of right-of-use assets and lease-related liabilities.

Note 3 – Sale of Composites Business

On August 31, 2020, we completed the sale of our aerostructures and aerospace products operations located in Clearwater, Florida and Sacramento, California ("Composites"). The Composites business was formerly included in our Expeditionary Services segment.

We recognized a loss on the sale of the Composites business of $19.5 million in the first quarter of fiscal 2021. In the fourth quarter of fiscal 2021, the post-closing working capital adjustment was finalized resulting in an additional loss of $0.7 million. The sale also included contingent consideration of up to $6.5 million based on the achievement of sales targets over a three-year period subsequent to the sale. Sales forecasts for the Composites business now indicate

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that it is unlikely that the sales targets will be achieved. We recognized a charge of $1.3 million in the three-month period ended November 30, 2021 to reflect the fair value of the contingent consideration at zero.

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Note 4 – Revenue Recognition

Revenue is measured based on the consideration specified in a contract with a customer, and excludes any sales incentives and amounts collected on behalf of third parties. We recognize revenue when we satisfy a performance obligation by transferring control over a product or service to a customer.

Our unit of accounting for revenue recognition is a performance obligation included in our customer contracts. A performance obligation reflects the distinct good or service that we must transfer to a customer. At contract inception, we evaluate if the contract should be accounted for as a single performance obligation or if the contract contains multiple performance obligations. In some cases, our contract with the customer is considered one performance obligation as it includes factors such as the good or service being provided is significantly integrated with other promises in the contract, the service provided significantly modifies or customizes another good or service or the good or service is highly interdependent or interrelated. If the contract has more than one performance obligation, we determine the standalone price of each distinct good or service underlying each performance obligation and allocate the transaction price based on their relative standalone selling prices.

The transaction price of a contract, which can include both fixed and variable amounts, is allocated to each performance obligation identified. Some contracts contain variable consideration, which could include incremental fees or penalty provisions related to performance. Variable consideration that can be reasonably estimated based on current assumptions and historical information is included in the transaction price at the inception of the contract but limited to the amount that is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Variable consideration that cannot be reasonably estimated is recorded when known.

Our performance obligations are satisfied over time as work progresses or at a point in time based on transfer of control of products and services to our customers. The majority of our sales from products are recognized at a point in time upon transfer of control to the customer, which generally occurs upon shipment. In connection with certain sales of products, we also provide logistics services, which include inventory management, replenishment, and other related services. The price of such services is generally included in the price of the products delivered to the customer, and revenues are recognized upon delivery of the product, at which point the customer has obtained control of the product. We do not account for these services separate from the related product sales as the services are inputs required to fulfill part orders received from customers.

For our performance obligations that are satisfied over time, we measure progress in a manner that depicts the performance of transferring control to the customer. As such, we utilize the input method of cost-to-cost to recognize revenue over time as this depicts when control of the promised goods or services is transferred to the customer. Revenue is recognized based on the relationship of actual costs incurred to date to the estimated total cost at completion of the performance obligation. We are required to make certain judgments and estimates, including estimated revenues and costs, as well as inflation and the overall profitability of the arrangement. Key assumptions involved include future labor costs and efficiencies, overhead costs, and ultimate timing of product delivery. Differences may occur between the judgments and estimates made by management and actual program results. For contracts that are deemed to be loss contracts, we establish forward loss reserves for total estimated costs that are in excess of total estimated consideration in the period in which they become known.

When contracts are modified, we consider whether the modification either creates new or changes the existing enforceable rights and obligations. Contract modifications that are for goods or services that are not distinct from the existing contract, due to the significant integration with the original goods or services provided, are accounted for as if they were part of that existing contract with the effect of the contract modification recognized as an adjustment to revenue on a cumulative catch-up basis. When the modifications include additional performance obligations that are distinct, they are accounted for as a new contract and performance obligation, which are recognized prospectively.

Changes in estimates and assumptions related to our arrangements accounted for using the cost-to-cost method are recorded using the cumulative catch-up method of accounting. These changes are primarily adjustments to the estimated profitability for our long-term programs where we provide component inventory management and/or repair services.

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For the three-month period ended November 30, 2021, we recognized favorable and (unfavorable) cumulative catch-up adjustments of $8.2 million and $(2.3) million, respectively. For the three-month period ended November 30, 2020, we recognized favorable cumulative catch-up adjustments of $2.5 million. When considering these adjustments on a net basis, we recognized net favorable adjustments of $5.9 million and $2.5 million in the three-month periods ended November 30, 2021 and 2020, respectively.

For the six-month period ended November 30, 2021, we recognized favorable and (unfavorable) cumulative catch-up adjustments of $8.2 million and $(3.3) million, respectively. For the six-month period ended November 30, 2020, we recognized favorable cumulative catch-up adjustments of $2.8 million. When considering these adjustments on a net basis, we recognized net favorable adjustments of $4.9 million and $2.8 million in the six-month periods ended November 30, 2021 and 2020, respectively.

Under most of our U.S. government contracts, if the contract is terminated for convenience, we are entitled to payment for items delivered and fair compensation for work performed, the costs of settling and paying other claims, and a reasonable profit on the costs incurred or committed.

We have elected to use certain practical expedients permitted under ASU No. 2014-09, *Revenue from Contracts with Customers*. Shipping and handling fees and costs incurred associated with outbound freight after control over a product has transferred to a customer are accounted for as a fulfillment cost and are included in Cost of sales on our Condensed Consolidated Statements of Operations, and are not considered a performance obligation to our customers. Our reported sales on our Condensed Consolidated Statements of Operations are net of any sales or related non-income taxes. We also utilize the "as invoiced" practical expedient in certain cases where performance obligations are satisfied over time and the invoiced amount corresponds directly with the value we are providing to the customer.

Contract Assets and Liabilities

The timing of revenue recognition, customer billings, and cash collections results in a contract asset or contract liability at the end of each reporting period. Contract assets consist of costs incurred where revenue recognized over time using the cost-to-cost model exceeds the amounts billed to customers. Contract liabilities include advance payments and billings in excess of revenue recognized. Certain customers make advance payments prior to the satisfaction of our performance obligations on the contract. These amounts are recorded as contract liabilities until such performance obligations are satisfied, either over time as costs are incurred or at a point in time when deliveries are made. Contract assets and contract liabilities are determined on a contract-by-contract basis.

Net contract assets and liabilities are as follows:

	November 30, 2021	**May 31, 2021**	**Change**
Contract assets – current	$ 68.5	$ 71.9	$ (3.4)
Contract assets – non-current	24.0	21.6	2.4
Contract liabilities:			
Deferred revenue – current	(33.6)	(25.9)	(7.7)
Deferred revenue on long-term contracts	(9.1)	(5.4)	(3.7)
Net contract assets	$ 49.8	$ 62.2	$ (12.4)

Contract assets – non-current is reported within Other non-current assets and Deferred revenue on long-term contracts is reported within Other liabilities on our Condensed Consolidated Balance Sheets. Changes in contract assets and contract liabilities primarily result from the timing difference between our performance of services and payments from customers.

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During the three-month period ended August 31, 2020, we terminated a commercial power-by-the-hour ("PBH") customer contract which resulted in a charge of $2.2 million.

One of our PBH customers notified us in June 2021 that the customer would terminate its contract with us earlier than we originally anticipated. In conjunction with the early termination, we recognized a charge of $5.2 million in the three-month period ended

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August 31, 2021, which included a reduction in contract assets and revenue of $1.0 million and the establishment of loss reserves of $4.2 million. As of November 30, 2021, our Condensed Consolidated Balance Sheet included remaining forward loss reserves of $2.2 million classified in Accrued liabilities.

During fiscal 2020, we established forward loss reserves for a certain PBH contract where total estimated costs are in excess of the total estimated consideration over the remainder of the contract. As of November 30, 2021, our Condensed Consolidated Balance Sheet included remaining forward loss reserves of $1.7 million classified in Accrued liabilities.

To support our PBH customer contracts, we previously entered into an agreement with a component repair facility to outsource a portion of the component repair and overhaul services. The agreement included certain minimum repair volume guarantees, which we have not met due to the impact of COVID-19 on commercial passenger aircraft flight hours. During fiscal 2021, we recognized a $4.5 million charge to reflect our estimated obligation over the remainder of the agreement for not achieving the minimum volume guarantees. During the three-month period ended August 31, 2021, we recognized a $1.7 million charge to increase the obligation reflecting the revised estimated shortfall on the minimum volume guarantee. As of November 30, 2021, our Condensed Consolidated Balance Sheet included remaining loss reserves of $4.6 million with $1.5 million classified as current in Accrued liabilities and $3.1 million classified as long-term in Other liabilities.

Changes in our deferred revenue were as follows for the three- and six-month periods ended November 30, 2021 and 2020:

	Three Months Ended November 30,		Six Months Ended November 30,	
	2021	**2020**	**2021**	**2020**
Deferred revenue at beginning of period	$ (33.0)	$ (85.4)	$ (31.3)	$ (99.2)
Revenue deferred	(72.0)	(50.8)	(122.1)	(123.0)
Revenue recognized	58.6	87.6	105.0	176.1
Other	3.7	0.2	5.7	(2.3)
Deferred revenue at end of period	$ (42.7)	$ (48.4)	$ (42.7)	$ (48.4)

Remaining Performance Obligations

As of November 30, 2021, we had approximately $780 million of remaining performance obligations, also referred to as firm backlog, which excludes unexercised contract options and potential orders under our indefinite-delivery, indefinite-quantity (IDIQ) contracts. We expect that approximately 50% of this backlog will be recognized as revenue over the next 12 months with approximately 40% of the remainder recognized over the next three years. The amount of remaining performance obligations that are expected to be recognized as revenue beyond 12 months, primarily relates to our long-term programs where we provide component inventory management and/or repair services.

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Disaggregation of Revenue

Sales across the major customer markets for each of our reportable segments for the three- and six-month periods ended November 30, 2021 and 2020 were as follows:

	Three Months Ended November 30,		Six Months Ended November 30,	
	2021	2020	2021	2020
Aviation Services:				
Commercial	$ 257.0	$ 192.2	$ 524.2	$ 361.8
Government and defense	162.3	192.8	330.7	386.8
	$ 419.3	$ 385.0	$ 854.9	$ 748.6
Expeditionary Services:				
Commercial	$ 0.7	$ 2.0	$ 0.8	$ 7.7
Government and defense	16.6	16.6	36.0	48.1
	$ 17.3	$ 18.6	$ 36.8	$ 55.8

Sales by geographic region for the three- and six-month periods ended November 30, 2021 and 2020 were as follows:

	Three Months Ended November 30,		Six Months Ended November 30,	
	2021	2020	2021	2020
Aviation Services:				
North America	$ 341.2	$ 314.1	$ 688.8	$ 608.9
Europe/Africa	50.4	45.7	112.4	96.7
Other	27.7	25.2	53.7	43.0
	$ 419.3	$ 385.0	$ 854.9	$ 748.6
Expeditionary Services:				
North America	$ 17.3	$ 18.4	$ 36.6	$ 53.3
Europe/Africa	—	0.2	0.2	2.4
Other	—	—	—	0.1
	$ 17.3	$ 18.6	$ 36.8	$ 55.8

Note 5 – Accounts Receivable

Financial instruments that potentially subject us to concentrations of market or credit risk consist principally of trade receivables. While our trade receivables are diverse and represent a number of entities and geographic regions, the majority are with the U.S. government and its contractors and entities in the aviation industry. The composition of our accounts receivable is as follows:

	November 30, 2021	May 31, 2021
U.S. Government contracts:		
Trade receivables	$ 22.8	$ 24.1
Unbilled receivables	21.1	25.2
	43.9	49.3
All other customers:		
Trade receivables	131.6	104.9
Unbilled receivables	16.6	12.5
	148.2	117.4

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$ 192.1	$ 166.7

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Note 6 – Restructuring and Impairment Costs

During the six-month period ended November 30, 2020, we incurred severance and furlough-related costs of $8.2 million, which were included as a component of Cost of sales and Selling, general and administrative on our Condensed Consolidated Statements of Operations.

In accordance with ASC 360, *Property, Plant and Equipment*, we are required to test for impairment of long-lived assets whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable from its undiscounted cash flows. We utilize certain assumptions to estimate future undiscounted cash flows, including demand for our services, future market conditions and trends, business development pipeline of opportunities, current and future lease rates, lease terms, and residual values.

In light of declines in commercial airline volumes and commercial program contract terminations in fiscal 2020 and 2021, we evaluated future cash flows related to certain rotable assets supporting long-term programs and recognized asset impairment charges of $5.8 million in the three-month period ended August 31, 2020.

In conjunction with the early termination notice we received in June 2021 from one of our PBH customers, we evaluated future cash flows related to the rotable assets supporting that fleet type and recognized asset impairment charges of $2.3 million in the three-month period ended August 31, 2021.

Note 7 – Accounting for Stock-Based Compensation

Restricted Stock

In the three-month period ended August 31, 2021, as part of our annual long-term stock incentive compensation, we granted 43,010 shares of performance-based restricted stock and 50,845 shares of time-based restricted stock to eligible employees. The grant date fair value per share for these shares was $37.74 (the closing price on the grant date). We also granted 32,307 shares of time-based restricted stock to members of the Board of Directors with a grant date fair value per share of $42.56 (the closing price on the grant date).

Expense charged to operations for restricted stock during each of the three-month periods ended November 30, 2021 and 2020 was $0.8 million and $0.8 million, respectively, and $2.7 million and $2.7 million during the six-month periods ended November 30, 2021 and 2020, respectively.

Stock Options

In July 2021, as part of our annual long-term stock incentive compensation, we granted 143,745 stock options to eligible employees at an exercise price of $37.74 and grant date fair value of $13.36. The fair value of stock options was estimated using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	0.8 %
Expected volatility of common stock	41.6 %
Dividend yield	0.8 %
Expected option term in years	5.3

The total intrinsic value of stock options exercised during the six-month periods ended November 30, 2021 and 2020 was $0.1 million and $0.1 million, respectively. Expense charged to operations for stock options during the three-month periods ended November 30, 2021 and 2020 was $0.9 million and $1.0 million, respectively, and during the six-month periods ended November 30, 2021 and 2020 was $2.1 million and $1.8 million, respectively.

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Note 8 – Inventories

The summary of inventories is as follows:

	November 30, 2021	May 31, 2021
Aircraft and engine parts, components and finished goods	$ 453.1	$ 468.4
Raw materials and parts	58.7	53.0
Work-in-process	19.9	19.2
	$ 531.7	$ 540.6

During the three-month period ended November 30, 2020, we decided to exit a product line in our engineering operations and recognized a $1.2 million charge to reserve against the remaining inventory.

Note 9 – Supplemental Cash Flow Information

	Six Months Ended November 30,	
	2021	2020
Interest paid	$ 0.7	$ 2.6
Income taxes paid	10.9	2.2
Income tax refunds received	0.5	0.1

Note 10 – Sale of Receivables

On February 23, 2018, we entered into a Purchase Agreement with Citibank N.A. ("Purchaser") for the sale, from time to time, of certain accounts receivable due from certain customers (the "Purchase Agreement"). Under the Purchase Agreement, the maximum amount of receivables sold is limited to $150 million and Purchaser may, but is not required to, purchase the eligible receivables we offer to sell. The term of the Purchase Agreement runs through February 22, 2022, however, the Purchase Agreement may also be terminated earlier under certain circumstances. The term of the Purchase Agreement shall be automatically extended for annual terms unless either party provides advance notice that they do not intend to extend the term.

We have no retained interests in the sold receivables, other than limited recourse obligations in certain circumstances, and only perform collection and administrative functions for the Purchaser. We account for these receivable transfers as sales under ASC 860, *Transfers and Servicing*, and de-recognize the sold receivables from our Condensed Consolidated Balance Sheet.

During the six-month periods ended November 30, 2021 and 2020, we sold $158.4 million and $243.1 million, respectively, of receivables under the Purchase Agreement and remitted $176.8 million and $268.5 million, respectively, to the Purchaser on their behalf. As of November 30, 2021 and May 31, 2021, we had collected cash of $3.7 million and $8.4 million, respectively, which was not yet remitted to the Purchaser as of those dates and was classified as Restricted cash on our Condensed Consolidated Balance Sheets.

We recognize discounts on the sale of our receivables and other fees related to the Purchase Agreement in Other expense, net on our Condensed Consolidated Statements of Operations. We incurred discounts on the sale of our receivables of $0 million and $0.1 million during the three-month periods ended November 30, 2021 and 2020, respectively, and $0.1 million and $0.2 million during the six-month periods ended November 30, 2021 and 2020, respectively.

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Note 11 – Government Subsidies

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was enacted in the U.S. in response to the COVID-19 pandemic. The CARES Act includes provisions relating to refundable payroll tax credits, deferral of the employer portion of certain payroll taxes, net operating loss carrybacks, and other areas. The payroll tax deferral requires that the deferred payroll taxes be paid over two years, with half of the amount required to be paid by December 31, 2021 and the other half by December 31, 2022. As of November 30, 2021, we have deferred payroll taxes of $12.4 million of which $6.2 million are included in Accrued liabilities and $6.2 million in Other liabilities on our Condensed Consolidated Balance Sheet.

During the three-month period ended August 31, 2020, we received $57.2 million from the U.S. Treasury Department through the Payroll Support Program under the CARES Act. This funding included a $48.5 million cash grant which is to be used exclusively for the continuation of payment of employee wages, salaries and benefits for employees of certain maintenance, repair, and overhaul ("MRO") facilities. The grant was recognized as contra-expense on our Condensed Consolidated Statement of Operations as the eligible wages, salaries and benefits were incurred. In fiscal 2021, we recognized the full amount of the grant as contra-expense within Cost of sales and Selling, general and administrative expenses of $47.5 million and $1.0 million, respectively.

The remaining funding of $8.7 million was a low interest 10-year senior unsecured promissory note ("Promissory Note") which included interest at a rate per annum equal to the sum of (i) 1.0% for the first five years, and the applicable secured overnight financing rate plus 2.0% in years six through ten plus (ii) in kind interest of 3.0% for the first five years and increasing by 1.0% each year over the remaining term. The Promissory Note was pre-payable at par at any time and we re-paid the Promissory Note in full during the fourth quarter of fiscal 2021. Certain corporate restrictions continue to apply to us which include restrictions on employee compensation. The restrictions previously applicable to us relating to dividends, stock repurchases, and certain workforce actions have lapsed.

Other countries have enacted legislation similar to the CARES Act to provide relief and stimulus measures to assist companies in mitigating the financial impact from COVID-19 and supporting their employees. Our foreign subsidiaries recognized subsidies of $2.5 million and $1.6 million during the three-months ended November 30, 2021 and 2020, respectively, and $2.8 million and $4.9 million during the six-months ended November 30, 2021 and 2020, respectively, from foreign governments which have been deducted from the related expenses on our Condensed Consolidated Statements of Operations.

Note 12 – Financing Arrangements

A summary of the carrying amount of our debt is as follows:

	November 30, 2021	May 31, 2021
Revolving Credit Facility expiring September 25, 2024 with interest payable monthly	$ 104.5	$ 109.5
Term loan due November 1, 2021 with interest payable monthly	—	25.7
Total debt	104.5	135.2
Debt issuance costs, net	(1.3)	(1.5)
Long-term debt	$ 103.2	$ 133.7

At November 30, 2021, our debt had a fair value that approximates its carrying value and is classified as Level 2 in the fair value hierarchy.

On October 18, 2017, we entered into a Credit Agreement with the Canadian Imperial Bank of Commerce, as lender (the "Credit Agreement"). The Credit Agreement provided a Canadian $31 million term loan with the proceeds

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used to fund the acquisition of two MRO facilities in Canada from Premier Aviation. The term loan was paid in full at the expiration of the Credit Agreement on November 1, 2021.

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We maintain a Revolving Credit Facility with various financial institutions, as lenders, and Bank of America, N.A., as administrative agent for the lenders, which provides the Company an aggregate revolving credit commitment of $600 million and matures September 25, 2024. Under certain circumstances, we have the ability to request, but our lenders are not required to grant, an increase to the revolving credit commitment by an aggregate amount of up to $300 million, not to exceed $900 million in total. Borrowings under the Revolving Credit Facility bear interest at the offered Eurodollar Rate plus 87.5 to 175 basis points based on certain financial measurements if a Eurodollar Rate loan, or at the offered fluctuating Base Rate plus 0 to 75 basis points based on certain financial measurements if a Base Rate loan.

Borrowings outstanding under the Revolving Credit Facility at November 30, 2021 were $104.5 million and there were approximately $12.1 million of outstanding letters of credit, which reduced the availability of this facility to $483.4 million.

Our financing arrangements also require us to comply with leverage and interest coverage ratios, maintain a minimum net working capital level, and comply with certain affirmative and negative covenants, including those relating to financial reporting and notification, payment of indebtedness, cash dividends, taxes and other obligations, compliance with applicable laws, and limitations on additional liens, indebtedness, acquisitions, investments and disposition of assets. The Revolving Credit Facility also requires our significant domestic subsidiaries, and any subsidiaries that guarantee our other indebtedness, to provide a guarantee of payment under the Revolving Credit Facility. At November 30, 2021, we were in compliance with the financial and other covenants in our financing agreements.

Note 13 – Other Non-current Assets

Investments in Joint Ventures

Our investments in joint ventures include $10.7 million for our 40% ownership interest in a joint venture in India to develop and operate an airframe maintenance facility. The facility received certain regulatory approvals and commenced airframe maintenance operations in the second quarter of fiscal 2022.

The investment balance as of November 30, 2021 includes $9.4 million related to the guarantee liability recognized in conjunction with our guarantee of 40% of the Indian joint venture's debt. The Indian joint venture is accounted for using the equity method. In addition, each of the partners in the Indian joint venture has a loan to the joint venture proportionate to its equity ownership. Our loan to the Indian joint venture under this arrangement was $3.1 million as of November 30, 2021.

License Fees

In June 2011, we entered into a ten-year agreement with Unison Industries ("Unison") to be the exclusive worldwide aftermarket distributor for Unison's electrical components, sensors, switches and other systems for aircraft and industrial uses. In June 2020, we entered into an extension and expansion of our agreement with Unison including a new termination date of December 31, 2031, an initial $25.0 million license fee paid in June 2020 to Unison, and annual license fees at a fixed percentage of our net sales of Unison products. The June 2020 payment of $25.0 million was capitalized and is being amortized on a straight-line basis over the term of the new agreement.

Split-Dollar Life Insurance Arrangements

We previously entered into split-dollar life insurance agreements to benefit certain former executives and officers. Under the terms of the arrangements, we made premium payments on the individuals' behalf, and we retained a collateral interest in the policies generally to the extent of the premiums we previously paid.

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During the second quarter of fiscal 2021, certain split-dollar life insurance agreements were terminated and we received $12.0 million for reimbursement of both the life insurance premiums we previously paid and a portion of our prior tax payments made on the individuals' behalf related to their imputed income on the policies. The reimbursement of the premiums paid of $10.0 million has been classified as cash flow from investing activities with the remainder included in cash flow from operating activities as it represents the reimbursement of a portion of the taxes previously paid and expensed. In the second quarter of fiscal 2021, we recognized a benefit of $1.3 million in Selling, general and administrative expenses on the Condensed Consolidated Statement of Operations for the net recovery of the taxes previously paid on behalf of the individuals.

Note 14 – Earnings per Share

The computation of basic earnings per share is based on the weighted average number of common shares outstanding during each period. The computation of diluted earnings per share is based on the weighted average number of common shares outstanding during the period plus, when their effect is dilutive, incremental shares consisting of shares subject to stock options and shares issuable upon vesting of restricted stock awards.

In accordance with ASC 260-10-45, *Share-Based Payment Arrangements and Participating Securities and the Two-Class Method*, our unvested restricted stock awards are deemed participating securities since these shares are entitled to participate in dividends declared on common shares. During periods of net income, the calculation of earnings per share for common stock excludes income attributable to unvested restricted stock awards from the numerator and excludes the dilutive impact of those shares from the denominator. During periods of net loss, no effect is given to the participating securities because they do not share in the losses of the Company.

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A reconciliation of the computations of basic and diluted earnings per share information for the three- and six-month periods ended November 30, 2021 and 2020 is as follows:

	Three Months Ended November 30, 2021	Three Months Ended November 30, 2020	Six Months Ended November 30, 2021	Six Months Ended November 30, 2020
Basic and Diluted EPS:				
Income from continuing operations	$ 20.8	$ 14.4	$ 32.0	$ 0.5
Less income attributable to participating shares	(0.1)	(0.1)	(0.2)	—
Income from continuing operations attributable to common shareholders	20.7	14.3	31.8	0.5
Income (Loss) from discontinued operations attributable to common shareholders	—	(6.2)	0.3	(6.8)
Net income (loss) attributable to common shareholders for earnings per share	$ 20.7	$ 8.1	$ 32.1	$ (6.3)
Weighted Average Shares:				
Weighted average common shares outstanding – basic	35.1	34.9	35.1	34.9
Additional shares from the assumed exercise of stock options	0.5	0.1	0.5	0.1
Weighted average common shares outstanding – diluted	35.6	35.0	35.6	35.0
Earnings (Loss) per share – basic:				
Earnings from continuing operations	$ 0.59	$ 0.41	$ 0.90	$ 0.01
Income (Loss) from discontinued operations	—	(0.18)	0.01	(0.20)
Earnings (Loss) per share - basic	$ 0.59	$ 0.23	$ 0.91	$ (0.19)
Earnings (Loss) per share – diluted:				
Earnings from continuing operations	$ 0.58	$ 0.41	$ 0.89	$ 0.01
Income (Loss) from discontinued operations	—	(0.18)	0.01	(0.19)
Earnings (Loss) per share - diluted	$ 0.58	$ 0.23	$ 0.90	$ (0.18)

The potential dilutive effect of 1,195,000 and 1,743,000 shares relating to stock options was excluded from the computation of weighted average common shares outstanding – diluted for the three-month periods ended November 30, 2021 and 2020, respectively, as the shares would have been anti-dilutive. The potential dilutive effect of 790,000 and 1,743,000 shares relating to stock options was excluded from the computation of weighted average common shares outstanding - diluted for the six-month periods ended November 30, 2021 and 2020, respectively.

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Note 15 – Accumulated Other Comprehensive Loss

Changes in our accumulated other comprehensive loss ("AOCL") by component for the three- and six-month periods ended November 30, 2021 and 2020 were as follows:

	Currency Translation Adjustments	Pension Plans	Total
Balance at September 1, 2021	$ 3.3	$ (21.9)	$ (18.6)
Other comprehensive income before reclassifications	(3.7)	—	(3.7)
Amounts reclassified from AOCL	(0.2)	0.3	0.1
Total other comprehensive income (loss)	(3.9)	0.3	(3.6)
Balance at November 30, 2021	$ (0.6)	$ (21.6)	$ (22.2)
Balance at September 1, 2020	$ (0.8)	$ (42.3)	$ (43.1)
Other comprehensive loss before reclassifications	1.1	(1.2)	(0.1)
Amounts reclassified from AOCL	—	0.2	0.2
Total other comprehensive income (loss)	1.1	(1.0)	0.1
Balance at November 30, 2020	$ 0.3	$ (43.3)	$ (43.0)

	Currency Translation Adjustments	Pension Plans	Total
Balance at June 1, 2021	$ 3.9	$ (22.2)	$ (18.3)
Other comprehensive income before reclassifications	(4.3)	—	(4.3)
Amounts reclassified from AOCL	(0.2)	0.6	0.4
Total other comprehensive income (loss)	(4.5)	0.6	(3.9)
Balance at November 30, 2021	$ (0.6)	$ (21.6)	$ (22.2)
Balance at June 1, 2020	$ (2.0)	$ (42.6)	$ (44.6)
Other comprehensive loss before reclassifications	2.3	(1.2)	1.1
Amounts reclassified from AOCL	—	0.5	0.5
Total other comprehensive income (loss)	2.3	(0.7)	1.6
Balance at November 30, 2020	$ 0.3	$ (43.3)	$ (43.0)

Note 16 – Business Segment Information

Consistent with how our chief operating decision making officer (our Chief Executive Officer) evaluates performance and the way we are organized internally, we report our activities in two reportable segments: *Aviation Services* comprised of supply chain and MRO activities and *Expeditionary Services* comprised of manufacturing activities.

The Aviation Services segment consists of aftermarket support and services offerings that provide spare parts and maintenance support for aircraft operated by our commercial and government/defense customers. Sales in the Aviation Services segment are derived from the sale and lease of a wide variety of new, overhauled and repaired engine and airframe parts and components to the commercial aviation and government and defense markets. We provide customized inventory supply chain management, performance-based logistics programs, customer fleet management and operations, and aircraft component repair management services. The segment also includes repair, maintenance and overhaul of aircraft, landing gear and components. Cost of sales consists principally of the cost of product, direct labor, and overhead.

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(Unaudited)
(Dollars in millions, except per share amounts)

The Expeditionary Services segment consists of primarily manufacturing operations with sales derived from the design and manufacture of pallets, shelters, and containers used to support the U.S. military's requirements for a mobile and agile force, including engineering, design, and system integration services for specialized command and control systems. Cost of sales consists principally of the cost of material to manufacture products, direct labor and overhead.

The accounting policies for the segments are the same as those described in Note 1 of Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended May 31, 2021.

Our chief operating decision making officer (our Chief Executive Officer) evaluates performance based on our segments and utilizes gross profit as a primary profitability measure. Gross profit is calculated by subtracting cost of sales from sales. The assets and certain expenses related to corporate activities are not allocated to the segments.

Selected financial information for each segment is as follows:

	Three Months Ended November 30,		Six Months Ended November 30,	
	2021	**2020**	**2021**	**2020**
Sales:				
Aviation Services	$ 419.3	$ 385.0	$ 854.9	$ 748.6
Expeditionary Services	17.3	18.6	36.8	55.8
	$ 436.6	$ 403.6	$ 891.7	$ 804.4

	Three Months Ended November 30,		Six Months Ended November 30,	
	2021	**2020**	**2021**	**2020**
Gross profit:				
Aviation Services	$ 74.0	$ 66.8	$ 134.9	$ 111.4
Expeditionary Services	4.4	2.7	8.1	6.7
	$ 78.4	$ 69.5	$ 143.0	$ 118.1

The following table reconciles segment gross profit to income from continuing operations before provision for income taxes:

	Three Months Ended November 30,		Six Months Ended November 30,	
	2021	**2020**	**2021**	**2020**
Segment gross profit	$ 78.4	$ 69.5	$ 143.0	$ 118.1
Selling, general and administrative	(47.1)	(43.4)	(96.4)	(88.7)
Loss from joint ventures	(0.4)	(0.1)	(0.6)	(0.2)
Provision for doubtful accounts	(0.8)	(4.4)	(0.8)	(4.4)
Loss on sale of business	(1.3)	—	(1.3)	(19.5)
Other income(expenses), net	0.3	(0.7)	1.0	(0.5)
Interest expense	(0.5)	(1.3)	(1.2)	(3.0)
Interest income	0.1	—	0.1	0.1
Income from continuing operations before provision for income taxes	$ 28.7	$ 19.6	$ 43.8	$ 1.9

Note 17 – Legal Proceedings

We are not a party to any material pending legal proceeding (including any governmental or environmental proceeding) other than routine litigation incidental to our business, except for the following:

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AAR CORP. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
November 30, 2021
(Unaudited)
(Dollars in millions, except per share amounts)

Department of Justice Investigation

As previously reported, the U.S. Department of Justice ("DoJ"), acting through the U.S. Attorney's Office for the Southern District of Illinois, conducted an investigation of AAR Airlift Group, Inc. ("Airlift"), a wholly-owned subsidiary of AAR CORP., under the federal civil False Claims Act ("FCA"). The investigation related to Airlift's performance of several contracts awarded by the U.S. Transportation Command ("TRANSCOM") concerning the operations and maintenance of rotary-wing and fixed-wing aircraft in Afghanistan and Africa, as well as several U.S. Navy contracts. In June 2018, the DoJ informed Airlift that part of the investigation was precipitated by a lawsuit filed under the qui tam provisions of the FCA by a former employee of Airlift.

In June 2021, Airlift and the DoJ reached an agreement to settle the FCA investigation and related matters for approximately $11.5 million which concluded the DoJ investigation into Airlift's contracts with TRANSCOM and the U.S. Navy. As part of the settlement, Airlift and AAR did not admit any wrongdoing.

We recognized charges of $11.0 million in discontinued operations in fiscal 2021 related to this agreement and related matters. As of May 31, 2021, our reserve was $12.7 million and payment for the entire matter was made in the first quarter of fiscal 2022.

Self-Reporting of Potential Foreign Corrupt Practices Act Violations

The Company retained outside counsel to investigate possible violations of the Company's Code of Conduct, the U.S. Foreign Corrupt Practices Act, and other applicable laws, relating to the Company's activities in Nepal and South Africa. Based on these investigations, in fiscal 2019, we self-reported these matters to the DoJ, the U.S. Securities and Exchange Commission and the UK Serious Fraud Office. The Company is fully cooperating with the reviews by these agencies, although we are unable at this time to predict what action, if any, they may take.

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Item 2 — Management's Discussion and Analysis of Financial Condition and Results of Operations (Dollars in millions)

General Overview

We report our activities in two reportable segments: *Aviation Services* comprised of supply chain and maintenance, repair, and overhaul ("MRO") activities and *Expeditionary Services* comprised of manufacturing activities.

The Aviation Services segment consists of aftermarket support and services offerings that provide spare parts and maintenance support for aircraft operated by our commercial and government/defense customers. Sales in the Aviation Services segment are derived from the sale and lease of a wide variety of new, overhauled and repaired engine and airframe parts and components to the commercial aviation and government and defense markets. We provide customized inventory supply chain management, performance-based logistics programs, customer fleet management and operations, and aircraft component repair management services. The segment also includes repair, maintenance and overhaul of aircraft, landing gear and components. Cost of sales consists principally of the cost of product, direct labor, and overhead.

The Expeditionary Services segment consists of primarily manufacturing operations with sales derived from the design and manufacture of pallets, shelters, and containers used to support the U.S. military's requirements for a mobile and agile force including engineering, design, and system integration services for specialized command and control systems. Cost of sales consists principally of the cost of material to manufacture products, direct labor and overhead.

Our chief operating decision making officer (our Chief Executive Officer) evaluates performance based on our segments and utilizes gross profit as a primary profitability measure. Gross profit is calculated by subtracting cost of sales from sales. The assets and certain expenses related to corporate activities are not allocated to the segments.

The accounting policies for the segments are the same as those described in Note 1 of Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended May 31, 2021.

Business Trends and Outlook

Consolidated sales for the second quarter of fiscal 2022 increased $33.0 million or 8.2% over the prior year quarter primarily due to an increase in sales of $34.3 million or 8.9% in our Aviation Services segment. Consolidated sales to commercial customers increased $63.5 million or 32.7% over the prior year quarter due to the partial recovery in commercial passenger air traffic. Our consolidated sales to government customers decreased $30.5 million or 14.6% primarily due to less volume across certain U.S. Government contracts.

Over the long-term, we expect to see strength in our Aviation Services segment given its offerings of value-added services to both commercial and government and defense customers. We believe long-term commercial and government growth trends are favorable. As we continue to experience recovery and growth in our operations, our long-term strategy continues to emphasize investing in the business and capitalizing on opportunities in those markets.

Both our commercial and government businesses are subject to the economic environment, impact of COVID-19, public policy decisions or other factors that could adversely impact our business, financial condition or results of operations in the future. A recent example of this was the U.S. Government's decision to withdraw all U.S. Department of State personnel presence in Afghanistan. In conjunction with the U.S. exit from Afghanistan, we concluded our activities in country under our WASS and U.S. Department of Defense contracts. The operations related to our activities in Afghanistan contributed revenue of $67 million in fiscal 2021.

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Results of Operations

Three- and Six-Month Periods Ended November 30, 2021

Sales and gross profit for our two business segments for the three- and six-months ended November 30, 2021 and 2020 were as follows:

	Three Months Ended November 30,			Six Months Ended November 30,		
	2021	2020	% Change	2021	2020	% Change
Sales:						
Aviation Services						
Commercial	$ 257.0	$ 192.2	33.7 %	$524.2	$ 361.8	44.9 %
Government and defense	162.3	192.8	(15.8)%	330.7	386.8	(14.5)%
	$ 419.3	$ 385.0	8.9 %	$854.9	$ 748.6	14.2 %
Expeditionary Services						
Commercial	$ 0.7	$ 2.0	(65.0)%	$ 0.8	$ 7.7	(89.6)%
Government and defense	16.6	16.6	—	36.0	48.1	(25.2)%
	$ 17.3	$ 18.6	(7.0)%	$ 36.8	$ 55.8	(34.1)%

	Three Months Ended November 30,			Six Months Ended November 30,		
	2021	2020	% Change	2021	2020	% Change
Gross Profit (Loss):						
Aviation Services						
Commercial	$ 44.6	$ 37.9	17.7 %	$ 75.1	$ 54.2	38.6 %
Government and defense	29.4	28.9	1.7 %	59.8	57.2	4.5 %
	$ 74.0	$ 66.8	10.8 %	$ 134.9	$ 111.4	21.1 %
Expeditionary Services						
Commercial	$ —	$ 0.1	*nm*	$ —	$ (1.2)	*nm*
Government and defense	4.4	2.6	69.2 %	8.1	7.9	2.5 %
	$ 4.4	$ 2.7	63.0 %	$ 8.1	$ 6.7	20.9 %

nm – Percentage change is not meaningful.

Three Month Period Ended November 30, 2021

Aviation Services Segment

Sales in the Aviation Services segment increased $34.3 million or 8.9% over the prior year period due to a $64.8 million or 33.7% increase in sales to commercial customers. The increase in sales to commercial customers was attributable to increased sales of $21.7 million in our MRO activities as commercial passenger air traffic continues to recover from the impact of COVID-19. In addition, sales increased $15.8 million in our aftermarket parts trading activities which included whole asset sales of $12.0 million during the second quarter of fiscal 2022 compared to none in the prior year.

During the second quarter of fiscal 2022, sales in this segment to government and defense customers decreased $30.5 million or 15.8%, from the prior year period. The prior year quarter included sales of $19.7 million related to the installation of engines on the C-40 aircraft we are delivering to the Naval Air Systems Command in support of the U.S. Marine Corps. No engine installation activities occurred in the second quarter of fiscal 2022.

Changes in estimates and assumptions related to our arrangements accounted for using the cost-to-cost method are recorded using the cumulative catch-up method of accounting. In the second quarter of fiscal 2022, we had net favorable cumulative catch-up adjustments of $5.9 million compared to net favorable cumulative catch-up adjustments of $2.5 million in prior year quarter. These adjustments primarily relate to our long-term, power-by-the-hour programs where we provide component inventory management and repair services as well as certain long-term government programs.

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Cost of sales in Aviation Services increased $27.1 million, or 8.5%, over the prior year period which was in line with the sales increase discussed above.

Gross profit in the Aviation Services segment increased $7.2 million, or 10.8%, over the prior year period. Gross profit on sales to commercial customers increased $6.7 million, or 17.7%, over the prior year period primarily due to the COVID-19 recovery discussed above. The gross profit margin on sales to commercial customers decreased to 17.4% from 19.7% in the prior year period, primarily from the benefit of government workforce subsidies including the Payroll Support Program in the CARES Act and other subsidies provided by foreign governments. We recognized a benefit of $2.4 million in cost of sales during the second quarter of fiscal 2022 related to the government subsidies compared to $18.1 million in the prior year quarter.

Gross profit on sales to government and defense customers increased $0.5 million, or 1.7%, over the prior year period. Gross profit margin on sales to government and defense customers increased to 18.1% from 15.0% in the prior year period, primarily driven by cumulative catch-up adjustments on long-term government programs.

Expeditionary Services Segment

Sales in the Expeditionary Services segment decreased $1.3 million, or 7.0%, from the prior year period primarily due to reduced volume for our mobility products. Gross profit in the Expeditionary Services segment increased $1.7 million, or 63.0%, over the prior period primarily due to lower raw material costs. Gross profit margin increased to 25.4% from 14.5% in the prior year period primarily as a result of these lower raw material costs.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased $3.7 million, or 8.5%, over the prior year period primarily due to the reinstatement of full salary and benefits which were temporarily reduced during the prior year quarter as part of our actions to mitigate the financial impact to our business from COVID-19. As a percent of sales, selling, general and administrative expenses remained consistent at 10.8% as the reinstatement of compensation was offset by the favorable impact from our cost reduction actions.

Income Taxes

Our effective income tax rate for continuing operations was 27.5% for the second quarter of fiscal 2022 compared to 26.5% in the prior year period. The increase in the effective tax rate in fiscal 2022 is primarily related to higher non-deductible expenses in fiscal 2022 compared to the prior year.

Discontinued Operations

Loss from discontinued operations was $6.2 million in the prior year period which was attributable to a $6.0 million increase in our reserve to reflect the tentative agreement with the U.S. Department of Justice to settle their investigation of our Contractor-Owned, Contractor-Operated (“COCO”) business under the federal civil False Claims Act.

Six Month Period Ended November 30, 2021

Aviation Services Segment

Sales in the Aviation Services segment increased $106.3 million, or 14.2%, over the prior year period due to a $162.4 million, or 44.9%, increase in sales to commercial customers. The increase in sales to commercial customers was attributable to increased sales of $53.0 million in our MRO activities as commercial passenger air traffic continues to recover from the impact of COVID-19. In addition, sales increased $46.3 million in our aftermarket parts trading activities which included whole asset sales of $34.0 million during the six-month period ended November 30, 2021 compared to $14.0 million in the prior year period.

During the six-month period ended November 30, 2021, sales in this segment to government and defense customers decreased $56.1 million, or 14.5%, from the prior year period. This decrease was primarily attributable to the timing of activities for the C-40 aircraft we are delivering to the Naval Air Systems Command in support of the U.S. Marine Corps. The prior year period included sales of $39.5 million related to the installation of engines on the aircraft while no engine installation activities occurred in fiscal 2022.

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Changes in estimates and assumptions related to our arrangements accounted for using the cost-to-cost method are recorded using the cumulative catch-up method of accounting. During the six-month period ended November 30, 2021, we had net favorable cumulative catch-up adjustments of $4.9 million compared to net favorable cumulative catch-up adjustments of $2.8 million in prior year period. These adjustments primarily relate to our long-term, power-by-the-hour programs where we provide component inventory management and repair services as well as certain long-term government programs.

Cost of sales in Aviation Services increased $82.8 million, or 13.0%, over the prior year period which was in line with the sales increase discussed above.

Gross profit in the Aviation Services segment increased $23.5 million, or 21.1%, over the prior year period. Gross profit on sales to commercial customers increased $20.9 million, or 38.6%, over the prior year period primarily due to the COVID-19 recovery discussed above. In addition, gross profit was unfavorably impacted in the six-month period ended November 30, 2020 due to asset impairment charges of $7.0 million and facility consolidation and repositioning costs of $2.4 million. These items were more than offset by a benefit of $28.2 million in government workforce subsidies from the Payroll Support Program in the CARES Act and other subsidies provided by foreign governments. Gross profit margin on sales to commercial customers decreased to 14.3% from 15.0% in the prior year period primarily due to the impact of the subsidies in the prior year period more than offsetting the volume recovery in fiscal 2022.

Gross profit on sales to government and defense customers increased $2.6 million, or 4.5%, over the prior year primarily driven by cumulative catch-up adjustments on long-term government programs. Gross profit margin on sales to government and defense customers increased to 18.1% from 14.8% in the prior year period primarily as a result of these adjustments.

Expeditionary Services Segment

Sales in the Expeditionary Services segment decreased $19.0 million, or 34.1%, from the prior year period primarily due to reduced volume for our mobility products. Gross profit in the Expeditionary Services segment increased $1.4 million, or 20.9%, over the prior period primarily due to the divestiture of our composites manufacturing business which was not profitable prior to its divestiture on August 31, 2020. Gross profit margin increased to 22.0% from 12.0% in the prior year period primarily as a result of the divestiture.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased $7.7 million, or 8.7%, over the prior year period primarily due to the reinstatement of full salary and benefits which were temporarily reduced during the prior year period as part of our actions to mitigate the financial impact of COVID-19. As a percent of sales, selling, general and administrative expenses decreased to 10.8% from 11.0% in the prior year period primarily due to the benefit from our actions to reduce both our fixed and variable cost structure in light of the reduced volumes from COVID-19.

Income Taxes

Our effective income tax rate for continuing operations was 26.9% for the six-month period ended November 30, 2021 compared to 73.7% in the prior year period. The prior year period included unfavorable stock compensation items of $0.9 million.

Discontinued Operations

Income from discontinued operations was $0.3 million in the six-month period ended November 30, 2021 compared to a loss of $6.8 million in the prior year period. The loss in the prior year period was attributable to a $6.0 million increase in our legal reserve discussed above.

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Liquidity, Capital Resources and Financial Position

Our operating activities are funded and commitments met through the generation of cash from operations. In addition to operations, our current capital resources include an unsecured Revolving Credit Facility and an accounts receivable financing program. Periodically, we may also raise capital through common stock and debt financings in the public or private markets. We continually evaluate various financing arrangements, including the issuance of common stock or debt, which would allow us to improve our liquidity position and finance future growth on commercially reasonable terms. Our continuing ability to borrow from our lenders and issue debt and equity securities to the public and private markets in the future may be negatively affected by a number of factors, including the overall health of the credit markets, general economic conditions, airline industry conditions, geo-political events, and our operating performance. Our ability to generate cash from operations is influenced primarily by our operating performance and changes in working capital.

At November 30, 2021, our liquidity and capital resources included working capital of $626.5 million inclusive of cash of $42.7 million.

We maintain a Revolving Credit Facility with various financial institutions, as lenders, and Bank of America, N.A., as administrative agent for the lenders, which provides the Company an aggregate revolving credit commitment of $600 million and matures September 25, 2024. Under certain circumstances, we have the ability to request, but our lenders are not required to grant, an increase to the revolving credit commitment by an aggregate amount of up to $300 million, not to exceed $900 million in total.

Borrowings under the Revolving Credit Facility bear interest at the offered Eurodollar Rate plus 87.5 to 175 basis points based on certain financial measurements if a Eurodollar Rate loan, or at the offered fluctuating Base Rate plus 0 to 75 basis points based on certain financial measurements if a Base Rate loan.

Borrowings outstanding under the Revolving Credit Facility at November 30, 2021 were $104.5 million and there were approximately $12.1 million of outstanding letters of credit, which reduced the availability of this facility to $483.4 million. There are no other terms or covenants limiting the availability of this facility.

In the first quarter of fiscal 2021, we received $57.2 million from the U.S. Treasury Department through the Payroll Support Program under the CARES Act. This funding included a $48.5 million cash grant, which was to be used exclusively for the continuation of payment of employee wages, salaries and benefits for employees of certain MRO facilities, and a low interest 10-year senior unsecured promissory note of $8.7 million. In fiscal 2021, we recognized the full amount of the grant as contra-expense within Cost of sales and Selling, general and administrative expenses. The Promissory Note was re-paid in full during the fourth quarter of fiscal 2021.

As of November 30, 2021, we also had other financing arrangements that did not limit our availability on the Revolving Credit Facility, including outstanding letters of credit of $11.6 million and foreign lines of credit of $9.7 million.

On October 18, 2017, we entered into a Credit Agreement with the Canadian Imperial Bank of Commerce, as lender (the “Credit Agreement”). The Credit Agreement provided a Canadian $31 million term loan with the proceeds used to fund the acquisition of two MRO facilities in Canada from Premier Aviation. The term loan was paid in full at the expiration of the Credit Agreement on November 1, 2021.

We maintain a Purchase Agreement with Citibank N.A. (“Purchaser”) for the sale, from time to time, of certain accounts receivable due from certain customers (the “Purchase Agreement”). Under the Purchase Agreement, the maximum amount of receivables sold is limited to $150 million and Purchaser may, but is not required to, purchase the eligible receivables we offer to sell. The term of the Purchase Agreement runs through February 22, 2022, however, the Purchase Agreement may also be terminated earlier under certain circumstances. The term of the Purchase Agreement shall be automatically extended for annual terms unless either party provides advance notice that they do not intend to extend the term.

We have no retained interests in the sold receivables, other than limited recourse obligations in certain circumstances, and only perform collection and administrative functions for the Purchaser. We account for these receivable transfers as sales under ASC 860, *Transfers and Servicing*, and de-recognize the sold receivables from our Condensed Consolidated Balance Sheets.

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During the six-month periods ended November 30, 2021 and 2020, we sold $158.4 million and $243.1 million, respectively, of receivables under the Purchase Agreement and remitted $176.8 million and $268.5 million, respectively, to the Purchaser on their behalf. As of November 30, 2021 and May 31, 2021, we had collected cash of $3.7 million and $8.4 million, respectively, which was not yet remitted to the Purchaser as of those dates and was classified as Restricted cash on our Condensed Consolidated Balance Sheets.

At November 30, 2021, we were in compliance with all financial and other covenants under our financing arrangements.

On December 16, 2021, our Board of Directors approved a stock repurchase program in which we may repurchase up to $150 million of our common stock with no expiration date. The timing and amount of repurchases are subject to prevailing market conditions and other considerations, including our liquidity and other investment opportunities. We plan to fully utilize the authorization over approximately the next two years.

Cash Flows from Operating Activities

Net cash provided by operating activities–continuing operations was $33.4 million in the six-month period ended November 30, 2021 compared to cash provided of $67.4 million in the prior year period. The decrease from the prior period of $34.0 million was primarily attributable to a higher reduction in inventory levels in the prior year period and the proceeds of a $48.5 million grant from the Payroll Support Program of the CARES Act. These items were partially offset by a $25 million license fee paid to Unison Industries in the prior year period for our expanded and extended exclusive distribution agreement.

Cash Flows from Investing Activities

Net cash used in investing activities was $2.7 million during the six-month period ended November 30, 2021 compared to a cash provided of $5.6 million in the prior year period. The decrease over the prior period was primarily related to proceeds of $10.0 million from the termination of split-dollar life insurance policies in the prior year period.

Cash Flows from Financing Activities

Net cash used in financing activities was $30.1 million during the six-month period ended November 30, 2021 compared to cash used of $382.9 million in the prior year period. The prior year period included the repayment of our additional draw down on our Revolving Credit Facility. These funds were originally drawn in late fiscal 2020 as a precautionary measure in light of the economic and market uncertainty presented by COVID-19.

Critical Accounting Policies and Significant Estimates

We make a number of significant estimates, assumptions and judgments in the preparation of our financial statements. See *Management's Discussion and Analysis of Financial Condition and Results of Operations* in our Annual Report on Form 10-K for the fiscal year ended May 31, 2021 for a discussion of our critical accounting policies. There have been no significant changes to the application of our critical accounting policies during fiscal 2022.

Forward-Looking Statements

This report contains certain forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on beliefs of our management, as well as assumptions and estimates based on information available to us as of the dates such assumptions and estimates are made, and are subject to certain risks and uncertainties that could cause actual results to differ materially from historical results or those anticipated, depending on a variety of factors, including those factors set forth under Part I, Item 1A in our Annual Report on Form 10-K for the fiscal year ended May 31, 2021. Should one or more of those risks or uncertainties materialize adversely, or should underlying assumptions or estimates prove incorrect, actual results may vary materially from those described. Those events and uncertainties are difficult or impossible to predict accurately and many are beyond our control. We assume no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

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Item 3 — Quantitative and Qualitative Disclosures About Market Risk

Our exposure to market risk includes fluctuating interest rates under our credit agreements, changes in foreign exchange rates, and credit losses on accounts receivable. See Note 1 of Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended May 31, 2021 for a discussion of accounts receivable exposure.

Foreign Currency Risk. Revenues and expenses of our foreign operations are translated at average exchange rates during the period, and balance sheet accounts are translated at period-end exchange rates. Balance sheet translation adjustments are excluded from the results of operations and are recorded in stockholders' equity as a component of accumulated other comprehensive loss. A hypothetical 10 percent devaluation of the U.S. dollar against foreign currencies would not have had a material impact on our financial position or continuing operations for the quarter ended November 30, 2021.

Interest Rate Risk. Refer to the section Quantitative and Qualitative Disclosures about Market Risk in our Annual Report on Form 10-K for the fiscal year ended May 31, 2021. There were no significant changes during the quarter ended November 30, 2021.

Item 4 — Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As required by Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of November 30, 2021. This evaluation was carried out under the supervision and with participation of our Chief Executive Officer and our Chief Financial Officer. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures. Therefore, effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective as of November 30, 2021, ensuring that information required to be disclosed in the reports that are filed under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported in a timely manner.

There were no changes in our internal control over financial reporting during the quarter ended November 30, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II — OTHER INFORMATION

Item 1 – Legal Proceedings

The information in Note 17 to the Condensed Consolidated Financial Statements contained in Part I, Item 1 of this Quarterly Report on Form 10-Q is incorporated herein by reference. There are no matters which constitute material pending legal proceedings to which we are a party other than those incorporated into this item by reference from Note 17 to our Condensed Consolidated Financial Statements for the quarter ended November 30, 2021 contained in this Quarterly Report on Form 10-Q.

Item 1A — Risk Factors

There is no material change in the information reported under Part I-Item 1A "Risk Factors" contained in our Annual Report on Form 10-K for the fiscal year ended May 31, 2021.

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Item 6 — Exhibits

The exhibits to this report are listed on the following index:

Exhibit No.	Description		Exhibits
31.	Rule 13a-14(a)/15(d)-14(a) Certifications	31.1	Section 302 Certification dated December 21, 2021 of John M. Holmes, President and Chief Executive Officer of Registrant (filed herewith).
		31.2	Section 302 Certification dated December 21, 2021 of Sean M. Gillen, Vice President and Chief Financial Officer of Registrant (filed herewith).
32.	Section 1350 Certifications	32.1	Section 906 Certification dated December 21, 2021 of John M. Holmes, President and Chief Executive Officer of Registrant (filed herewith).
		32.2	Section 906 Certification dated December 21, 2021 of Sean M. Gillen, Vice President and Chief Financial Officer of Registrant (filed herewith).
101.	Interactive Data File	101	The following materials from the Registrant's Quarterly Report on Form 10-Q for the quarter ended November 30, 2021, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at November 30, 2021 and May 31, 2021, (ii) Condensed Consolidated Statements of Operations for the three- and six-months ended November 30, 2021 and 2020, (iii) Condensed Consolidated Statements of Comprehensive Income (Loss) for the three- and six-months ended November 30, 2021 and 2020, (iv) Condensed Consolidated Statements of Cash Flows for the six months ended November 30, 2021 and 2020, (v) Condensed Consolidated Statement of Changes in Equity for the three- and six-months ended November 30, 2021 and 2020 (vi) Notes to Condensed Consolidated Financial Statements.**
104.	Cover Page Interactive Data File	104	Cover Page Interactive Data File (embedded within the Inline XBRL document and contained in Exhibit 101)

** Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AAR CORP.
(Registrant)

Date: December 21, 2021

/s/ SEAN M. GILLEN
Sean M. Gillen
Vice President and Chief Financial Officer
(Principal Financial Officer)

/s/ ERIC S. PACHAPA
Eric S. Pachapa
Vice President, Controller and Chief Accounting Officer
(Principal Accounting Officer)

UCC-102

Exhibit 99.1

Barnes Group Inc.
123 Main Street
Bristol, CT 06010

NEWS RELEASE

BARNES GROUP INC. REPORTS FIRST QUARTER 2021 FINANCIAL RESULTS

- **Sales of $302 million, down 9% from last year; Organic Sales down 10%**
- **Operating Income of $32.4 million; Adjusted Operating Income down 37% from last year's $51.7 million**
- **Operating Margin of 10.7%; Adjusted Operating Margin down 490 bps from last year's 15.6%**
- **GAAP EPS of $0.38; Adjusted EPS down 46% from last year's $0.71**
- **2021 Sales Growth Expectation Increased to 11% to 13% with Organic Sales Growth of 10% to 12%**
- **2021 EPS Outlook Increased to $1.78 to $1.98; Up 9% to 21% from 2020 Adjusted EPS of $1.64**

BRISTOL, Conn., April 30, 2021 — Barnes Group Inc. (NYSE: B), a global provider of highly engineered products, differentiated industrial technologies, and innovative solutions, today reported financial results for the first quarter of 2021.

"Barnes Group delivered a strong first quarter to open 2021 with solid Industrial revenue growth and modest sequential improvement in Aerospace. The additional sales volumes contributed to better than expected operating profit in the quarter and allowed us to exceed the high-end of our EPS outlook," said Patrick J. Dempsey, President and Chief Executive Officer of Barnes Group Inc. "Our 2021 return to growth focus is off to a good start with strong orders and increasing backlog, factors which provide more confidence in our second half expectation. With a heightened conviction of an economic recovery in many of our end markets, we have increased our financial performance outlook for 2021," added Dempsey.

First Quarter 2021 Highlights

First quarter 2021 net sales of $302 million were down 9% from $331 million in the prior year period, with organic sales (1) declining 10% driven by the impact of the global pandemic on the Company's aerospace related end markets. Divested Seeger sales had a negative impact of 2%, while foreign exchange had a positive impact of 3%. On a sequential basis, sales improved 4% from the fourth quarter of 2020. Operating income was $32.4 million versus $49.3 million a year ago. Operating margin decreased 420 bps to 10.7%. On an adjusted basis, which excludes $2.4 million of Seeger divestiture adjustments in last year's first quarter, operating income was down 37% and adjusted operating margin was down 490 bps from a year ago.

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Interest expense was $3.9 million, a decrease of $0.4 million from the prior year quarter due to the benefit of lower average borrowings, partially offset by a higher average interest rate. Other expense was $1.5 million, down $0.1 million from a year ago.

The Company's effective tax rate in the first quarter was 28.1% compared with 31.5% a year ago. The decrease is largely due to the absence of tax expense related to the completed sale of the Seeger business and a reduction of the statutory tax rate at one of our international operations, both of which occurred in the first quarter of 2020. These benefits were offset in part by the impact of the global intangible low-taxed income tax on foreign earnings in the U.S in the first quarter of 2021.

Net income for the first quarter was $19.4 million, or $0.38 per diluted share, compared to $29.7 million, or $0.58 per diluted share, a year ago. On an adjusted basis, net income per share was down 46% from $0.71 a year ago. Adjusted net income per diluted share in the first quarter of 2020 excludes $0.13 of Seeger divestiture adjustments.

First quarter 2021 cash provided by operating activities was $35.6 million versus $47.2 million in the prior year period. Free cash flow was $27.8 million compared to $35.3 million last year. Capital expenditures were $7.9 million, down $4.1 million from a year ago.

<u>Segment Performance and End Market Outlook</u>

Industrial

First quarter sales were $220 million, up 10% from $199 million in the prior year period. Organic sales increased 8% related to volume increases due to stronger end markets. Divested Seeger revenues of $5.0 million had a negative impact of 3%, while favorable foreign exchange increased sales by $10.3 million, or 5%. On a sequential basis, total Industrial sales increased 5% from the fourth quarter of 2020.

Operating profit in the first quarter was $21.3 million, up 19% from $17.9 million in the prior year period. The increase was driven by the profit contribution of the higher sales volumes and productivity, offset in part by higher personnel costs. Operating margin was 9.7%, up 70 bps from a year ago. Excluding $2.4 million of Seeger divestiture adjustments in last year's first quarter, adjusted operating profit was up 5% from last year's $20.3 million and adjusted operating margin was down 50 bps from a year ago.

Aerospace

First quarter sales were $82 million, down 38% from $132 million last year as global aerospace end markets continue to be impacted by the global pandemic. Aerospace original equipment manufacturing ("OEM") sales decreased 32% while aftermarket sales decreased 48%. On a sequential basis, Aerospace sales increased 2% from the fourth quarter of 2020.

Operating profit was $11.1 million, down 65% from $31.4 million in the prior year period, reflecting the impact of lower sales volumes, offset in part by better productivity. Operating margin was 13.6% versus 23.9% a year ago.

Aerospace OEM backlog ended the first quarter at $600 million, up 5% from December 2020. The Company expects to ship approximately 45% of this backlog over the next 12 months.

Balance Sheet and Liquidity

Barnes Group's balance sheet remains well-positioned with sufficient liquidity to fund operations. The Company has liquidity of $85 million in cash and approximately $441 million available under the revolving credit facility, subject to covenants which would have allowed $143 million under our current credit agreements. With respect to the balance sheet, our "Debt to EBITDA" ratio, as defined in our credit agreements, was approximately 3.1 times at quarter end. The Company is in full compliance with all covenants under its amended credit agreements.

Updated 2021 Outlook

Barnes Group now expects 2021 organic sales to be up 10% to 12%, up from the prior 6% to 8% expectation. Foreign exchange is anticipated to have an approximate 2% favorable impact on 2021 sales, while divested revenues will have an approximate negative 1% impact. Operating margin is forecasted to be approximately 13%. Earnings per share are now expected to be in the range of $1.78 to $1.98, up 9% to 21% from 2020's adjusted earnings per share of $1.64 and above our prior expectation of $1.65 to $1.90. Further, the Company forecasts capital expenditures of approximately $50 million and cash conversion of greater than 100% of net income. The effective tax rate for 2021 is expected to be approximately 30%.

Conference Call Information

Barnes Group Inc. will conduct a conference call with investors to discuss first quarter 2021 results at 8:30 a.m. ET today, April 30, 2021. The public may access the conference through a live audio webcast available on the Investor Relations section of Barnes Group's website at www.BGInc.com. The conference is also available by direct dial at (844) 884-8225 in the U.S. or (647) 689-4194 outside of the U.S.; Conference ID 3882647. Supplemental materials will be posted to the Investor Relations section of the Company's website prior to the conference call.

In addition, the call will be recorded and available for playback from 12:00 p.m. (ET) on Friday, April 30, 2021 until 11:59 p.m. (ET) on Friday, May 7, 2021, by dialing (416) 621-4642; Conference ID 3882647.

Note:
(1) Organic sales decline represents the total reported sales decrease within the Company's ongoing businesses less the impact of foreign currency translation and acquisition and divestitures completed in the preceding twelve months.

About Barnes Group
Barnes Group Inc. (NYSE: B) is a global provider of highly engineered products, differentiated industrial technologies, and innovative solutions, serving a wide range of end markets and customers. Its specialized products and services are used in far-reaching applications including aerospace, transportation, manufacturing, automation, healthcare, and packaging. The skilled and dedicated employees of Barnes Group around the globe are committed to the highest performance standards and achieving consistent, sustainable profitable growth. Barnes Group is committed to corporate accountability and furthering environmental, social and governance principles as evidenced by our listing as one of America's Most Responsible Companies by *Newsweek*. For more information, visit www.BGInc.com.

Forward-Looking Statements

This press release contains forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements often address our expected future operating and financial performance and financial condition, and often contain words such as "anticipate," "believe," "expect," "plan," "estimate," "project," "continue," "will," "should," and similar terms. These forward-looking statements do not constitute guarantees of future performance and are subject to a variety of risks and uncertainties that may cause actual results to differ materially from those expressed in the forward-looking statements. These include, among others: difficulty maintaining relationships with employees, customers, distributors, suppliers, business partners or governmental entities; failure to successfully negotiate collective bargaining agreements or potential strikes, work stoppages or other similar events; difficulties leveraging market opportunities; changes in market demand for our products and services; rapid technological and market change; the ability to protect and avoid infringing upon intellectual property rights; introduction or development of new products or transfer of work; higher risks in global operations and markets; the impact of intense competition; acts of terrorism, cybersecurity attacks or intrusions that could adversely impact our businesses; the impacts of the COVID-19 pandemic on our business, including on demand, supply chains, operations and our ability to maintain sufficient liquidity throughout the unknown duration and severity of the pandemic; the failure to achieve anticipated cost savings and benefits associated with workforce reductions and restructuring actions; uncertainties relating to conditions in financial markets; currency fluctuations and foreign currency exposure; future financial performance of the industries or customers that we serve; our dependence upon revenues and earnings from a small number of significant customers; a major loss of customers; inability to realize expected sales or profits from existing backlog due to a range of factors, including changes in customer sourcing decisions, material changes, production schedules and volumes of specific programs; the impact of government budget and funding decisions; government tariffs, trade agreements and trade policies; the impact of new or revised tax laws and regulations; the adoption of laws, directives or regulations that impact the materials processed by our products or their end markets; changes in raw material or product prices and availability; the continuing impact of prior acquisitions and divestitures; and any other future strategic actions, including acquisitions, divestitures, restructurings, or strategic business realignments, and our ability to achieve the financial and operational targets set in connection with any such actions; the ability to achieve social and environmental performance goals; the outcome of pending and future legal, governmental, or regulatory proceedings and contingencies; product liabilities and uninsured claims; future repurchases of common stock; future levels of indebtedness; and numerous other matters of a global, regional or national scale, including those of a political, social, economic, business, competitive, environmental, regulatory and public health nature; and other risks and uncertainties described in documents filed with or furnished to the Securities and Exchange Commission ("SEC") by the Company, including, among others, those in the Management's Discussion and Analysis of Financial Condition and Results of Operations and Risk Factors sections of the Company's filings. The Company assumes no obligation to update its forward-looking statements.

Contact:
Barnes Group Inc.
William Pitts
Director, Investor Relations
860.583.7070

# # #

BARNES GROUP INC.
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands, except per share data)
(Unaudited)

	Three months ended March 31,		
	2021	2020	% Change
Net sales	$ 301,629	$ 330,671	(8.8)
Cost of sales	194,696	208,248	(6.5)
Selling and administrative expenses	74,553	73,110	2.0
	269,249	281,358	(4.3)
Operating income	32,380	49,313	(34.3)
Operating margin	10.7 %	14.9 %	
Interest expense	3,942	4,324	(8.8)
Other expense (income), net	1,463	1,594	(8.2)
Income before income taxes	26,975	43,395	(37.8)
Income taxes	7,593	13,662	(44.4)
Net income	$ 19,382	$ 29,733	(34.8)
Common dividends	$ 8,104	$ 8,133	(0.4)
Per common share:			
Net income:			
Basic	$ 0.38	$ 0.58	(34.5)
Diluted	0.38	0.58	(34.5)
Dividends	0.16	0.16	—
Weighted average common shares outstanding:			
Basic	50,933,666	51,061,132	(0.2)
Diluted	51,087,688	51,501,857	(0.8)

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BARNES GROUP INC.
OPERATIONS BY REPORTABLE BUSINESS SEGMENT
(Dollars in thousands)
(Unaudited)

	Three months ended March 31,		
	2021	**2020**	**% Change**
Net sales			
Industrial	$ 219,992	$ 199,100	10.5
Aerospace	81,642	131,571	(37.9)
Intersegment sales	(5)	—	
Total net sales	$ 301,629	$ 330,671	(8.8)
Operating profit			
Industrial	$ 21,295	$ 17,924	18.8
Aerospace	11,085	31,389	(64.7)
Total operating profit	$ 32,380	$ 49,313	(34.3)
Operating margin			**Change**
Industrial	9.7 %	9.0 %	70 bps.
Aerospace	13.6 %	23.9 %	(1,030) bps.
Total operating margin	10.7 %	14.9 %	(420) bps.

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BARNES GROUP INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)
(Unaudited)

	March 31, 2021	December 31, 2020
Assets		
Current assets		
Cash and cash equivalents	$ 84,900	$ 79,145
Accounts receivable	252,548	251,460
Inventories	233,465	238,008
Prepaid expenses and other current assets	77,490	73,732
Total current assets	648,403	642,345
Deferred income taxes	21,653	22,092
Property, plant and equipment, net	356,272	370,947
Goodwill	971,851	1,011,580
Other intangible assets, net	541,148	564,132
Other assets	60,937	65,130
Total assets	$ 2,600,264	$ 2,676,226
Liabilities and Stockholders' Equity		
Current liabilities		
Notes and overdrafts payable	$ 7,507	$ 2,115
Accounts payable	118,756	112,428
Accrued liabilities	169,277	178,560
Long-term debt - current	2,051	2,276
Total current liabilities	297,591	295,379
Long-term debt	664,015	699,868
Accrued retirement benefits	94,066	98,171
Deferred income taxes	88,117	91,668
Long-term tax liability	59,063	59,063
Other liabilities	46,045	49,400
Total stockholders' equity	1,351,367	1,382,677
Total liabilities and stockholders' equity	$ 2,600,264	$ 2,676,226

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BARNES GROUP INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Three months ended March 31,	
	2021	**2020**
Operating activities:		
Net income	$ 19,382	$ 29,733
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	21,992	23,617
Gain on disposition of property, plant and equipment	(50)	(123)
Stock compensation expense	2,306	2,552
Seeger divestiture charges	—	6,620
Changes in assets and liabilities, net of the effects of divestitures:		
Accounts receivable	(7,590)	9,592
Inventories	78	(12,788)
Prepaid expenses and other current assets	(4,882)	(3,227)
Accounts payable	9,121	1,328
Accrued liabilities	(6,456)	(7,885)
Deferred income taxes	(101)	462
Long-term retirement benefits	(569)	(3,518)
Other	2,381	826
Net cash provided by operating activities	35,612	47,189
Investing activities:		
Proceeds from disposition of property, plant and equipment	83	185
Proceeds from the sale of businesses, net of cash sold	—	36,879
Capital expenditures	(7,855)	(11,912)
Other	3,758	—
Net cash (used) provided by investing activities	(4,014)	25,152
Financing activities:		
Net change in other borrowings	5,354	20,775
Payments on long-term debt	(30,933)	(108,521)
Proceeds from the issuance of long-term debt	15,000	75,000
Proceeds from the issuance of common stock	125	183
Common stock repurchases	—	(15,550)
Dividends paid	(8,104)	(8,133)
Withholding taxes paid on stock issuances	(68)	(84)
Other	(5,816)	(7,252)
Net cash used by financing activities	(24,442)	(43,582)
Effect of exchange rate changes on cash flows	(2,331)	(3,111)
Increase in cash, cash equivalents and restricted cash	4,825	25,648
Cash, cash equivalents and restricted cash at beginning of period	91,468	93,805
Cash, cash equivalents and restricted cash at end of period	96,293	119,453
Less: Restricted cash, included in Prepaid expenses and other current assets	(6,198)	—
Less: Restricted cash, included in Other assets	(5,195)	(6,626)
Cash and cash equivalents at end of period	$ 84,900	$ 112,827

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BARNES GROUP INC.
RECONCILIATION OF NET CASH PROVIDED BY OPERATING ACTIVITIES TO FREE CASH FLOW
(Dollars in thousands)
(Unaudited)

	Three months ended March 31,	
	2021	**2020**
Free cash flow:		
Net cash provided by operating activities	$ 35,612	$ 47,189
Capital expenditures	(7,855)	(11,912)
Free cash flow [1]	$ 27,757	$ 35,277

Notes:
(1) The Company defines free cash flow as net cash provided by operating activities less capital expenditures. The Company believes that the free cash flow metric is useful to investors and management as a measure of cash generated by business operations that can be used to invest in future growth, pay dividends, repurchase stock and reduce debt. This metric can also be used to evaluate the Company's ability to generate cash flow from business operations and the impact that this cash flow has on the Company's liquidity.

BARNES GROUP INC.
NON-GAAP FINANCIAL MEASURE RECONCILIATION
(Dollars in thousands, except per share data)
(Unaudited)

	Three months ended March 31,		
	2021	**2020**	**% Change**
SEGMENT RESULTS			
Operating Profit - Industrial Segment (GAAP)	$ 21,295	$ 17,924	18.8
Seeger divestiture adjustments	—	2,409	
Operating Profit - Industrial Segment as adjusted (Non-GAAP) (1)	$ 21,295	$ 20,333	4.7
Operating Margin - Industrial Segment (GAAP)	9.7 %	9.0 %	70 bps.
Operating Margin - Industrial Segment as adjusted (Non-GAAP) (1)	9.7 %	10.2 %	(50) bps.
CONSOLIDATED RESULTS			
Operating Income (GAAP)	$ 32,380	$ 49,313	(34.3)
Seeger divestiture adjustments	—	2,409	
Operating Income as adjusted (Non-GAAP) (1)	$ 32,380	$ 51,722	(37.4)
Operating Margin (GAAP)	10.7 %	14.9 %	(420) bps.
Operating Margin as adjusted (Non-GAAP) (1)	10.7 %	15.6 %	(490) bps.
Diluted Net Income per Share (GAAP)	$ 0.38	$ 0.58	(34.5)
Seeger divestiture adjustments	—	0.13	
Diluted Net Income per Share as adjusted (Non-GAAP) (1)	$ 0.38	$ 0.71	(46.5)

	Full-Year 2020	**Full-Year 2021 Outlook**		
Diluted Net Income per Share (GAAP)	$ 1.24	$ 1.78	to	$ 1.98
Restructuring/reduction in force charges	0.27		—	
Seeger divestiture adjustments	0.13		—	
Diluted Net Income per Share as adjusted (Non-GAAP) (1)	$ 1.64	$ 1.78	to	$ 1.98

Notes:
(1) The Company has excluded the following from its "as adjusted" financial measurements for 2020: 1) adjustments related to the divestiture of the Seeger business, including $2.5M reflected within the Industrial segment's operating profit and $4.2M of tax expense and 2) charges taken in 2020 related to restructuring and workforce reduction actions to be implemented across its businesses, including $18.2M reflected within operating profit and $1.0M reflected within other expense (income), net. The tax charges resulting from the divestiture were recorded in the first quarter of 2020 following the completion of the sale. The tax effects of the restructuring actions in 2020 were calculated based on the respective tax jurisdictions and averaged approximately 27%. Management believes that these adjustments provide the Company and its investors with an indication of our baseline performance excluding items that are not considered to be reflective of our ongoing results. Management does not intend results excluding the adjustments to represent results as defined by GAAP, and the reader should not consider it as an alternative measurement calculated in accordance with GAAP, or as an indicator of the Company's performance. Accordingly, the measurements have limitations depending on their use.

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Exhibit 99.1

Barnes Group Inc.
123 Main Street
Bristol, CT 06010

NEWS RELEASE

BARNES GROUP INC. REPORTS SECOND QUARTER 2021 FINANCIAL RESULTS

- **Sales of $321 million, up 36% from last year; Organic Sales up 31%**
- **Operating Income of $38.5 million; Adjusted Operating Income of $39.2 million, up 41% from last year**
- **Operating Margin of 12.0%; Adjusted Operating Margin of 12.2%, up 40 bps from last year**
- **GAAP EPS of $0.48; Adjusted EPS of $0.45, up 67% from last year's $0.27**
- **2021 Sales Growth Expectation Increased to 13% to 14% with Organic Sales Growth of 11% to 12%**
- **2021 Adjusted EPS Outlook of $1.83 to $1.98; Up 12% to 21% from 2020 Adjusted EPS of $1.64**

BRISTOL, Conn., July 30, 2021 — Barnes Group Inc. (NYSE: B), a global provider of highly engineered products, differentiated industrial technologies, and innovative solutions, today reported financial results for the second quarter of 2021.

"With robust orders and sales growth for both Industrial and Aerospace in the second quarter, Barnes Group continues to demonstrate significant recovery as some of the impacts of the global pandemic diminish. With a strong book-to-bill of 1.3 times, total Company backlog improved 12% from the first quarter and is at its highest level since the end of 2019," said Patrick J. Dempsey, President and Chief Executive Officer of Barnes Group Inc. "Supported by this backlog, our 2021 sales growth expectation remains solid. Coupled with ongoing investments in innovation and other sales initiatives, we look forward to sustaining an upward trend of good growth and improving performance," added Dempsey.

Second Quarter 2021 Highlights

Second quarter 2021 net sales of $321 million were up 36% from $236 million in the prior year period, with organic sales [(1)] increasing 31% as the Company sees continuing improvement in many of its end markets. Foreign exchange had a positive impact on sales of 5%. On a sequential basis, sales improved 6% from the first quarter of 2021. Operating income was $38.5 million versus $10.1 million a year ago and operating margin was 12.0% versus 4.3% last year. Excluding restructuring charges of $0.7 million this year and $17.7 million in the prior year period, adjusted operating income of $39.2 million was up 41% and adjusted operating margin of 12.2% was up 40 bps from a year ago.

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Interest expense was $4.5 million, an increase of $0.6 million from the prior year quarter due to a higher average interest rate, offset in part by lower average borrowings. Other expense was $1.3 million, up $0.2 million from a year ago.

The Company's effective tax rate for the second quarter of 2021 was 25.3% compared with 89.0% in the second quarter of 2020 and 37.6% for the full year 2020. The decrease in the second quarter 2021 effective tax rate from the full year 2020 rate is primarily due to the absence of tax expense related to the completed sale of the Seeger business in 2020, a net benefit related to certain foreign tax matters in the current year quarter, and a favorable mix in earnings based on tax jurisdictions.

Net income for the second quarter was $24.5 million, or $0.48 per diluted share, compared to $0.6 million, or $0.01 per diluted share, a year ago. On an adjusted basis, net income per share of $0.45 was up 67% from $0.27 a year ago. Adjusted net income per diluted share in the second quarter of 2021 excludes $0.01 of restructuring charges and a net foreign tax benefit of $0.04, while the second quarter of 2020 excludes $0.26 of restructuring charges.

Year-to-date 2021 cash provided by operating activities was $85.7 million versus $123.2 million in the prior year period. Free cash flow was $68.2 million compared to $103.4 million last year. Capital expenditures were $17.6 million, down $2.2 million from a year ago.

Segment Performance and End Market Outlook

Industrial

Second quarter sales were $235 million, up 42% from $165 million in the prior year period. Organic sales increased 35% reflecting volume increases from strengthening end markets. Favorable foreign exchange increased sales by $12.4 million, or 7%. On a sequential basis, total Industrial sales increased 7% from the first quarter of 2021.

Operating profit in the second quarter was $27.3 million versus an operating loss of $0.3 million in the prior year period. Excluding $0.2 million of restructuring costs in this year’s second quarter and $15.8 million last year, adjusted operating profit was $27.5 million versus $15.5 million a year ago. The increase in adjusted operating profit was driven by the contribution of higher sales volumes and the benefit of 2020 cost actions, offset in part by higher personnel costs, primarily incentive compensation, and costs incurred in support of segment growth initiatives. Adjusted operating margin was 11.7%, up 230 bps from a year ago.

Aerospace

Second quarter sales were $86 million, up 23% from $71 million last year, benefitting from improving original equipment manufacturing (“OEM”), while the aerospace aftermarket business continues to be impacted by lingering effects of the global pandemic. Aerospace OEM sales increased 37%, while aftermarket sales decreased 2%. On a sequential basis, Aerospace sales increased 6% from the first quarter of 2021.

Operating profit was $11.3 million, up 8% from $10.4 million in the prior year period. Excluding $0.4 million of restructuring costs in this year’s second quarter and $1.9 million last year, adjusted operating profit was $11.7 million, down 5% from last year’s $12.4 million. The decrease in adjusted operating profit was driven by higher incentive compensation and unfavorable mix. Adjusted operating margin was 13.5%, down 400 bps from a year ago.

Aerospace OEM backlog ended the second quarter at $694 million, up 16% from March 2021. The Company expects to ship approximately 40% of this backlog over the next 12 months.

Balance Sheet and Liquidity

Barnes Group's balance sheet position and liquidity profile remain supportive of ongoing investments in growth initiatives. The Company has liquidity of $91 million in cash and approximately $451 million available under the revolving credit facility, subject to covenants which would have allowed $204 million under our current credit agreements. With respect to the balance sheet, our "Debt to EBITDA" ratio, as defined in our credit agreements, was approximately 2.9 times at quarter end, down from 3.1 times at the end of the first quarter 2021.

Updated 2021 Outlook

Barnes Group now expects 2021 organic sales to be up 11% to 12%, up from the prior 10% to 12% expectation. Foreign exchange is anticipated to have an approximate 2% favorable impact on 2021 sales, while divested revenues will have an approximate negative 1% impact. Operating margin is forecasted to be approximately 13%. Adjusted earnings per share are now expected to be in the range of $1.83 to $1.98, up 12% to 21% from 2020's adjusted earnings per share of $1.64 and reflective of an increase at the lower end of our prior range of $1.78 to $1.98. Further, the Company continues to forecast capital expenditures of approximately $50 million and an effective tax rate of approximately 30% for 2021. Cash conversion in now expected to be greater than 110% of net income.

Conference Call Information

Barnes Group Inc. will conduct a conference call with investors to discuss second quarter 2021 results at 8:30 a.m. ET today, July 30, 2021. The public may access the conference through a live audio webcast available on the Investor Relations section of Barnes Group's website at www.BGInc.com. The conference is also available by direct dial at (844) 884-8225 in the U.S. or (647) 689-4194 outside of the U.S.; Conference ID 6987911. Supplemental materials will be posted to the Investor Relations section of the Company's website prior to the conference call.

In addition, the call will be recorded and available for playback from 12:00 p.m. (ET) on Friday, July 30, 2021 until 11:59 p.m. (ET) on Friday, August 6, 2021, by dialing (416) 621-4642; Conference ID 6987911.

Note:
(1) Organic sales growth represents the total reported sales increase within the Company's ongoing businesses less the impact of foreign currency translation and acquisition and divestitures completed in the preceding twelve months.

About Barnes Group
Barnes Group Inc. (NYSE: B) is a global provider of highly engineered products, differentiated industrial technologies, and innovative solutions, serving a wide range of end markets and customers. Its specialized products and services are used in far-reaching applications including aerospace, transportation, manufacturing, automation, healthcare, and packaging. The skilled

and dedicated employees of Barnes Group around the globe are committed to the highest performance standards and achieving consistent, sustainable profitable growth. Barnes Group is committed to corporate accountability and furthering environmental, social and governance principles as evidenced by our listing as one of America's Most Responsible Companies by *Newsweek*. For more information, visit www.BGInc.com.

Forward-Looking Statements
This press release contains forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements often address our expected future operating and financial performance and financial condition, and often contain words such as "anticipate," "believe," "expect," "plan," "estimate," "project," "continue," "will," "should," "may," and similar terms. These forward-looking statements do not constitute guarantees of future performance and are subject to a variety of risks and uncertainties that may cause actual results to differ materially from those expressed in the forward-looking statements. These include, among others: difficulty maintaining relationships with employees, customers, distributors, suppliers, business partners or governmental entities; failure to successfully negotiate collective bargaining agreements or potential strikes, work stoppages or other similar events; difficulties leveraging market opportunities; changes in market demand for our products and services; rapid technological and market change; the ability to protect and avoid infringing upon intellectual property rights; introduction or development of new products or transfer of work; higher risks in global operations and markets; the impact of intense competition; acts of terrorism, cybersecurity attacks or intrusions that could adversely impact our businesses; the impacts of the COVID-19 pandemic on our business, including on demand, supply chains, operations and our ability to maintain sufficient liquidity throughout the unknown duration and severity of the pandemic; the failure to achieve anticipated cost savings and benefits associated with workforce reductions and restructuring actions; uncertainties relating to conditions in financial markets; currency fluctuations and foreign currency exposure; future financial performance of the industries or customers that we serve; our dependence upon revenues and earnings from a small number of significant customers; a major loss of customers; inability to realize expected sales or profits from existing backlog due to a range of factors, including changes in customer sourcing decisions, material changes, production schedules and volumes of specific programs; the impact of government budget and funding decisions; government tariffs, trade agreements and trade policies; the impact of new or revised tax laws and regulations; the adoption of laws, directives or regulations that impact the materials processed by our products or their end markets; changes in raw material or product prices and availability; disruptions in information technology systems, including as a result of cybersecurity or data security breaches; the continuing impact of prior acquisitions and divestitures; and any other future strategic actions, including acquisitions, divestitures, restructurings, or strategic business realignments, and our ability to achieve the financial and operational targets set in connection with any such actions; the ability to achieve social and environmental performance goals; the outcome of pending and future legal, governmental, or regulatory proceedings and contingencies; product liabilities and uninsured claims; future repurchases of common stock; future levels of indebtedness; and numerous other matters of a global, regional or national scale, including those of a political, social, economic, business, competitive, environmental, regulatory and public health nature; and other risks and uncertainties described in documents filed with or furnished to the Securities and Exchange Commission ("SEC") by the Company, including, among others, those in the Management's Discussion and Analysis of Financial Condition and Results of Operations and Risk Factors sections of the Company's filings. The Company assumes no obligation to update its forward-looking statements.

Contact:
Barnes Group Inc.
William Pitts
Director, Investor Relations
860.583.7070

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BARNES GROUP INC.
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands, except per share data)
(Unaudited)

	Three months ended June 30,			Six months ended June 30,		
	2021	**2020**	**% Change**	**2021**	**2020**	**% Change**
Net sales	$ 321,158	$ 235,537	36.4	$ 622,787	$ 566,207	10.0
Cost of sales	203,168	147,058	38.2	397,864	355,306	12.0
Selling and administrative expenses	79,447	78,364	1.4	154,000	151,472	1.7
	282,615	225,422	25.4	551,864	506,778	8.9
Operating income	38,543	10,115	281.0	70,923	59,429	19.3
Operating margin	12.0 %	4.3 %		11.4 %	10.5 %	
Interest expense	4,475	3,898	14.8	8,416	8,223	2.3
Other expense (income), net	1,272	1,060	20.0	2,734	2,654	3.0
Income before income taxes	32,796	5,157	536.0	59,773	48,552	23.1
Income taxes	8,305	4,590	80.9	15,900	18,252	(12.9)
Net income	$ 24,491	$ 567	NM	$ 43,873	$ 30,300	44.8
Common dividends	$ 8,090	$ 8,072	0.2	$ 16,194	$ 16,205	(0.1)
Per common share:						
Net income:						
Basic	$ 0.48	$ 0.01	NM	$ 0.86	$ 0.60	43.3
Diluted	0.48	0.01	NM	0.86	0.59	45.8
Dividends	0.16	0.16	—	0.32	0.32	—
Weighted average common shares outstanding:						
Basic	50,933,222	50,764,575	0.3	50,933,373	50,912,854	—
Diluted	51,102,303	51,008,922	0.2	51,095,198	51,200,967	(0.2)

NM - Not meaningful

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BARNES GROUP INC.
OPERATIONS BY REPORTABLE BUSINESS SEGMENT
(Dollars in thousands)
(Unaudited)

	Three months ended June 30,			Six months ended June 30,		
	2021	**2020**	**% Change**	**2021**	**2020**	**% Change**
Net sales						
Industrial	$ 234,679	$ 165,031	42.2	$ 454,671	$ 364,131	24.9
Aerospace	86,485	70,508	22.7	168,127	202,079	(16.8)
Intersegment sales	(6)	(2)		(11)	(3)	
Total net sales	$ 321,158	$ 235,537	36.4	$ 622,787	$ 566,207	10.0
Operating profit (loss)						
Industrial	$ 27,273	$ (300)	NM	$ 48,568	$ 17,625	175.6
Aerospace	11,270	10,415	8.2	22,355	41,804	(46.5)
Total operating profit	$ 38,543	$ 10,115	281.0	$ 70,923	$ 59,429	19.3
Operating margin			**Change**			**Change**
Industrial	11.6 %	(0.2)%	1,180 bps.	10.7 %	4.8 %	590 bps.
Aerospace	13.0 %	14.8 %	(180) bps.	13.3 %	20.7 %	(740) bps.
Total operating margin	12.0 %	4.3 %	770 bps.	11.4 %	10.5 %	90 bps.

NM - Not meaningful

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BARNES GROUP INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)
(Unaudited)

	June 30, 2021	December 31, 2020
Assets		
Current assets		
Cash and cash equivalents	$ 91,134	$ 79,145
Accounts receivable	260,203	251,460
Inventories	235,537	238,008
Prepaid expenses and other current assets	77,795	73,732
Total current assets	664,669	642,345
Deferred income taxes	21,899	22,092
Property, plant and equipment, net	357,403	370,947
Goodwill	986,061	1,011,580
Other intangible assets, net	534,836	564,132
Other assets	62,003	65,130
Total assets	$ 2,626,871	$ 2,676,226
Liabilities and Stockholders' Equity		
Current liabilities		
Notes and overdrafts payable	$ 14	$ 2,115
Accounts payable	124,458	112,428
Accrued liabilities	180,978	178,560
Long-term debt - current	1,983	2,276
Total current liabilities	307,433	295,379
Long-term debt	654,483	699,868
Accrued retirement benefits	93,633	98,171
Deferred income taxes	76,507	91,668
Long-term tax liability	52,114	59,063
Other liabilities	52,308	49,400
Total stockholders' equity	1,390,393	1,382,677
Total liabilities and stockholders' equity	$ 2,626,871	$ 2,676,226

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BARNES GROUP INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Six months ended June 30, 2021	Six months ended June 30, 2020
Operating activities:		
Net income	$ 43,873	$ 30,300
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	44,683	45,258
Gain on disposition of property, plant and equipment	(76)	(111)
Stock compensation expense	5,632	5,798
Seeger divestiture charges	—	6,620
Changes in assets and liabilities, net of the effects of divestitures:		
Accounts receivable	(12,660)	89,426
Inventories	89	(32,551)
Prepaid expenses and other current assets	(3,473)	(6,607)
Accounts payable	13,880	(12,401)
Accrued liabilities	1,721	2,581
Deferred income taxes	(5,101)	(5,417)
Long-term retirement benefits	889	(2,730)
Long-term tax liability	(6,949)	—
Other	3,213	3,028
Net cash provided by operating activities	85,721	123,194
Investing activities:		
Proceeds from disposition of property, plant and equipment	136	230
Proceeds from the sale of businesses, net of cash sold	—	36,879
Capital expenditures	(17,567)	(19,800)
Other	2,924	—
Net cash (used) provided by investing activities	(14,507)	17,309
Financing activities:		
Net change in other borrowings	(2,184)	(2,167)
Payments on long-term debt	(56,502)	(189,370)
Proceeds from the issuance of long-term debt	25,000	75,000
Proceeds from the issuance of common stock	210	350
Common stock repurchases	(5,229)	(15,550)
Dividends paid	(16,194)	(16,205)
Withholding taxes paid on stock issuances	(191)	(137)
Other	(3,477)	(3,531)
Net cash used by financing activities	(58,567)	(151,610)
Effect of exchange rate changes on cash flows	(1,252)	(1,722)
Increase (decrease) in cash, cash equivalents and restricted cash	11,395	(12,829)
Cash, cash equivalents and restricted cash at beginning of period	91,468	93,805
Cash, cash equivalents and restricted cash at end of period	102,863	80,976
Less: Restricted cash, included in Prepaid expenses and other current assets	(6,970)	—
Less: Restricted cash, included in Other assets	(4,759)	(6,738)
Cash and cash equivalents at end of period	$ 91,134	$ 74,238

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BARNES GROUP INC.
RECONCILIATION OF NET CASH PROVIDED BY OPERATING ACTIVITIES TO FREE CASH FLOW
(Dollars in thousands)
(Unaudited)

	Six months ended June 30,	
	2021	**2020**
Free cash flow:		
Net cash provided by operating activities	$ 85,721	$ 123,194
Capital expenditures	(17,567)	(19,800)
Free cash flow [1]	$ 68,154	$ 103,394

Notes:
(1) The Company defines free cash flow as net cash provided by operating activities less capital expenditures. The Company believes that the free cash flow metric is useful to investors and management as a measure of cash generated by business operations that can be used to invest in future growth, pay dividends, repurchase stock and reduce debt. This metric can also be used to evaluate the Company's ability to generate cash flow from business operations and the impact that this cash flow has on the Company's liquidity.

BARNES GROUP INC.
NON-GAAP FINANCIAL MEASURE RECONCILIATION
(Dollars in thousands, except per share data)
(Unaudited)

	Three months ended June 30,			Six months ended June 30,		
	2021	2020	% Change	2021	2020	% Change
SEGMENT RESULTS						
Operating Profit (Loss) - Industrial Segment (GAAP)	$ 27,273	$ (300)	NM	$ 48,568	$ 17,625	175.6
Restructuring/reduction in force charges	223	15,766		305	15,766	
Seeger divestiture adjustments	—	—		—	2,409	
Operating Profit - Industrial Segment as adjusted (Non-GAAP) (1)	$ 27,496	$ 15,466	77.8	$ 48,873	$ 35,800	36.5
Operating Margin - Industrial Segment (GAAP)	11.6 %	(0.2)%	1,180 bps.	10.7 %	4.8 %	590 bps.
Operating Margin - Industrial Segment as adjusted (Non-GAAP) (1)	11.7 %	9.4 %	230 bps.	10.7 %	9.8 %	90 bps.
Operating Profit - Aerospace Segment (GAAP)	$ 11,270	$ 10,415	8.2	$ 22,355	$ 41,804	(46.5)
Restructuring/reduction in force charges	439	1,939		449	1,939	
Operating Profit - Aerospace Segment as adjusted (Non-GAAP) (1)	$ 11,709	$ 12,354	(5.2)	$ 22,804	$ 43,743	(47.9)
Operating Margin - Aerospace Segment (GAAP)	13.0 %	14.8 %	(180) bps.	13.3 %	20.7 %	(740) bps.
Operating Margin - Aerospace Segment as adjusted (Non-GAAP) (1)	13.5 %	17.5 %	(400) bps.	13.6 %	21.6 %	(800) bps.
CONSOLIDATED RESULTS						
Operating Income (GAAP)	$ 38,543	$ 10,115	281.0	$ 70,923	$ 59,429	19.3
Restructuring/reduction in force charges	662	17,705		754	17,705	
Seeger divestiture adjustments	—	—		—	2,409	
Operating Income as adjusted (Non-GAAP) (1)	$ 39,205	$ 27,820	40.9	$ 71,677	$ 79,543	(9.9)
Operating Margin (GAAP)	12.0 %	4.3 %	770 bps.	11.4 %	10.5 %	90 bps.
Operating Margin as adjusted (Non-GAAP) (1)	12.2 %	11.8 %	40 bps.	11.5 %	14.0 %	(250) bps.
Diluted Net Income per Share (GAAP)	$ 0.48	$ 0.01	NM	$ 0.86	$ 0.59	45.8
Foreign tax matters	(0.04)	—		(0.04)	—	
Restructuring/reduction in force charges	0.01	0.26		0.01	0.26	
Seeger divestiture adjustments	—	—		—	0.13	
Diluted Net Income per Share as adjusted (Non-GAAP) (1)	$ 0.45	$ 0.27	66.7	$ 0.83	$ 0.98	(15.3)

	Full-Year 2020	Full-Year 2021 Outlook		
Diluted Net Income per Share (GAAP)	$ 1.24	$ 1.85	to	$ 2.00
Seeger divestiture adjustments	0.13		—	
Restructuring/reduction in force charges	0.27		0.02	
Foreign tax matters	—		(0.04)	
Diluted Net Income per Share as adjusted (Non-GAAP) (1)	$ 1.64	$ 1.83	to	$ 1.98

NM - Not meaningful

Notes:

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(1) The Company has excluded the following from its "as adjusted" financial measurements for 2021: 1) the impact of certain foreign tax matters including a benefit related to the Italy tax realignment, partially offset by a charge related to the UK tax rate and 2) charges related to restructuring actions at certain businesses. The Company has excluded the following from its "as adjusted" financial measurements for 2020: 1) adjustments related to the divestiture of the Seeger business, including $2.5M reflected within the Industrial segment's operating profit ($2.4M through the second quarter of 2020) and $4.2M of tax expense and 2) charges taken in 2020 related to restructuring and workforce reduction actions implemented across its businesses, including $18.2M reflected within operating profit ($17.7M in the second quarter) and $1.0M reflected within other expense (income), net ($0.5M in the second quarter). The tax charges resulting from the divestiture were recorded in the first quarter of 2020 following the completion of the sale. The tax effects of the restructuring actions were calculated based on the respective tax jurisdictions and approximated 30%. Management believes that these adjustments provide the Company and its investors with an indication of our baseline performance excluding items that are not considered to be reflective of our ongoing results. Management does not intend results excluding the adjustments to represent results as defined by GAAP, and the reader should not consider it as an alternative measurement calculated in accordance with GAAP, or as an indicator of the Company's performance. Accordingly, the measurements have limitations depending on their use.

Exhibit 99.1

Barnes Group Inc.
123 Main Street
Bristol, CT 06010

NEWS RELEASE

BARNES GROUP INC. REPORTS THIRD QUARTER 2021 FINANCIAL RESULTS

- **Sales of $325 million, up 21% from last year; Organic Sales up 20%**
- **Operating Income of $43.7 million; Adjusted Operating Income of $43.9 million, up 39% from last year**
- **Operating Margin of 13.4%; Adjusted Operating Margin of 13.5%, up 180 bps from last year**
- **GAAP EPS of $0.55; Adjusted EPS of $0.55, up 83% from last year's $0.30**
- **2021 Organic Sales Growth Expectation of up 11% to 12%**
- **2021 Adjusted EPS Outlook of $1.83 to $1.93; Up 12% to 18% from 2020 Adjusted EPS of $1.64**

BRISTOL, Conn., October 29, 2021 — Barnes Group Inc. (NYSE: B), a global provider of highly engineered products, differentiated industrial technologies, and innovative solutions, today reported financial results for the third quarter of 2021.

"Barnes Group generated a strong quarter of year-over-year performance with solid organic sales growth, further margin expansion, and increased earnings per share. Sequentially, sales, margin, and earnings likewise improved," said Patrick J. Dempsey, President and Chief Executive Officer of Barnes Group Inc. "Aerospace end markets continue to demonstrate solid recovery with improving flight activity. Industrial end markets, while seeing good customer demand, are experiencing some headwinds as supply chain issues remain a near-term challenge," added Dempsey.

Third Quarter 2021 Highlights

Third quarter 2021 net sales of $325 million were up 21% from $269 million in the prior year period, with organic sales [(1)] increasing 20%. Each of the Company's strategic business units generated double digit organic sales growth. Foreign exchange had a positive impact on sales of approximately 1%. On a sequential basis, sales improved 1% from the second quarter of 2021. Operating income was $43.7 million versus $31.2 million a year ago and operating margin was 13.4% versus 11.6% last year. Excluding restructuring charges of $0.2 million this year and $0.3 million in the prior year period, adjusted operating income was up 39% and adjusted operating margin was up 180 bps from a year ago.

Interest expense was $4.0 million, an increase of $0.3 million from the prior year quarter due to a higher average interest rate, offset in part by lower average borrowings.

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The Company's effective tax rate for the third quarter of 2021 was 27.6% compared with 44.1% in the third quarter of 2020 and 37.6% for the full year 2020. The decrease in the third quarter 2021 effective tax rate from the full year 2020 rate is primarily due to the absence of tax expense related to the sale of the Seeger business in 2020, a benefit relating to the tax basis of goodwill at Automation, the positive resolution of a foreign tax matter in the current year quarter, and a favorable mix in earnings based on tax jurisdictions. These items were partially offset by a charge relating to UK legislative changes.

Net income for the third quarter was $27.9 million, or $0.55 per diluted share, compared to $15.4 million, or $0.30 per diluted share, a year ago.

Year-to-date 2021 cash provided by operating activities was $127.8 million versus $163.8 million in the prior year period. Free cash flow was $101.1 million compared to $133.7 million last year. Capital expenditures were $26.7 million, down $3.4 million from a year ago.

Segment Performance and End Market Outlook

Industrial

Third quarter sales were $232 million, up 18% from $197 million in the prior year period. Organic sales increased 17% reflecting strong sales performance across each of our businesses. Favorable foreign exchange increased sales by approximately $2 million, or 1%. On a sequential basis, total Industrial sales decreased slightly from the second quarter of 2021.

Operating profit in the third quarter was $30.1 million, up 23% from $24.4 million in the prior year period. The increase in operating profit was driven by the contribution of higher sales volumes, offset in part by higher personnel costs including incentive compensation, higher raw material and freight costs, and costs incurred in support of segment growth initiatives. Operating margin was 13.0%, up 60 bps from a year ago.

Aerospace

Third quarter sales were $94 million, up 30% from $72 million last year, benefitting from an improving aerospace end market. Aerospace original equipment manufacturing (“OEM”) sales increased 23%, while aftermarket sales increased 46%. On a sequential basis, Aerospace sales increased 8% from the second quarter of 2021.

Operating profit was $13.6 million, up 100% from $6.8 million in the prior year period. Excluding $0.2 million of restructuring costs this year and $0.3 million in the prior year period, adjusted operating profit was up 95% from a year ago. The increase in adjusted operating profit was driven by the contribution of higher sales volumes and favorable productivity, offset in part by higher compensation costs including incentive compensation. Adjusted operating margin was 14.8%, up 490 bps from 9.9% last year.

Aerospace OEM backlog ended the third quarter at $665 million, down 4% from June 2021. The Company expects to convert approximately 40% of this backlog to revenue over the next 12 months.

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Balance Sheet and Liquidity

Barnes Group's balance sheet and liquidity profile remain well-positioned and supportive of ongoing investments in growth initiatives. The Company has liquidity of $93 million in cash and approximately $477 million available under the revolving credit facility, subject to covenants which would have allowed $283 million under our current credit agreements. With respect to the balance sheet, our "Debt to EBITDA" ratio, as defined in our credit agreements, was approximately 2.6 times at quarter end, down from 2.9 times at the end of the second quarter 2021.

Updated 2021 Outlook

Barnes Group continues to expect 2021 organic sales to be up 11% to 12%. Foreign exchange is anticipated to have an approximate 2% favorable impact on 2021 sales, while divested revenues will have an approximate negative 1% impact. Operating margin is now forecasted to be approximately 12.5%, down from the prior outlook of approximately 13% as raw material and freight costs are forecasted to have an impact on our Industrial business. Adjusted earnings per share are now anticipated to be in the range of $1.83 to $1.93, up 12% to 18% from 2020's adjusted earnings per share of $1.64 and lower at the top end of our prior range of $1.83 to $1.98. The Company expects capital expenditures of approximately $40 million and an effective tax rate of approximately 29% for 2021. Cash conversion in now expected to be approximately 120% of net income.

Conference Call Information

Barnes Group Inc. will conduct a conference call with investors to discuss third quarter 2021 results at 8:30 a.m. ET today, October 29, 2021. The public may access the conference through a live audio webcast available on the Investor Relations section of Barnes Group's website at www.BGInc.com. The conference is also available by direct dial at (844) 884-8225 in the U.S. or (647) 689-4194 outside of the U.S.; Conference ID 8123687. Supplemental materials will be posted to the Investor Relations section of the Company's website prior to the conference call.

In addition, the call will be recorded and available for playback from 12:00 p.m. (ET) on Friday, October 29, 2021 until 11:59 p.m. (ET) on Friday, November 5, 2021, by dialing (416) 621-4642; Conference ID 8123687.

Note:
(1) Organic sales growth represents the total reported sales increase within the Company's ongoing businesses less the impact of foreign currency translation and acquisition and divestitures completed in the preceding twelve months.

About Barnes Group
Barnes Group Inc. (NYSE: B) is a global provider of highly engineered products, differentiated industrial technologies, and innovative solutions, serving a wide range of end markets and customers. Its specialized products and services are used in far-reaching applications including aerospace, transportation, manufacturing, automation, healthcare, and packaging. The skilled and dedicated employees of Barnes Group around the globe are committed to the highest performance standards and achieving consistent, sustainable profitable growth. Barnes Group is committed to corporate accountability and furthering environmental, social and governance principles as evidenced by our listing as one of America's Most Responsible Companies by *Newsweek*. For more information, visit www.BGInc.com.

Forward-Looking Statements
This press release contains forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements often address our expected future operating and financial performance and financial condition, and

often contain words such as "anticipate," "believe," "expect," "plan," "estimate," "project," "continue," "will," "should," "may," and similar terms. These forward-looking statements do not constitute guarantees of future performance and are subject to a variety of risks and uncertainties that may cause actual results to differ materially from those expressed in the forward-looking statements. These include, among others: difficulty maintaining relationships with employees, customers, distributors, suppliers, business partners or governmental entities; failure to successfully negotiate collective bargaining agreements or potential strikes, work stoppages or other similar events; difficulties leveraging market opportunities; changes in market demand for our products and services; rapid technological and market change; the ability to protect and avoid infringing upon intellectual property rights; introduction or development of new products or transfer of work; higher risks in global operations and markets; the impact of intense competition; acts of terrorism, cybersecurity attacks or intrusions that could adversely impact our businesses; the continuing impact of the COVID-19 pandemic on our business, including on demand, supply chains, operations and our ability to maintain sufficient liquidity; the failure to achieve anticipated cost savings and benefits associated with workforce reductions and restructuring actions; uncertainties relating to conditions in financial markets; currency fluctuations and foreign currency exposure; future financial performance of the industries or customers that we serve; our dependence upon revenues and earnings from a small number of significant customers; a major loss of customers; inability to realize expected sales or profits from existing backlog due to a range of factors, including changes in customer sourcing decisions, material changes, production schedules and volumes of specific programs; the impact of government budget and funding decisions; government tariffs, trade agreements and trade policies; the impact of new or revised tax laws and regulations; the adoption of laws, directives or regulations that impact the materials processed by our products or their end markets; fluctuations in the pricing, quality or availability of raw materials, supplies, freight, transportation, utilities and other items required by operations; labor shortages or other business interruptions at transportation centers, shipping ports, our suppliers' facilities or our facilities; disruptions in information technology systems, including as a result of cybersecurity or data security breaches; the continuing impact of prior acquisitions and divestitures; and any other future strategic actions, including acquisitions, divestitures, restructurings, or strategic business realignments, and our ability to achieve the financial and operational targets set in connection with any such actions; the ability to achieve social and environmental performance goals; the outcome of pending and future legal, governmental, or regulatory proceedings and contingencies; the impact of actual, potential or alleged defects or failures of our products or third-party products within which our products are integrated, including product liabilities, product recall costs and uninsured claims; future repurchases of common stock; future levels of indebtedness; and numerous other matters of a global, regional or national scale, including those of a political, social, economic, business, competitive, environmental, regulatory and public health nature; and other risks and uncertainties described in documents filed with or furnished to the Securities and Exchange Commission ("SEC") by the Company, including, among others, those in the Management's Discussion and Analysis of Financial Condition and Results of Operations and Risk Factors sections of the Company's filings. The Company assumes no obligation to update its forward-looking statements.

Contact:
Barnes Group Inc.
William Pitts
Director, Investor Relations
860.583.7070

# # #

BARNES GROUP INC.
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands, except per share data)
(Unaudited)

	Three months ended September 30,			Nine months ended September 30,		
	2021	**2020**	**% Change**	**2021**	**2020**	**% Change**
Net sales	$ 325,059	$ 269,059	20.8	$ 947,846	$ 835,266	13.5
Cost of sales	205,079	176,908	15.9	602,943	532,214	13.3
Selling and administrative expenses	76,271	60,908	25.2	230,271	212,380	8.4
	281,350	237,816	18.3	833,214	744,594	11.9
Operating income	43,709	31,243	39.9	114,632	90,672	26.4
Operating margin	13.4 %	11.6 %		12.1 %	10.9 %	
Interest expense	4,027	3,701	8.8	12,443	11,924	4.4
Other expense (income), net	1,217	47	NM	3,952	2,700	46.4
Income before income taxes	38,465	27,495	39.9	98,237	76,048	29.2
Income taxes	10,602	12,137	(12.6)	26,501	30,390	(12.8)
Net income	$ 27,863	$ 15,358	81.4	$ 71,736	$ 45,658	57.1
Common dividends	$ 8,099	$ 8,097	0.0	$ 24,293	$ 24,302	(0.0)
Per common share:						
Net income:						
Basic	$ 0.55	$ 0.30	83.3	$ 1.41	$ 0.90	56.7
Diluted	0.55	0.30	83.3	1.40	0.89	57.3
Dividends	0.16	0.16	—	0.48	0.48	—
Weighted average common shares outstanding:						
Basic	50,905,202	50,833,157	0.1	50,925,702	50,886,094	0.1
Diluted	51,060,684	50,937,093	0.2	51,085,509	51,123,024	(0.1)

NM - Not meaningful

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BARNES GROUP INC.
OPERATIONS BY REPORTABLE BUSINESS SEGMENT
(Dollars in thousands)
(Unaudited)

	Three months ended September 30,			Nine months ended September 30,		
	2021	2020	% Change	2021	2020	% Change
Net sales						
Industrial	$ 231,549	$ 196,916	17.6	$ 686,220	$ 561,047	22.3
Aerospace	93,511	72,148	29.6	261,639	274,227	(4.6)
Intersegment sales	(1)	(5)		(13)	(8)	
Total net sales	$ 325,059	$ 269,059	20.8	$ 947,846	$ 835,266	13.5
Operating profit						
Industrial	$ 30,067	$ 24,438	23.0	$ 78,635	$ 42,063	86.9
Aerospace	13,642	6,805	100.5	35,997	48,609	(25.9)
Total operating profit	$ 43,709	$ 31,243	39.9	$ 114,632	$ 90,672	26.4
Operating margin			Change			Change
Industrial	13.0 %	12.4 %	60 bps.	11.5 %	7.5 %	400 bps.
Aerospace	14.6 %	9.4 %	520 bps.	13.8 %	17.7 %	(390) bps.
Total operating margin	13.4 %	11.6 %	180 bps.	12.1 %	10.9 %	120 bps.

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BARNES GROUP INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)
(Unaudited)

	September 30, 2021	December 31, 2020
Assets		
Current assets		
Cash and cash equivalents	$ 93,475	$ 79,145
Accounts receivable	260,146	251,460
Inventories	238,842	238,008
Prepaid expenses and other current assets	79,594	73,732
Total current assets	672,057	642,345
Deferred income taxes	21,153	22,092
Property, plant and equipment, net	347,541	370,947
Goodwill	967,481	1,011,580
Other intangible assets, net	517,324	564,132
Other assets	61,033	65,130
Total assets	$ 2,586,589	$ 2,676,226
Liabilities and Stockholders' Equity		
Current liabilities		
Notes and overdrafts payable	$ 1,799	$ 2,115
Accounts payable	124,603	112,428
Accrued liabilities	179,185	178,560
Long-term debt - current	1,969	2,276
Total current liabilities	307,556	295,379
Long-term debt	628,689	699,868
Accrued retirement benefits	91,685	98,171
Deferred income taxes	73,292	91,668
Long-term tax liability	52,114	59,063
Other liabilities	40,024	49,400
Total stockholders' equity	1,393,229	1,382,677
Total liabilities and stockholders' equity	$ 2,586,589	$ 2,676,226

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BARNES GROUP INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Operating activities:		
Net income	$ 71,736	$ 45,658
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	68,004	66,045
Gain on disposition of property, plant and equipment	(414)	(303)
Stock compensation expense	9,212	8,094
Seeger divestiture charges	—	6,620
Changes in assets and liabilities, net of the effects of divestitures:		
Accounts receivable	(15,649)	103,161
Inventories	(5,582)	(11,616)
Prepaid expenses and other current assets	(7,205)	(10,168)
Accounts payable	17,827	(24,476)
Accrued liabilities	(1,051)	(7,981)
Deferred income taxes	(7,052)	(5,032)
Long-term retirement benefits	2,308	(2,517)
Long-term tax liability	(6,949)	(6,949)
Other	2,605	3,296
Net cash provided by operating activities	127,790	163,832
Investing activities:		
Proceeds from disposition of property, plant and equipment	1,204	580
Proceeds from the sale of businesses, net of cash sold	—	36,879
Capital expenditures	(26,735)	(30,170)
Other	2,107	—
Net cash (used) provided by investing activities	(23,424)	7,289
Financing activities:		
Net change in other borrowings	(226)	6,794
Payments on long-term debt	(73,081)	(219,279)
Proceeds from the issuance of long-term debt	25,000	75,000
Proceeds from the issuance of common stock	464	1,661
Common stock repurchases	(5,229)	(15,550)
Dividends paid	(24,293)	(24,302)
Withholding taxes paid on stock issuances	(1,356)	(3,177)
Other	(9,835)	(2,217)
Net cash used by financing activities	(88,556)	(181,070)
Effect of exchange rate changes on cash flows	(2,923)	675
Increase (decrease) in cash, cash equivalents and restricted cash	12,887	(9,274)
Cash, cash equivalents and restricted cash at beginning of period	91,468	93,805
Cash, cash equivalents and restricted cash at end of period	104,355	84,531
Less: Restricted cash, included in Prepaid expenses and other current assets	(6,239)	—
Less: Restricted cash, included in Other assets	(4,641)	(7,046)
Cash and cash equivalents at end of period	$ 93,475	$ 77,485

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BARNES GROUP INC.
RECONCILIATION OF NET CASH PROVIDED BY OPERATING ACTIVITIES TO FREE CASH FLOW
(Dollars in thousands)
(Unaudited)

	Nine months ended September 30,	
	2021	**2020**
Free cash flow:		
Net cash provided by operating activities	$ 127,790	$ 163,832
Capital expenditures	(26,735)	(30,170)
Free cash flow [(1)]	$ 101,055	$ 133,662

Notes:
(1) The Company defines free cash flow as net cash provided by operating activities less capital expenditures. The Company believes that the free cash flow metric is useful to investors and management as a measure of cash generated by business operations that can be used to invest in future growth, pay dividends, repurchase stock and reduce debt. This metric can also be used to evaluate the Company's ability to generate cash flow from business operations and the impact that this cash flow has on the Company's liquidity.

BARNES GROUP INC.
NON-GAAP FINANCIAL MEASURE RECONCILIATION
(Dollars in thousands, except per share data)
(Unaudited)

	Three months ended September 30,			Nine months ended September 30,		
	2021	2020	% Change	2021	2020	% Change
SEGMENT RESULTS						
Operating Profit - Industrial Segment (GAAP)	$ 30,067	$ 24,438	23.0	$ 78,635	$ 42,063	86.9
Restructuring/reduction in force charges	(59)	—		246	15,766	
Seeger divestiture adjustments	—	—		—	2,409	
Operating Profit - Industrial Segment as adjusted (Non-GAAP) (1)	$ 30,008	$ 24,438	22.8	$ 78,881	$ 60,238	30.9
Operating Margin - Industrial Segment (GAAP)	13.0 %	12.4 %	60 bps.	11.5 %	7.5 %	400 bps.
Operating Margin - Industrial Segment as adjusted (Non-GAAP) (1)	13.0 %	12.4 %	60 bps.	11.5 %	10.7 %	80 bps.
Operating Profit - Aerospace Segment (GAAP)	$ 13,642	$ 6,805	100.5	$ 35,997	$ 48,609	(25.9)
Restructuring/reduction in force charges	222	304		671	2,243	
Operating Profit - Aerospace Segment as adjusted (Non-GAAP) (1)	$ 13,864	$ 7,109	95.0	$ 36,668	$ 50,852	(27.9)
Operating Margin - Aerospace Segment (GAAP)	14.6 %	9.4 %	520 bps.	13.8 %	17.7 %	(390) bps.
Operating Margin - Aerospace Segment as adjusted (Non-GAAP) (1)	14.8 %	9.9 %	490 bps.	14.0 %	18.5 %	(450) bps.
CONSOLIDATED RESULTS						
Operating Income (GAAP)	$ 43,709	$ 31,243	39.9	$ 114,632	$ 90,672	26.4
Restructuring/reduction in force charges	163	304		917	18,009	
Seeger divestiture adjustments	—	—		—	2,409	
Operating Income as adjusted (Non-GAAP) (1)	$ 43,872	$ 31,547	39.1	$ 115,549	$ 111,090	4.0
Operating Margin (GAAP)	13.4 %	11.6 %	180 bps.	12.1 %	10.9 %	120 bps.
Operating Margin as adjusted (Non-GAAP) (1)	13.5 %	11.7 %	180 bps.	12.2 %	13.3 %	(110) bps.
Diluted Net Income per Share (GAAP)	$ 0.55	$ 0.30	83.3	$ 1.40	$ 0.89	57.3
Foreign tax matters	—	—		(0.04)	—	
Restructuring/reduction in force charges	—	—		0.01	0.26	
Seeger divestiture adjustments	—	—		—	0.13	
Diluted Net Income per Share as adjusted (Non-GAAP) (1)	$ 0.55	$ 0.30	83.3	$ 1.37	$ 1.28	7.0

	Full-Year 2020	Full-Year 2021 Outlook		
Diluted Net Income per Share (GAAP)	$ 1.24	$ 1.85	to	$ 1.95
Seeger divestiture adjustments	0.13		—	
Restructuring/reduction in force charges	0.27		0.02	
Foreign tax matters	—		(0.04)	
Diluted Net Income per Share as adjusted (Non-GAAP) (1)	$ 1.64	$ 1.83	to	$ 1.93

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Notes:

(1) The Company has excluded the following from its "as adjusted" financial measurements for 2021: 1) the impact of certain foreign tax matters including a benefit related to the Italy tax realignment, partially offset by a charge related to the UK tax rate and 2) charges related to restructuring actions at certain businesses. The Company has excluded the following from its "as adjusted" financial measurements for 2020: 1) adjustments related to the divestiture of the Seeger business, including $2.5M reflected within the Industrial segment's operating profit ($2.4M through the third quarter of 2020) and $4.2M of tax expense and 2) charges taken in 2020 related to restructuring and workforce reduction actions implemented across its businesses, including $18.2M reflected within operating profit ($18.0M through the third quarter) and $1.0M reflected within other expense (income), net ($0.5M through the third quarter). The tax charges resulting from the divestiture were recorded in the first quarter of 2020 following the completion of the sale. The tax effects of the restructuring actions were calculated based on the respective tax jurisdictions and approximated 20% and 30% for the 2021 and 2020 periods, respectively. Management believes that these adjustments provide the Company and its investors with an indication of our baseline performance excluding items that are not considered to be reflective of our ongoing results. Management does not intend results excluding the adjustments to represent results as defined by GAAP, and the reader should not consider it as an alternative measurement calculated in accordance with GAAP, or as an indicator of the Company's performance. Accordingly, the measurements have limitations depending on their use.

Exhibit 99.1

Barnes

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BARNES REPORTS FOURTH QUARTER AND FULL YEAR 2021 FINANCIAL RESULTS
Generates solid sales and earnings growth, delivers good cash performance for 2021

Fourth Quarter 2021:
- Sales of $311 million, up 8% versus prior year period; Organic Sales up 9%
- Operating Margin of 11.4%; Adjusted Operating Margin of 11.4%, similar to a year ago
- GAAP EPS of $0.55; Adjusted EPS of $0.55, up 53% versus prior year period

Full Year 2021:
- Sales of $1,259 million, up 12% from 2020; Organic Sales up 11%
- Operating Margin of 11.9%; Adjusted Operating Margin of 12.0%, down 80 bps
- GAAP EPS of $1.96; Adjusted EPS of $1.94, up 18% from 2020

2022 Outlook:
- 2022 Organic Sales Growth of +8 to +10%
- 2022 Adjusted EPS of $2.20 to $2.45; Up 13% to 26% from 2021 Adjusted EPS of $1.94.

February 18, 2022

BRISTOL, Conn., — Barnes Group Inc. (NYSE: B), a global provider of highly engineered products, differentiated industrial technologies, and innovative solutions, today reported financial results for the fourth quarter and full year 2021.

“Barnes exits 2021 with a solid quarter of revenue and earnings growth, a book-to bill of 1.1 times, and a healthy backlog level. Our Aerospace business led the way with strong sales growth and margin improvement given the ongoing recovery in aviation-related end markets. Within Industrial, supply chain and inflationary challenges persisted weighing on sales growth and margin performance in the fourth quarter,” said Patrick J. Dempsey, President and Chief Executive Officer of Barnes. “As aerospace flight activity further rebounds, and we build upon the progress made in our automation and medical end markets, we envision 2022 as another step towards our return to sustainable growth and margin improvement,” added Dempsey.

Fourth Quarter 2021 Highlights

Fourth quarter 2021 net sales of $311 million were up 8% from $289 million in the prior year period, with organic sales [(1)] increasing 9%. Operating income was $35.4 million versus $32.7 million a year ago. Operating margin increased 10 bps to 11.4%. Excluding a small net restructuring charge, adjusted operating income was $35.4 million and adjusted operating margin was 11.4%, flat to last year.

Net income for the fourth quarter was $28.1 million, or $0.55 per diluted share, compared to $17.7 million, or $0.35 per diluted share, a year ago. On an adjusted basis, net income per share of $0.55 was up 53% from $0.36 a year ago. Adjusted net income per diluted share in the fourth quarter of 2021 excludes a small net restructuring charge while the prior year excludes a $0.01 of combined restructuring costs and Seeger divestiture adjustments.

Full Year 2021 Highlights

For the full year 2021, Barnes generated net sales of $1,259 million, up 12% from $1,124 million in the prior year. Full year organic sales were up 11%. Operating income was $150.0 million versus $123.4 million a year ago, while operating margin increased 90 bps to 11.9%. On an adjusted basis, operating income was $151.0 million this year versus $144.0 million last year, an increase of 5%. Adjusted operating margin was 12.0%, down 80 bps from the prior year.

Interest expense for 2021 was $16.2 million, an increase of $0.3 million from the prior year due to the impact of higher average interest rates, partially offset by decreased borrowings during the period. Other expense was $6.0 million, essentially unchanged from a year ago.

The Company's effective tax rate in 2021 was 21.9% compared with 37.6% last year with the decrease largely due to the absence of tax on the divestiture of Seeger in 2020, a benefit related to a realignment of Italian tax basis goodwill and intangibles, a benefit related to foreign audit adjustments, a change in the mix of earnings between high and low taxing jurisdictions, and a decrease in the GILTI tax.

Net income for the year was $99.9 million, or $1.96 per diluted share, compared to $63.4 million, or $1.24 per diluted share, a year ago. On an adjusted basis, 2021 net income per share was $1.94, up 18% from $1.64 in 2020. Adjusted net income per share for 2021 excludes a $0.04 benefit due to foreign tax matters and $0.02 of restructuring costs. For 2020, adjusted net income per share excludes $0.27 of restructuring costs and $0.13 of Seeger divestiture adjustments.

2021 full year cash provided by operating activities was $167.8 million versus $215.5 million in the prior year period. Free cash flow was $133.7 million compared to $174.8 million last year. Capital expenditures were $34.1 million, down $6.6 million from a year ago.

Segment Performance

Industrial
Fourth quarter sales were $210 million, up 1% from $209 million in the prior year period. Organic sales increased 3%. Unfavorable foreign exchange decreased sales by approximately $4 million, or 2%. Operating profit in the fourth quarter was $19.1 million, down 22% from $24.5 million in the prior year period. Operating margin was 9.1%, down 260 bps from a year ago. Excluding a favorable restructuring

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benefit of approximately $0.1 million in the current year, and an aggregate $0.2 million of restructuring charges and Seeger divestiture adjustments last year, adjusted operating profit of $18.9 million was down 23% from 2020, and adjusted operating margin of 9.0% was down 280 bps. The decrease in adjusted operating profit was primarily driven by higher labor, raw material and freight costs, and costs incurred in support of segment growth initiatives.

Industrial's full year 2021 sales were $896 million, up 16% from $770 million a year ago. Organic sales were up 14%. The Seeger divestiture had an unfavorable sales impact of 1%, while favorable foreign exchange had a positive impact of 3%. Full year operating profit of $97.7 million was up 47% from $66.6 million in the prior year. On an adjusted basis, operating profit was $97.8 million versus $85.0 million a year ago, an increase of 15%. Adjusted operating margin was 10.9%, down 10 bps from 2020.

Aerospace
Fourth quarter sales were $101 million, up 26% from $80 million last year, benefitting from an improving aerospace end market. Aerospace original equipment manufacturing ("OEM") sales increased 18%, while aftermarket sales increased 45% compared to the prior year period.

Operating profit was $16.3 million in the fourth quarter, up 99% from $8.2 million in the prior year period. Excluding $0.2 million of restructuring costs this year, adjusted operating profit of $16.5 million was up 101% from a year ago. The increase in adjusted operating profit was driven by the contribution of higher sales volumes and favorable productivity, offset in part by higher compensation costs including incentive compensation. Adjusted operating margin was 16.4%, up 620 bps from 10.2% last year.

Full year 2021 Aerospace sales were $362 million, up 2% from $354 million last year. Operating profit was $52.3 million, down 8% from last year's $56.8 million while operating margin was 14.4%, down 160 bps from a year ago. On an adjusted basis, operating profit was $53.2 million down 10% from a year ago and adjusted operating margin was 14.7%, down 200 bps.

Aerospace OEM backlog ended 2021 at $680 million, up 2% from September 2021. The Company expects to convert approximately 40% of this backlog to revenue over the next 12 months.

Balance Sheet and Liquidity

Barnes' balance sheet and liquidity profile remain well-positioned and supportive of ongoing investments in growth initiatives. The Company has liquidity of $103 million in cash and approximately $505 million available under the revolving credit facility, subject to covenants which would have allowed $202 million under our current credit agreements. With respect to the balance sheet, our "Debt to EBITDA" ratio, as defined in our credit agreements, was approximately 2.4 times at quarter end, down from 2.6 times at the end of the third quarter 2021.

2022 Full Year Outlook

Barnes expects 2022 organic sales to be up 8% to 10%. Foreign exchange is anticipated to have an unfavorable 2% impact on 2022 sales. Adjusted operating margin is forecasted to be in the range of 13.0% to 14.0%. Adjusted earnings are expected to be in the range of $2.20 to $2.45 per diluted share, up 13% to 26% from 2021's adjusted earnings of $1.94 per share. 2022 adjusted earnings per share are anticipated to exclude a $0.02 impact related to residual restructuring activities primarily in the Aerospace segment. The Company forecasts capital expenditures of approximately $60 million and cash conversion of greater than 100% of net income. The effective tax rate for 2022 is expected to be approximately 25.5% to 26.5%.

"Despite meaningful headwinds which flow from the persistent influence of the pandemic in some of our businesses, we finished 2021 demonstrating noteworthy resilience. We again generated strong cash conversion, and our balance sheet continues to strengthen. We've made significant investments in innovation and growth during 2021, and these are expected to position us well moving forward, notwithstanding current market challenges. In addition, we remain committed to add to our portfolio through value enhancing acquisitions, and our diligence in finding strategic opportunities is ongoing," said Julie K. Streich, Senior Vice President, Finance and Chief Financial Officer, Barnes.

Conference Call Information

Barnes will conduct a conference call with investors to discuss fourth quarter and full year 2021 results at 8:30 a.m. ET today, February 18, 2022. The public may access the conference through a live audio webcast available on the Investor Relations section of Barnes' website at www.barnesgroupinc.com.
The conference is also available by direct dial at (888) 510-2379 in the U.S. or (646) 960-0691 outside of the U.S.; Conference ID 1137078. Supplemental materials will be posted to the Investor Relations section of the Company's website prior to the conference call.

In addition, the call will be recorded and available for playback from 12:00 p.m. (ET) on Friday, February 18, 2022 until 11:59 p.m. (ET) on Friday, February 25, 2022, by dialing (647) 362-9199; Conference ID 1137078.

Note:
(1) Organic sales growth represents the total reported sales increase within the Company's ongoing businesses less the impact of foreign currency translation and acquisition and divestitures completed in the preceding twelve months.

About Barnes
Barnes Group Inc. (NYSE: B) pioneers technologies to help change the world. Employees across the globe are dedicated to Persistent Ingenuity™ – advancing what's possible and delivering to the highest

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BARNES

standards. We serve a wide range of end markets and customers, including healthcare, automation, packaging, aerospace, mobility, and manufacturing, delivering breakthrough products and services to shape a more inclusive and sustainable world. For more information, visit www.barnesgroupinc.com.

Forward-Looking Statements

This press release contains forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements often address our expected future operating and financial performance and financial condition, and often contain words such as "anticipate," "believe," "expect," "plan," "estimate," "project," "continue," "will," "should," "may," and similar terms. These forward-looking statements do not constitute guarantees of future performance and are subject to a variety of risks and uncertainties that may cause actual results to differ materially from those expressed in the forward-looking statements. These include, among others: the Company's ability to manage economic, business and geopolitical conditions, including global price inflation and shortages impacting the availability of materials; the duration and severity of the COVID-19 pandemic, including its impacts across our business on demand, supply chains, operations and liquidity; failure to successfully negotiate collective bargaining agreements or potential strikes, work stoppages or other similar events; changes in market demand for our products and services; rapid technological and market change; the ability to protect and avoid infringing upon intellectual property rights; challenges associated with the introduction or development of new products or transfer of work; higher risks in global operations and markets; the impact of intense competition; the physical and operational risks from natural disasters, severe weather events, climate change which may limit accessibility to sufficient water resources, outbreaks of contagious diseases and other adverse public health developments, and acts of terrorism; the failure to achieve anticipated cost savings and benefits associated with workforce reductions and restructuring actions; currency fluctuations and foreign currency exposure; impacts from goodwill impairment and related charges; our dependence upon revenues and earnings from a small number of significant customers; a major loss of customers; inability to realize expected sales or profits from existing backlog due to a range of factors, including changes in customer sourcing decisions, material changes, production schedules and volumes of specific programs; the impact of government budget and funding decisions; government tariffs, trade agreements and trade policies; changes or uncertainties in laws, regulations, rates, policies or interpretations that impact the Company's business operations or tax status, including those that address climate change, environmental, health and safety matters, and the materials processed by our products or their end markets; fluctuations in the pricing or availability of raw materials, freight, transportation, utilities and other items required by our operations; labor shortages or other business interruptions at transportation centers, shipping ports, our suppliers' facilities or our facilities; disruptions in information technology systems, including as a result of cybersecurity attacks or data security breaches; the ability to hire and retain senior management and qualified personnel; the continuing impact of prior acquisitions and divestitures, and any other future strategic actions, and our ability to achieve the financial and operational targets set in connection with any such actions; the ability to achieve social and environmental performance goals; the outcome of pending and future litigation and governmental proceedings; the impact of actual, potential or alleged defects or failures of our products or third-party products within which our products are integrated, including product liabilities, product recall costs and uninsured claims;

BARNES

future repurchases of common stock; future levels of indebtedness; and other risks and uncertainties described in documents filed with or furnished to the Securities and Exchange Commission ("SEC") by the Company, including, among others, those in the Management's Discussion and Analysis of Financial Condition and Results of Operations and Risk Factors sections of the Company's filings. The Company assumes no obligation to update its forward-looking statements.

Category: Earnings

Category: General

Investors:
Barnes Group Inc.
William Pitts
Vice President, Investor Relations
860.583.7070

BARNES GROUP INC.
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands, except per share data)
(Unaudited)

	Three months ended December 31,			Twelve months ended December 31,		
	2021	2020	% Change	2021	2020	% Change
Net sales	$ 311,000	$ 289,125	7.6	$ 1,258,846	$ 1,124,391	12.0
Cost of sales	200,906	189,024	6.3	803,850	721,238	11.5
Selling and administrative expenses	74,708	67,403	10.8	304,978	279,783	9.0
	275,614	256,427	7.5	1,108,828	1,001,021	10.8
Operating income	35,386	32,698	8.2	150,018	123,370	21.6
Operating margin	11.4 %	11.3 %		11.9 %	11.0 %	
Interest expense	3,766	4,021	(6.3)	16,209	15,944	1.7
Other expense (income), net	2,041	3,230	(36.8)	5,992	5,931	1.0
Income before income taxes	29,579	25,447	16.2	127,817	101,495	25.9
Income taxes	1,443	7,730	(81.3)	27,944	38,120	(26.7)
Net income	$ 28,136	$ 17,717	58.8	$ 99,873	$ 63,375	57.6
Common dividends	$ 8,109	$ 8,100	0.1	$ 32,402	$ 32,402	—
Per common share:						
Net income:						
Basic	$ 0.55	$ 0.35	57.1	$ 1.96	$ 1.25	56.8
Diluted	0.55	0.35	57.1	1.96	1.24	58.1
Dividends	0.16	0.16	—	0.64	0.64	—
Weighted average common shares outstanding:						
Basic	50,928,466	50,865,216	0.1	50,926,374	50,880,846	0.1
Diluted	51,058,961	51,021,633	0.1	51,079,063	51,097,586	(0.0)

BARNES GROUP INC.
OPERATIONS BY REPORTABLE BUSINESS SEGMENT
(Dollars in thousands)
(Unaudited)

	Three months ended December 31,			Twelve months ended December 31,		
	2021	2020	% Change	2021	2020	% Change
Net sales						
Industrial	$ 210,275	$ 209,080	0.6	$ 896,495	$ 770,127	16.4
Aerospace	100,725	80,045	25.8	362,363	354,272	2.3
Intersegment sales	—	—		(12)	(8)	
Total net sales	$ 311,000	$ 289,125	7.6	$ 1,258,846	$ 1,124,391	12.0
Operating profit						
Industrial	$ 19,091	$ 24,519	(22.1)	$ 97,726	$ 66,582	46.8
Aerospace	16,295	8,179	99.2	52,292	56,788	(7.9)
Total operating profit	$ 35,386	$ 32,698	8.2	$ 150,018	$ 123,370	21.6
Operating margin			Change			Change
Industrial	9.1 %	11.7 %	(260) bps.	10.9 %	8.6 %	230 bps.
Aerospace	16.2 %	10.2 %	600 bps.	14.4 %	16.0 %	(160) bps.
Total operating margin	11.4 %	11.3 %	10 bps.	11.9 %	11.0 %	90 bps.

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BARNES GROUP INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)
(Unaudited)

	December 31, 2021	December 31, 2020
Assets		
Current assets		
Cash and cash equivalents	$ 102,860	$ 79,145
Accounts receivable	262,257	251,460
Inventories	239,655	238,008
Prepaid expenses and other current assets	75,437	73,732
Total current assets	680,209	642,345
Deferred income taxes	21,976	22,092
Property, plant and equipment, net	341,462	370,947
Goodwill	955,370	1,011,580
Other intangible assets, net	500,246	564,132
Other assets	77,557	65,130
Total assets	$ 2,576,820	$ 2,676,226
Liabilities and Stockholders' Equity		
Current liabilities		
Notes and overdrafts payable	$ 1,900	$ 2,115
Accounts payable	131,076	112,428
Accrued liabilities	175,583	178,560
Long-term debt - current	1,835	2,276
Total current liabilities	310,394	295,379
Long-term debt	599,932	699,868
Accrued retirement benefits	76,784	98,171
Deferred income taxes	66,704	91,668
Long-term tax liability	52,114	59,063
Other liabilities	42,126	49,400
Total stockholders' equity	1,428,766	1,382,677
Total liabilities and stockholders' equity	$ 2,576,820	$ 2,676,226

BARNES GROUP INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Twelve months ended December 31,	
	2021	**2020**
Operating activities:		
Net income	$ 99,873	$ 63,375
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	91,085	87,656
Gain on disposition of property, plant and equipment	(1,027)	(94)
Stock compensation expense	11,470	10,300
Seeger divestiture charges	—	6,677
Changes in assets and liabilities, net of the effects of divestitures:		
Accounts receivable	(18,793)	107,381
Inventories	(7,350)	2,147
Prepaid expenses and other current assets	(5,208)	(5,721)
Accounts payable	22,909	(9,968)
Accrued liabilities	(1,630)	(37,430)
Deferred income taxes	(19,354)	(5,867)
Long-term retirement benefits	3,423	(1,418)
Long-term tax liability	(6,949)	(6,949)
Other	(643)	5,373
Net cash provided by operating activities	167,806	215,462
Investing activities:		
Proceeds from disposition of property, plant and equipment	3,007	449
Proceeds from the sale of businesses, net of cash sold	—	36,062
Capital expenditures	(34,117)	(40,698)
Other	1,304	—
Net cash used by investing activities	(29,806)	(4,187)
Financing activities:		
Net change in other borrowings	(173)	(5,855)
Payments on long-term debt	(115,507)	(266,424)
Proceeds from the issuance of long-term debt	48,300	98,107
Proceeds from the issuance of common stock	1,427	1,989
Common stock repurchases	(5,229)	(15,550)
Dividends paid	(32,402)	(32,402)
Withholding taxes paid on stock issuances	(1,421)	(3,368)
Other	(9,661)	3,837
Net cash used by financing activities	(114,666)	(219,666)
Effect of exchange rate changes on cash flows	(2,893)	6,054
Increase (decrease) in cash, cash equivalents and restricted cash	20,441	(2,337)
Cash, cash equivalents and restricted cash at beginning of year	91,468	93,805
Cash, cash equivalents and restricted cash at end of year	111,909	91,468
Less: Restricted cash, included in Prepaid expenses and other current assets	(4,524)	(4,944)
Less: Restricted cash, included in Other assets	(4,525)	(7,379)
Cash and cash equivalents at end of year	$ 102,860	$ 79,145

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BARNES GROUP INC.
RECONCILIATION OF NET CASH PROVIDED BY OPERATING ACTIVITIES TO FREE CASH FLOW
(Dollars in thousands)
(Unaudited)

	Twelve months ended December 31,	
	2021	**2020**
Free cash flow:		
Net cash provided by operating activities	$ 167,806	$ 215,462
Capital expenditures	(34,117)	(40,698)
Free cash flow [(1)]	$ 133,689	$ 174,764
Free cash flow to net income cash conversion ratio (as adjusted):		
Net income	$ 99,873	$ 63,375
Seeger divestiture charges	—	6,677
Net income (as adjusted) [(2)]	$ 99,873	$ 70,052
Free cash flow to net income cash conversion ratio (as adjusted) [(2)]	134 %	249 %

__Notes:__
(1) The Company defines free cash flow as net cash provided by operating activities less capital expenditures. The Company believes that the free cash flow metric is useful to investors and management as a measure of cash generated by business operations that can be used to invest in future growth, pay dividends, repurchase stock and reduce debt. This metric can also be used to evaluate the Company's ability to generate cash flow from business operations and the impact that this cash flow has on the Company's liquidity.

(2) For the purpose of calculating the cash conversion ratio, the Company has excluded the Seeger divestiture charges from 2020 net income.

BARNES GROUP INC.
NON-GAAP FINANCIAL MEASURE RECONCILIATION
(Dollars in thousands, except per share data)
(Unaudited)

	Three months ended December 31,			Twelve months ended December 31,		
	2021	2020	% Change	2021	2020	% Change
SEGMENT RESULTS						
Operating Profit - Industrial Segment (GAAP)	$ 19,091	$ 24,519	(22.1)	$ 97,726	$ 66,582	46.8
Restructuring/reduction in force charges	(144)	141		103	15,907	
Seeger divestiture adjustments	—	57		—	2,466	
Operating Profit - Industrial Segment as adjusted (Non-GAAP) (1)	$ 18,947	$ 24,717	(23.3)	$ 97,829	$ 84,955	15.2
Operating Margin - Industrial Segment (GAAP)	9.1 %	11.7 %	(260) bps.	10.9 %	8.6 %	230 bps.
Operating Margin - Industrial Segment as adjusted (Non-GAAP) (1)	9.0 %	11.8 %	(280) bps.	10.9 %	11.0 %	(10) bps.
Operating Profit - Aerospace Segment (GAAP)	$ 16,295	$ 8,179	99.2	$ 52,292	$ 56,788	(7.9)
Restructuring/reduction in force charges	194	8		864	2,251	
Operating Profit - Aerospace Segment as adjusted (Non-GAAP) (1)	$ 16,489	$ 8,187	101.4	$ 53,156	$ 59,039	(10.0)
Operating Margin - Aerospace Segment (GAAP)	16.2 %	10.2 %	600 bps.	14.4 %	16.0 %	(160) bps.
Operating Margin - Aerospace Segment as adjusted (Non-GAAP) (1)	16.4 %	10.2 %	620 bps.	14.7 %	16.7 %	(200) bps.
CONSOLIDATED RESULTS						
Operating Income (GAAP)	$ 35,386	$ 32,698	8.2	$ 150,018	$ 123,370	21.6
Restructuring/reduction in force charges	50	149		967	18,158	
Seeger divestiture adjustments	—	57		—	2,466	
Operating Income as adjusted (Non-GAAP) (1)	$ 35,436	$ 32,904	7.7	$ 150,985	$ 143,994	4.9
Operating Margin (GAAP)	11.4 %	11.3 %	10 bps.	11.9 %	11.0 %	90 bps.
Operating Margin as adjusted (Non-GAAP) (1)	11.4 %	11.4 %	— bps.	12.0 %	12.8 %	(80) bps.
Diluted Net Income per Share (GAAP)	$ 0.55	$ 0.35	57.1	$ 1.96	$ 1.24	58.1
Foreign tax matters	—	—		(0.04)	—	
Restructuring/reduction in force charges	—	0.01		0.02	0.27	
Seeger divestiture adjustments	—	—		—	0.13	
Diluted Net Income per Share as adjusted (Non-GAAP) (1)	$ 0.55	$ 0.36	52.8	$ 1.94	$ 1.64	18.3

	Full-Year 2022 Outlook		
Diluted Net Income per Share (GAAP)	$ 2.18	to	$ 2.43
Restructuring/reduction in force charges		0.02	
Diluted Net Income per Share as adjusted (Non-GAAP) (1)	$ 2.20	to	$ 2.45

Notes:
(1) The Company has excluded the following from its "as adjusted" financial measurements for 2021: 1) the impact of certain foreign tax matters including a benefit related to the Italy tax realignment, partially offset by a charge related to the UK tax rate and 2) charges related to restructuring actions at certain businesses. The Company has excluded the following from its "as adjusted" financial measurements for 2020: 1) adjustments related to the divestiture of the Seeger business, including $2.5M reflected within the Industrial segment's operating profit and $4.2M of tax expense and 2) charges taken in 2020 related to restructuring and workforce reduction actions implemented across its businesses, including $18.2M reflected within operating profit ($0.1M in the fourth quarter) and $1.0M reflected within other expense (income), net ($0.5M in the fourth quarter). The tax charges resulting from the divestiture were recorded in the first quarter of 2020 following the completion of the sale. The tax effects of the restructuring actions were calculated based on the respective tax jurisdictions and ranged from approximately 15% to approximately 34%. Management believes that these adjustments provide the Company and its investors with an indication of our baseline performance excluding items that are not considered to be reflective of our ongoing results. Management does not intend results excluding the adjustments to represent results as defined by GAAP, and the reader should not consider it as an alternative measurement calculated in accordance with GAAP, or as an indicator of the Company's performance. Accordingly, the measurements have limitations depending on their use.

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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

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

For the transition period from to

Commission file number 1-4801

BARNES GROUP INC.
(Exact name of registrant as specified in its charter)

Delaware (State of incorporation)	**06-0247840** (I.R.S. Employer Identification No.)
123 Main Street Bristol Connecticut (Address of Principal Executive Office)	**06010** (Zip Code)

(860) 583-7070
Registrant's telephone number, including area code

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

Title of Each Class	Trading Symbol	Name of Each Exchange on Which Registered
Common Stock, par value $0.01 per share	B	New York Stock Exchange

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 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 check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 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 the 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 Act). Yes ☐ No ☒

The aggregate market value of the voting stock (Common Stock) held by non-affiliates of the registrant as of the close of business on June 30, 2021 was approximately $2,421,981,805 based on the closing price of the Common Stock on the New York Stock Exchange on that date. The registrant does not have any non-voting common equity.

The registrant had outstanding 50,692,397 shares of common stock as of February 16, 2022.

Documents Incorporated by Reference

Portions of the registrant's definitive proxy statement to be delivered to stockholders in connection with the Annual Meeting of Stockholders to be held on May 6, 2022 are incorporated by reference into Part III.

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Barnes Group Inc.
Index to Form 10-K
Year Ended December 31, 2021

FORWARD-LOOKING STATEMENTS

This Annual Report may contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements often address our expected future operating and financial performance and financial condition, and often contain words such as "anticipate," "believe," "expect," "plan," "estimate," "project," "continue," "will," "should," "may," and similar terms. These forward-looking statements do not constitute guarantees of future performance and are subject to a variety of risks and uncertainties that may cause actual results to differ materially from those expressed in the forward-looking statements. These include, among others: the Company's ability to manage economic, business and geopolitical conditions, including global price inflation and shortages impacting the availability of materials; the duration and severity of the COVID-19 pandemic, including its impacts across our business on demand, supply chains, operations and liquidity; failure to successfully negotiate collective bargaining agreements or potential strikes, work stoppages or other similar events; changes in market demand for our products and services; rapid technological and market change; the ability to protect and avoid infringing upon intellectual property rights; challenges associated with the introduction or development of new products or transfer of work; higher risks in global operations and markets; the impact of intense competition; the physical and operational risks from natural disasters, severe weather events, climate change which may limit accessibility to sufficient water resources, outbreaks of contagious diseases and other adverse public health developments, and acts of terrorism; the failure to

achieve anticipated cost savings and benefits associated with workforce reductions and restructuring actions; currency fluctuations and foreign currency exposure; impacts from goodwill impairment and related charges; our dependence upon revenues and earnings from a small number of significant customers; a major loss of customers; inability to realize expected sales or profits from existing backlog due to a range of factors, including changes in customer sourcing decisions, material changes, production schedules and volumes of specific programs; the impact of government budget and funding decisions; government tariffs, trade agreements and trade policies; changes or uncertainties in laws, regulations, rates, policies or interpretations that impact the Company's business operations or tax status, including those that address climate change, environmental, health and safety matters, and the materials processed by our products or their end markets; fluctuations in the pricing or availability of raw materials, freight, transportation, utilities and other items required by our operations; labor shortages or other business interruptions at transportation centers, shipping ports, our suppliers' facilities or our facilities; disruptions in information technology systems, including as a result of cybersecurity attacks or data security breaches; the ability to hire and retain senior management and qualified personnel; the continuing impact of prior acquisitions and divestitures, and any other future strategic actions, and our ability to achieve the financial and operational targets set in connection with any such actions; the ability to achieve social and environmental performance goals; the outcome of pending and future litigation and governmental proceedings; the impact of actual, potential or alleged defects or failures of our products or third-party products within which our products are integrated, including product liabilities, product recall costs and uninsured claims; future repurchases of common stock; future levels of indebtedness; and other risks and uncertainties described in this Annual Report. The Company assumes no obligation to update its forward-looking statements.

PART I

Item 1. Business

BARNES GROUP INC. [(1)]

Barnes Group Inc. (the “Company”) is a global provider of highly engineered products, differentiated industrial technologies, and innovative solutions, serving a wide range of end markets and customers. Its specialized products and services are used in far-reaching applications including healthcare, automation, packaging, aerospace, mobility, and manufacturing. The Company’s skilled and dedicated employees around the globe are committed to the highest performance standards and achieving consistent, sustainable profitable growth.

Our Strategy

The Company’s strategy consists of four pillars to drive our vision:

1. **Build a World-class Company Focused on High Margin, High Growth Businesses** - We proactively manage our business portfolio with a focus on multiple platforms and market channels, in end-markets where projected long-term growth and favorable macro-economic trends are present. By doing so, we expect to create superior value for our key stakeholders - our shareholders, customers, employees and the communities in which we operate.

2. **Leverage the Barnes Enterprise System (“BES”) as a Significant Competitive Advantage** - BES is our integrated operating system that promotes a culture of employee engagement and empowerment and drives alignment across the organization around a common vision. BES standardizes our business processes to allow us to achieve commercial, operational and financial excellence in everything we do.

3. **Expand and Protect Our Intellectual Property to Deliver Differentiated Solutions** - Driven by a passion for innovation, we embrace intellectual property as a core differentiator to create proprietary products, processes and systems. We foster an environment that generates great ideas and shares best practices to maximize our collective strengths and create economies of scale in the development and commercialization of new and innovative products and services.

4. **Create Value for All Stakeholders** - Our employees continue to be our most important asset and are a key driver of our success. Underscoring our purpose and our commitment to providing opportunity for everyone who chooses to be a part of our family remains paramount. Our customers look to us for reliability, partnership and innovation. Under our new brand we seek to provide that and more – continuing to deliver excellence and anticipate the solutions they need. For our shareholders, we strive to deliver consistent, profitable growth and to be good stewards of capital. We aim to invest in the Company, both organically and acquisitively, to position our businesses to successfully compete in global markets, while generating top quartile shareholder returns. Finally, our commitment to environmental, social and governance ("ESG"), respecting and giving back to our communities, will always be foundational to who we are.

The Company continues to expand applied and fundamental research and development activities to generate a continuous flow of innovative new products and services for our customers. Focal areas include the development of new technology that significantly improves existing products, components, integrated systems and services, and the development of new applications for existing products and services. Our product development strategy is driven by product design teams and collaboration with our customers, particularly within Industrial’s Molding Solutions and Automation businesses. Initial focus has been on four key technology platforms including digitalization, software, hardware and sensors, each of which we believe will be instrumental to the future success of the Company. These combined technologies are planned to be at the core of the next generation of products and services we bring to market. Investments in research and development are critical to our long-term growth, enabling us to meet changing customer and marketplace needs.

(1) As used in this annual report, “Company,” “Barnes Group,” “we” and “ours” refer to the registrant and its consolidated subsidiaries except where the context requires otherwise, and “Industrial” and “Aerospace” refer to the registrant’s segments, not to separate corporate entities.

Structure

The Company operates under two global business segments: Industrial and Aerospace. The Industrial segment includes the Molding Solutions, Force & Motion Control, Automation and Engineered Components business units. The Aerospace segment includes the Original Equipment Manufacturing ("OEM") business and the Aftermarket business, which includes maintenance repair and overhaul ("MRO") services and the manufacture and delivery of aerospace aftermarket spare parts.

REPORTABLE SEGMENTS

Industrial

The Industrial segment is a global provider of highly-engineered, high-quality precision components, products and systems for critical applications serving a diverse customer base in end-markets such as mobility, industrial equipment, automation, personal care, packaging, electronics, and medical devices. Focused on innovative custom solutions, Industrial participates in the design phase of components and assemblies whereby customers receive the benefits of application and systems engineering, new product development, testing and evaluation, and the manufacturing of final products. Products are sold primarily through its direct sales force and global distribution channels. Industrial's Molding Solutions business designs and manufactures customized hot runner systems, advanced mold cavity sensors and process control systems, and precision high cavitation mold assemblies - collectively, the enabling technologies for many complex injection molding applications. The Force & Motion Control business provides innovative cost-effective force and motion control solutions for a wide range of metal forming and other industrial markets. The Automation business designs and develops robotic grippers, advanced end-of-arm tooling systems, sensors and other automation components for intelligent robotic handling solutions and industrial automation applications. Industrial's Engineered Components business manufactures and supplies precision mechanical products used in transportation and industrial applications, including mechanical springs and high-precision punched and fine-blanked components.

Industrial competes with a broad base of large and small companies engaged in the manufacture and sale of engineered products, precision molds, hot runner systems, robotic handling solutions and precision components. Industrial competes on the basis of quality, service, reliability of supply, engineering and technical capability, geographic reach, product breadth, innovation, design, timeliness and price. Industrial has a global presence, with manufacturing, distribution and assembly operations in the United States, China, Germany, Italy, Sweden and Switzerland, among others. Industrial also has sales and service operations in the United States, China/Hong Kong, Germany, Italy and Switzerland, among others. For additional information regarding net sales by geographic area, refer to Notes 3 and 21 of the Consolidated Financial Statements. Sales by Industrial to its five largest customers accounted for approximately 10% of its sales in 2021.

Aerospace

Aerospace is a global manufacturer of complex fabricated and precision-machined components and assemblies for turbine engines, nacelles and structures for both commercial and defense-related aircraft. The Aerospace Aftermarket business provides aircraft engine component MRO services, including services performed under our Component Repair Programs ("CRPs"), for many of the world's major turbine engine manufacturers, commercial airlines and the defense market. The Aerospace Aftermarket business also manufactures and delivers aftermarket spare parts and participates in revenue sharing programs ("RSPs") under which the Company has an exclusive right to supply designated aftermarket parts over the life of specific aircraft engine programs.

Aerospace's OEM business offers a comprehensive range of in-house manufacturing solutions and capabilities, including components and assemblies. The applications for these components primarily include engines, airframes and nacelles. Aerospace OEM competes with a large number of fabrication and machining companies. Our competitive advantage is based mainly on value derived from quality, concurrent engineering and technical capability, product breadth, solutions-providing new product introduction, timeliness, service, price and intellectual property. Aerospace's fabrication and machining operations, with facilities in Connecticut, Michigan, Ohio, Utah and Singapore, produce critical engine, nacelle and airframe components through technologically advanced manufacturing processes.

The Aerospace Aftermarket business supplements jet engine OEMs' maintenance, repair and overhaul capabilities, and competes with the service centers of major commercial airlines and other independent service companies for the repair and overhaul of turbine engine components. The manufacture and supply of aerospace aftermarket spare parts, including those related to the RSPs, are dependent upon the reliable and timely delivery of high-quality components. Aerospace's Aftermarket facilities, located in Connecticut, Ohio and Singapore, specialize in the repair and refurbishment of highly engineered components and assemblies such as cases, rotating life limited parts, rotating air seals, turbine shrouds, vanes and honeycomb air seals. Aerospace Aftermarket's facility in Malaysia is focused on the supply of spare parts. For additional information regarding net sales by geographic area, refer to Notes 3 and 21 of the Consolidated Financial Statements. Sales by Aerospace to its three largest customers, General Electric ("GE"), Rolls-Royce and Raytheon Technologies Corporation, accounted for approximately 55%, 10% and 7% of its sales in 2021, respectively. Sales to its next three largest customers in 2021 collectively accounted for approximately 9% of its total sales.

RESOURCES OF THE BUSINESS

Human Capital Management

Our people are one of our greatest assets. Our skilled and dedicated employees around the globe are committed to the highest performance standards and achieving consistent, sustainable profitable growth. At December 31, 2021, the Company had approximately 5,100 employees worldwide. Approximately 20% were in the Asia-Pacific region, 40% in the Europe, Middle East and Africa region and 40% in the Americas region.

The Company maintains a global Health, Safety and Environmental Affairs ("HSE") program which focuses on employee safety throughout the enterprise. Our HSE program maintains a set of HSE standards, consistent with our commitment to worker health and safety and to environmental protection, as well as with prevailing regulatory frameworks in place around the globe. All locations are required to meet local laws and regulations, or the HSE Standards, whichever are more stringent. We measure and monitor results using standard protocols, which are communicated to the senior leadership team and Board of Directors on a regular basis.

With the safety of our employees as our priority, we continuously focus on proactive risk identification and mitigation with emphasis on “practicing safety.” Employee health and safety remained center stage in 2021 as we continued to implement preventive measures and controls with the goal of protecting our employees and keeping our operations running safely.

The Company’s long history is grounded in its core values and principles which have guided our ongoing transformation and growth. Our Company Values promote a culture of collaboration, empowerment, diversity and inclusion, and an environment providing opportunity, dignity and respect for all of our employees. Grounded in these values and as an integral part of BES, we manage human capital through our Talent Management System ("TMS"). TMS integrates our key human resource processes and tools to facilitate talent management decisions and enables the Company to have the right people with the right skills in the right roles at the right time. TMS enhances our ability to attract and hire talented employees, as well as supports their growth, development and engagement - empowering them to perform at their very best, every day. Aligned with our vision, TMS helps accelerate the ongoing transformation of our Company, to drive business performance, and support the successful execution of the Company’s growth strategy.

The TMS framework focuses on five key areas (pillars) - Attract, Perform, Develop, Engage and Recognize – all supported by tools and processes that our employees, managers and leaders can use to support their own professional growth and development, as well as leverage to make better talent management decisions that promote and cultivate an agile and high performance organization.

Attract – encompasses the processes and tools available to employees and management that support and facilitates the planning and effective recruiting, hiring and on-boarding of our employees.

Perform – highlights the processes and tools that help our employees fully leverage and utilize their skills and capabilities to perform at their best and contribute meaningfully to achieving the goals and objectives of the business.

Develop – comprises the Human Resource processes and tools that support the growth and development of our employees through on-going training, skill-building, assessment, career planning and development and enrichment opportunities.

Engage – contains Human Resource programs and tools that support employee engagement and involvement across the Company and in the communities in which our employees work and live.

Recognize – aligned with our “pay-for-performance” philosophy, highlights Human Resource processes and programs used to recognize and reward our employees and facilitate their on-going engagement. Furthermore, our compensation programs are designed to align the compensation of our employees with the company’s performance provide the proper incentives to attract, retain and motivate employees to achieve superior results for both short-term and long-term performance.

In managing our global businesses, and as part of TMS, we focus on several human capital measures and objectives including those related to the hiring, performance, succession planning and retention of our employees. We accomplish this through the effective utilization of our robust TMS tools, and the ongoing commitment and engagement of the senior leadership team – all with a view of identifying and developing the next generation workforce, the future leaders of the Company and promoting a high-performance organization.

Intellectual Property

Patents and other proprietary rights, including trade secrets, unpatented know-how such as know-how related to manufacturing processes, and continuing technological innovations, are important to our business. We own a large portfolio of patents, trademarks and trade names and are a party to certain intellectual property licenses that enhance our competitive position. While we consider them to be valuable assets, we do not believe that any of these patents, trademarks or other intellectual property rights is individually significant to the Company or either of our segments. We maintain procedures to protect our intellectual property. For a discussion of certain risks related to the Company's intellectual property, see "Part I, Item 1A. Risk Factors - Risks Related to Intellectual Property".

Regulatory Capital Expenditures

The Company's efforts to comply with numerous federal, state and local laws and regulations applicable to its business and products often results in capital expenditures. The Company makes capital expenditures to design and upgrade its aerospace and industrial products to comply with or exceed standards applicable to the industries we serve. The Company's ongoing HSE compliance program also results in capital expenditures. Regulatory and HSE considerations are a part of significant capital expenditure decisions; however, expenditures during 2021 related solely to regulatory compliance were not material.

Raw Materials

The principal raw materials used to manufacture our products are various grades and forms of steel, from rolled steel bars, plates and sheets, to high-grade valve steel wires and sheets, various grades and forms (bars, sheets, forgings, castings and powders) of stainless steels, aluminum alloys, titanium alloys, copper alloys, graphite, and iron-based, nickel-based (Inconels) and cobalt-based (Hastelloys) superalloys for complex aerospace applications. Prices for steel, titanium, Inconel, Hastelloys, as well as other specialty materials, have periodically increased due to higher demand and, in some cases, reduction of the availability of materials. During portions of fiscal year 2021, for example, the Company experienced increased commodity and component prices and, in some instances, shortages due to supply chain disruptions, labor shortages, increased demand and other factors associated with COVID-19. The Company expects continued volatility in the availability and prices for commodities and raw materials that we use in our products and in our supply chain in fiscal year 2022.

SEASONALITY

No material portion of our business is considered to be seasonal.

EXECUTIVE OFFICERS OF THE COMPANY

For information regarding the Executive Officers of the Company, see Part III, Item 10 of this Annual Report.

GOVERNMENTAL REGULATIONS AND ENVIRONMENTAL MATTERS

We are subject to numerous environmental, legal, and regulatory requirements related to our products and global operations. For a discussion of the risks associated with these, see "Part I - Item 1A - Risk Factors."

We are subject to laws and regulations related to anti-corruption such as the U.S. Foreign Corrupt Practices Act, data privacy and security laws, such as the European Union's General Data Protection Regulation, and regulations relating to import-export control. A portion of our products, including defense-related products, may require governmental licenses. Additionally, our U.S. government contracts are generally subject to Federal Acquisition Regulations ("FAR"), agency-specific regulations that implement or supplement FAR, and other applicable laws and regulations which impose a broad range of requirements,

many of which are unique to government contracting. These include various procurement, import and export, security, disclosure of cost and pricing data, contract termination and adjustment, and audit requirements.

Our products and operations, including past and present business operations and, past and present ownership and operations of real property, are subject to a variety of extensive and changing U.S. federal, state, local, and non-U.S. environmental, health and safety laws and regulations concerning, among other things, the health and safety of our employees; product safety, packaging and labeling; the generation, storage, use, transportation and disposal of certain materials (including chemicals and hazardous materials) used in or derived from our manufacturing processes; emissions or discharges of substances into the environment; and investigation and remediation of hazardous substances or materials at various sites. We use and generate hazardous substances and wastes in our operations. In addition, many of our current and former properties are or have been used for industrial purposes. Accordingly, we monitor hazardous waste management and applicable environmental permitting and reporting for compliance with applicable laws at our locations in the ordinary course of our business.

Moreover, climate change and other ESG-related laws, regulations, treaties, and similar initiatives and programs are being adopted and implemented throughout the world, many of which we will be required to comply. We are committed to maintaining compliance with ESG-related laws applicable to our operations and products. We endeavor to meet this commitment through our global HSE program described above, and an approach to ethical standards and strong governance that are foundational to our business.

AVAILABLE INFORMATION

The Company maintains a website (www.barnesgroupinc.com) and our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports are available without charge on our website as soon as reasonably practicable after they are filed with, or furnished to, the U.S. Securities and Exchange Commission ("SEC"). In addition, we have posted on our website, and will make available in print to any stockholder who makes a request, our Corporate Governance Guidelines, our Code of Business Ethics and Conduct ("Code"), and the charters of the Audit Committee, Compensation and Management Development Committee and Corporate Governance Committee (the responsibilities of which include serving as the nominating committee) of the Company's Board of Directors. We post in the Governance section of the Investor Relations page of our website information regarding any amendment to, or waiver from, the provisions of the Code to the extent such disclosure is required. References to our website addressed in this Annual Report are provided as a convenience and do not constitute, and should not be viewed as, an incorporation by reference of the information contained on, or available through, the website. Therefore, such information should not be considered part of this Annual Report.

Item 1A. Risk Factors

Our business, financial condition, results of operations and/or cash flows could be materially and adversely affected by any of the following risks. Our business could also be affected by additional risks that are not presently known to us or that we currently consider to be immaterial. The below risks should be read in conjunction with Part II - Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations."

RISKS RELATED TO THE COVID-19 PANDEMIC

Our business, results of operations and financial condition have been adversely affected, and could be materially adversely affected in the future, by the global COVID-19 pandemic and related economic disruptions. COVID-19 has negatively impacted the global economy, disrupted global supply chains, caused inflationary pressure in the U.S. and elsewhere, and created significant volatility, uncertainty and disruption within global financial markets. COVID-19 has adversely affected, and continues to pose risks to, our business, including our operational and financial performance, and may adversely impact our stock price, our ability to access capital markets and our ability to fund liquidity needs. Moreover, it may have the effect of heightening many of the other risks described in this Part I, Item 1A.

There is considerable uncertainty regarding the duration and extent to which COVID-19 will continue to spread in certain regions of the world; its severity; the emergence, contagiousness, and threat of new and different strains of the virus; the impact of measures to try to contain the virus, both within and outside the U.S., such as travel bans and restrictions, quarantines, shelter-in-place orders, vaccine and testing mandates, government shutdowns and other restrictions; disruptions or closures of our manufacturing operations or those of our customers and suppliers; the success of these measures; disruptions in the supply chain, including those caused by industry capacity constraints, material availability, and global logistics delays and constraints arising from, among other things, transportation capacity of ocean shipping containers; and an increasingly competitive labor market due to a sustained labor shortage or increased turnover. Efforts to combat the virus have been complicated by viral variants and uneven access to, and acceptance and effectiveness of, vaccines globally. Although certain restrictions related to COVID-19 have eased, uncertainty continues to exist regarding such measures and potential future measures, and this uncertainty is expected to continue in 2022, and may significantly adversely affect our business and outlook.

We have incurred and expect to continue to incur increased operating expenses in order to protect our employees, including for personal protective equipment and medical/safety supplies, additional cleaning supplies and services, testing supplies, and vaccination and testing status tracking tools. Uncertainties also remain with regard to the impact of COVID-19 on our customers and customer demand for our products and services, customer restrictions on our ability to visit their sites or otherwise access their employees, and the ability of our customers to pay for our products and services. For example, customers may decelerate decision making, delay planned work or seek to terminate existing agreements. Additional uncertainties include our ability to sell and provide our products and services due to transportation challenges and increased logistics costs; adherence to applicable travel restrictions and "shelter in place" orders; challenges and additional operating costs associated with continued remote working arrangements; adherence to social distancing guidelines; employee absenteeism, including employees who perform critical functions, due to illness, quarantine as a result of exposure or failure to comply with vaccine or testing mandates and policies; increased privacy-related risks due to processing health-related personal information; and legal claims related to personal protective equipment furnished by the Company or alleged exposure to COVID-19 on our premises or as a result of our employees at customer sites.

COVID-19 has had and continues to have a material impact on air travel and the aviation industry. Several countries, including the United States, have taken steps to restrict air travel, and many companies have from time to time adopted policies prohibiting or curtailing non-essential business travel by their employees. Even in the absence of formal restrictions and prohibitions, infections and fear of contagion have adversely affected travel behavior which may continue. Moreover, airlines have, and may continue to have COVID-related staffing shortages resulting in flight cancellations and reduced numbers of flights. The foregoing has reduced demand for commercial aircraft. If COVID-19 continues to have a material impact on the airline and aviation industry, including on GE and our other large customers, it could continue to materially affect the business and results of operations of our Aerospace business.

RISKS RELATED TO OUR BUSINESSES AND THE INDUSTRIES WITHIN WHICH WE OPERATE

We depend on revenues and earnings from a small number of significant customers. Any bankruptcy of or loss of or cancellation, reduction or delay in purchases by these customers could harm our business. Net sales to GE and its subsidiaries in 2021 accounted for 16% of our total sales and approximately 55% of Aerospace's net sales. Aerospace's second and third largest customers, Rolls-Royce and Raytheon Technologies Corporation and their respective subsidiaries, accounted for 10% and 7%, respectively, of Aerospace's net sales in 2021. Approximately 9% of Aerospace's net sales in 2021 were to its next three largest customers. Approximately 10% of Industrial's sales in 2021 were to its five largest customers. Some of our success will depend on the business strength and viability of those customers. We cannot assure you that we will be able to retain our largest customers. Some of our customers may in the future reduce their purchases due to economic conditions or shift their purchases from us to our competitors, in-house or to other sources. Some of our long-term sales agreements provide that the customer may unilaterally reduce or discontinue its projected purchases without penalty or terminate for convenience. The loss of one or more of our largest customers, any reduction, cancellation or delay in sales to these customers (including a reduction in aftermarket volume in our Aerospace Aftermarket business' Revenue Sharing Programs), our inability to successfully develop relationships with new customers, or future price concessions we make to retain customers could significantly reduce our sales and profitability.

We may not recover all of our up-front costs related to new or existing programs. New programs may require significant up-front investments for capital equipment, engineering, inventory, design and tooling. As OEMs in the transportation and aerospace industries have looked to suppliers to bear increasing responsibility for the design, engineering and manufacture of systems and components, they have increasingly shifted the financial risk associated with those responsibilities to the suppliers as well. This trend may continue and is most evident in the area of engineering cost reimbursement. We cannot assure you that we will have adequate funds to make such up-front investments or to recover such costs from our customers as part of our product pricing or through sales volume. In such event, our profitability, liquidity and cash flows may be adversely affected. In addition, we incur costs and make capital expenditures for new program awards based upon certain estimates of production volumes and production complexity. While we attempt to recover such costs and capital expenditures by appropriately pricing our products, the prices of our products are based in part upon planned production volumes. If the actual production is significantly less than planned or significantly more complex than anticipated, we may be unable to recover such costs. In addition, because a significant portion of our overall costs is fixed, declines in our customers' production levels can adversely affect the level of our reported profits even if our up-front investments are recovered.

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We may not realize all of the sales expected from our existing backlog or anticipated orders. At December 31, 2021, we had $904.6 million of order backlog, the majority of which related to Aerospace OEM customers, as compared with $832.7 million at the end of 2020. Of the 2021 year-end backlog, $689.6 million was attributable to Aerospace and $215.0 million was attributable to Industrial. Approximately 55% of the Company's consolidated year-end backlog is expected to be recognized during 2022, with the remainder scheduled to be recognized after 2022. There can be no assurances that the revenues projected in our backlog will be realized or, if realized, will result in profits. We consider backlog to be firm customer orders for future delivery. 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 may 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 this occurs, we may be protected from certain costs and losses, but our sales will nevertheless be adversely affected. Although we strive to maintain strong relationships with our customers, there is an ongoing risk that orders may be canceled or rescheduled due to fluctuations in our customers' business requirements.

Also, our realization of sales from new and existing programs is inherently subject to a number of important risks and uncertainties, including whether our customers execute the launch of programs on time, or at all, the number of units that our customers actually produce, the timing of production and manufacturing insourcing decisions made by our customers. In addition, until firm orders are placed, our customers may have the right to discontinue a program or replace us with another supplier at any time without penalty. Our failure to realize sales from new and existing programs could have a material adverse effect on our net sales, results of operations and cash flows.

We face risks of cost overruns and losses on fixed-price contracts and orders in backlog. We sell certain of our products under firm, fixed-price contracts providing for a fixed price for the products regardless of the production or purchase costs incurred by us, which includes certain orders in backlog, some of which have long lead times. The cost of producing and delivering products may be adversely affected by increases in the cost of labor, materials, fuel, outside processing, freight, shipping, overhead and other factors, including manufacturing inefficiencies. Such increased costs may result in cost overruns and losses on contracts.

Original equipment manufacturers in the aerospace and transportation industries have significant pricing leverage over suppliers and may be able to achieve price reductions over time. Additionally, we may not be successful in our efforts to raise prices on our customers. While many of our customers permit periodic adjustments to pricing based on changes in component prices and other factors, we may bear the risk of price increases that occur between any such repricing or, if such repricing is not permitted, during the balance of the term of the particular customer contract. There is substantial and continuing pressure from OEMs in the aerospace and transportation industries, including automotive, to reduce the prices they pay to suppliers. We attempt to manage such downward pricing pressure, while trying to preserve our business relationships with our customers, by seeking to reduce our production costs through various measures, including purchasing raw materials and components at lower prices and implementing cost-effective process improvements. 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 OEM price reductions, our profitability and cash flows could be adversely affected. In addition, OEMs have substantial leverage in setting purchasing and payment terms, including the terms of accelerated payment programs under which payments are made prior to the account due date in return for an early payment discount. OEMs can unexpectedly change their purchasing policies and/or payment practices, which could have a negative impact on our short-term working capital.

We operate in highly competitive markets. Our future growth is dependent upon our ability to bring to market competitive, and increasingly complex, new products and services that achieve market acceptance with acceptable margins. Our two global business segments compete with a number of larger and smaller companies in the markets we serve. Some of our competitors have greater financial, production, research and development, or other resources than we do. Within Aerospace, certain of our OEM customers compete with our repair and overhaul business, and some compete with us where they have the ability to manufacture the components and assemblies that we supply to them but have chosen, for capacity limitations, cost considerations or other reasons, to outsource the manufacturing to us. Our customers award business based on, among other things, price, quality, reliability of supply, service, technology and design. Our competitors' efforts to grow market share could exert downward pressure on our product pricing and margins. Our competitors may also develop products or services, or methods of delivering those products or services, that are superior to ours. In addition, our competitors may adapt more quickly than us to new technologies or evolving customer requirements. We cannot assure you that we will be able to compete successfully with our existing or future competitors.

The industries in which we operate have been experiencing consolidation, both in our suppliers and the customers we serve. Supplier consolidation is in part attributable to OEMs more frequently awarding long-term sole source or preferred supplier contracts to the most capable suppliers in an effort to reduce the total number of suppliers. If consolidation of our

existing competitors or customers occurs, we would expect the competitive pressures we face to increase, and we cannot assure you that our business, financial condition, results of operations or cash flows will not be adversely impacted as a result.

Our operations focus on highly engineered components which require extensive engineering and research and development time. Moreover, our ability to develop new products and services and to compete successfully will depend, in part, on our ability to continue to make investments of significant resources. These efforts divert resources from other potential investments in our businesses, may not lead to the development of new products or services on a timely basis, and may require us to reduce costs by such means as reducing excess capacity, improving productivity, eliminating redundancies and increasing production in low-cost countries. We have invested, and expect to continue to invest, in increasing our manufacturing footprint in low-cost countries. We cannot assure you that we will have sufficient resources to continue to make such investments or that we will be successful in maintaining our competitive position. If we are unable to differentiate our products and services or maintain a low-cost footprint, we may lose market share or be forced to reduce prices, thereby lowering our margins.

Our competitive advantage may be adversely impacted if we cannot continue to introduce new products ahead of our competition, or if our products are rendered obsolete by other products or by new, different technologies and processes. The success of our new products will depend on a number of factors, including innovation, customer acceptance, the efficiency of our suppliers in providing materials and component parts, and the performance and quality of our products relative to those of our competitors. Additionally, we may face increased or unexpected costs associated with new product introduction, including the use of additional resources such as personnel and capital. We cannot provide assurance that we will not experience new product introduction delays in the future. As we introduce new products, we may be unable to detect and correct defects in product design. Even after introduction, new or enhanced products may not satisfy customer preferences and product failures may cause customers to reject our products. As a result, these products may not achieve market acceptance and our brand image could suffer. Any such occurrences could significantly reduce our revenues, increase our operating costs, or otherwise materially and adversely affect our business, financial condition, results of operations and cash flows.

The development of new products and services presents security risks. An increasing number of our products and services, including our moldMIND® product line, are delivered with digital capabilities and the accompanying interconnected device networks, some of which include sensors, data, and advanced computing capabilities. If we are unable to manage the lifecycle cybersecurity risk in development, deployment and operation of our digital platforms and services, the possible consequences include financial loss, reputational damage, exposure to legal claims or enforcement actions, theft of intellectual property, the diminution in the value of our investment in research, development and engineering, and increased cybersecurity protection and remediation costs, which in turn could adversely affect our business, financial condition, results of operations and cash flows.

A significant portion of the sales of certain businesses within our Industrial segment are realized from the design, manufacture, distribution and service of highly-engineered and customized products and systems for plastic injection molding and plastics processing across a broad spectrum of applications. Sales volume is dependent upon the need for equipment used to produce plastic products, which may be significantly influenced by the demand for plastic products, the capital investment needs of companies in the plastic injection molding and plastics processing industries, changes in technological advances, and changes in laws or regulations such as those related to single-use plastics, product and packaging composition, and recycling. Decrease in demand for plastic products or equipment used in the production of plastic products or unfavorable developments in these industries generally could have a material adverse effect on our business, financial condition, and results of operations.

Demand for our defense-related products depends on government spending. A portion of Aerospace's sales is derived from defense markets, including single-sourced and dual-sourced sales. The defense market is largely dependent upon government budgets and is subject to governmental appropriations. Although multi-year contracts may be authorized in connection with major procurements, funds are generally appropriated on a fiscal year basis even though a program may be expected to continue for several years. Consequently, programs are often only partially funded and additional funds are committed only as further appropriations are made. We cannot assure you that maintenance of or increases in defense spending will be allocated to programs that would benefit our business. Moreover, we cannot assure you that new defense-related aircraft programs in which we participate will enter full-scale production as expected. A decrease in levels of defense spending or the government's termination of, or failure to fully fund, one or more of the contracts for the programs in which we participate could have a material adverse effect on our financial position and results of operations.

The aerospace industry is highly regulated. Complications related to aerospace regulations may adversely affect the Company. A substantial portion of our income is derived from our aerospace businesses. The aerospace industry is highly regulated in the U.S. by the Federal Aviation Administration and in other countries by similar regulatory agencies. We must be certified by these agencies and, in some cases, by individual OEMs in order to engineer, produce and service systems and

components used in specific aircraft models. If material authorizations or approvals were delayed, suspended or revoked, our business could be adversely affected. In the future, new or more stringent governmental regulations may be adopted or industry oversight heightened, and we may incur significant expenses to comply with any such new regulations or heightened industry oversight.

Fluctuations in the price of jet fuel, resins, energy and other raw materials and their availability may impact our operating results. Fuel costs constitute a significant portion of operating expenses for companies in the aerospace industry. Fluctuations in fuel costs could impact levels and frequency of aircraft maintenance and overhaul activities, and airlines' decisions on maintaining, deferring or canceling new aircraft purchases, in part based on the value associated with new fuel efficient technologies. Increases in fuel prices can also increase our packaging and transportation costs. Both we and our customers purchase supplies of resins, which are oil-based components used in the manufacture of certain products, and any significant increases in resin costs could adversely impact future operating results, including as a result of customers' decisions on maintaining, deferring or canceling new programs. Weather-related events, natural disasters, political disruptions or wars involving oil-producing countries, changes in governmental policy concerning aircraft fuel production, changes in refining capacity, and other unpredictable events may result in future fuel supply shortages and fuel price increases. For example, widespread disruption to oil production, refinery operations and pipeline capacity in certain areas of the U.S. can impact the price of jet fuel significantly. Geopolitical conflicts, such as conflicts in the Middle East, an important source of oil for the U.S. and other countries where we do business, cause prices for fuel to be volatile. In addition, new laws or regulations adopted in response to climate change could increase energy and transportation costs, as well as the costs of certain raw materials and components. Recently, the costs of certain raw materials, transportation and energy necessary for our operations and the production and distribution of our products have increased significantly. While we have implemented cost containment measures and selective price increases, as well as taken other actions to offset these inflationary pressures in our supply chain, we may not be able to completely offset all the increases in our operational costs, and there could be a material adverse effect on our financial condition or results of operations.

RISKS ASSOCIATED WITH OPERATING A GLOBAL BUSINESS AND REGULATORY RISKS

Our operations depend on our global manufacturing, sales and service facilities and information systems which are subject to physical, environmental, operational and other risks that could disrupt our operations. We have a significant number of manufacturing facilities, technical service centers, and sales and distribution centers both within and outside the U.S. The global scope of our business subjects us to increased risks and uncertainties such as threats of war, terrorism and instability of governments, and economic, regulatory and legal systems in countries in which we or our customers conduct business. In addition, our customers' and suppliers' facilities, as well as our own facilities, are located in areas that may be affected by natural disasters, including earthquakes, windstorms, droughts and floods, or by limited accessibility to sufficient water resources, which could cause significant physical damage and disruption to our equipment and facilities, as well as the infrastructure of our customers and suppliers, and, in turn, could have a material adverse effect on our business, financial condition, results of operations and cash flows. Additionally, some of our manufacturing equipment and tooling is custom-made and is not readily replaceable. Loss of such equipment or tooling could have a negative impact on our manufacturing capabilities and, as a result, our financial condition, results of operations and cash flows.

A major catastrophe such as an earthquake, windstorm, drought, flood or other natural disaster, infectious disease outbreak, significant labor strikes, work stoppages, or political unrest, in any of the areas where we or our customers or key suppliers conduct operations could result in a prolonged interruption of our business. Any disruption resulting from these events could cause significant delays in the manufacture or shipment of products or the provision of repair and other services that may result in our loss of sales and customers. Although we have obtained property damage and business interruption insurance, our insurance will not cover all potential risks, and we cannot assure you that we will have adequate insurance to compensate us for all losses that result from any insured risks. Any material loss not covered by insurance could have a material adverse effect on our financial condition, results of operations and cash flows. We cannot assure you that insurance will be available in the future at a cost acceptable to us or at a cost that will not have a material adverse effect on our profitability, net income and cash flows.

The global nature of our operations subjects us to financial and regulatory risks in the countries in which we and our customers, suppliers and other business partners operate. In addition, we sell or may in the future sell our products and services to the U.S. and foreign governments and in foreign countries. As a global business, we are subject to complex laws, regulations and other conditions in the U.S. and other countries in which we operate, and associated risks, including: U.S.-imposed embargoes of sales to specific countries; foreign import controls; import regulations and duties; export regulations (which require us to comply with stringent licensing regimes); reporting requirements regarding the use of "conflict" minerals mined from certain countries; anti-dumping regulations; unclaimed property laws; price and currency controls; dividend remittance restrictions; expropriation of assets; war, civil uprisings and riots; government instability; government-imposed economic uncertainties, such as a prolonged U.S. federal government shutdown; government contracting requirements

including cost accounting standards and various procurement, security and audit requirements, as well as requirements to certify to the government compliance with these requirements; the necessity of obtaining governmental approval for new and continuing products and operations; and legal systems or decrees, laws, taxes, regulations, interpretations and court decisions that are not always fully developed and that may be retroactively or arbitrarily applied. We have experienced inadvertent violations of some of these regulations, including export regulations and regulations prohibiting sales of certain products in the past, none of which has had or, we believe, will have a material adverse effect on our business. Any significant violations of these or other regulations in the future could result in civil or criminal sanctions, suspension of production, loss of export or other licenses, other restrictions on our operations or damage to our reputation. We may also be subject to unanticipated income taxes, excise and custom duties, import taxes, export taxes, value added taxes, or other governmental assessments, and taxes may be impacted by changes in legislation in the tax jurisdictions in which we operate. In addition, our organizational and capital structure may limit our ability to transfer funds between countries without incurring adverse tax consequences. Any of these events could result in a loss of business or other unexpected costs that could reduce sales or profits and have a material adverse effect on our financial condition, results of operations and cash flows.

We are subject to environmental laws and regulations and the risk of environmental liabilities, violations and litigation. We are subject to a variety of U.S. federal, state, local and non-U.S. environmental, health and safety laws and regulations concerning, among other things, the health and safety of our employees, the generation, storage, use, transportation and disposal of certain materials including hazardous materials, emissions or discharges of substances into the environment, and investigation and remediation of hazardous substances or materials at various sites. Our operations involve the use of substances subject to these laws and regulations, primarily those used in manufacturing processes. Our failure to comply with these laws or regulations could result in regulatory penalties, fines, and legal liabilities; suspension of production; alteration of our manufacturing; damage to our reputation; and restrictions on our operations or sales. Furthermore, environmental laws outside of the U.S. are becoming more stringent, resulting in increased costs and compliance burdens.

In addition, certain environmental laws assess liability on current or previous owners or operators of real property for the costs of investigation, removal or remediation of hazardous substances or materials at their properties or at properties from or upon which they have disposed of hazardous substances. In addition to cleanup actions brought by governmental authorities or private parties could bring personal injury or other claims due to the presence of, or exposure to, hazardous substances. The ultimate cost of site cleanup and timing of future cash outflows is difficult to predict, given the uncertainties regarding the extent of the required cleanup, the interpretation of applicable laws and regulations, and alternative cleanup methods.

The costs of complying with current or future environmental protection and health and safety laws and regulations, or liabilities arising from past or future releases of, or exposures to, hazardous substances, may exceed our estimates, or have a material adverse effect on our business, results of operations, financial condition, and cash flows.

Climate change, or legal, regulatory or market measures to address climate change, may materially adversely affect our financial condition and business operations. Climate change resulting from increased concentrations of greenhouse gases in the atmosphere could present risks to our future operations from natural disasters and extreme weather conditions, such as hurricanes, tornadoes, earthquakes, wildfires, droughts or flooding. Such extreme weather conditions could pose physical risks to our facilities and disrupt operation of our supply chain and may impact operational costs. The impacts of climate change on global water resources may result in water scarcity, which could in the future impact our ability to access sufficient quantities of water in certain locations and result in increased costs.

Concern over climate change will likely result in new legal or regulatory requirements designed to reduce greenhouse gas emissions and mitigate the effects of climate change. Further, our customers and the markets we serve may impose emissions reduction or other environmental standards and requirements, including plastic injection molding and plastics processing and conventional fuel-based automotive markets. As a result, we may experience increased compliance burdens and operational costs and raw material sourcing, manufacturing operations and the distribution of our products may be adversely affected. Moreover, we may not be able to timely meet these requirements due to the required level of capital investment or technological advancement. While we have been committed to continuous improvements to meet anticipated regulations and preferences, there can be no assurance that our commitments will be successful, that our products will be accepted by the market, that proposed regulations will not have a negative competitive impact or that economic returns will reflect our investments in new product development. There also continues to be a lack of consistent climate legislation, which creates economic and regulatory uncertainty. These factors may impact the demand for our products, obsolescence of certain products and adversely affect our results of operations.

As of the date of this filing, we have made several public commitments regarding our intended reduction of carbon emissions, water consumption and waste generation. Although we intend to meet these commitments, we may be required to expend significant resources to do so, which could increase our operational costs. Further, there can be no assurance of the

extent to which any of our commitments will be achieved, or that any future investments we make in furtherance of achieving such targets and goals will meet investor expectations or any binding or non-binding legal standards regarding sustainability performance. Moreover, we may determine that it is in the best interest of our Company and our stockholders to prioritize other business, social, governance or sustainability investments over the achievement of our current commitments based on economic, regulatory and social factors, business strategy or pressure from investors, activist groups or other stakeholders. If we are unable to meet these commitments, then we could incur adverse publicity and reaction from investors, activist groups our other stakeholders, which could adversely impact the perception of us and our products and services by current and potential customers, as well as investors, which could in turn adversely impact our results of operations.

We could be adversely affected by violations of the U.S. Foreign Corrupt Practices Act ("FCPA") and similar worldwide anti-corruption laws and data privacy and security laws. The FCPA and similar anti-corruption laws generally prohibit companies and their intermediaries from making improper payments to government officials for the purpose of obtaining or retaining business or obtaining an unfair advantage. Recent years have seen a substantial increase in the global enforcement of anti-corruption laws. Our operations outside the United States, including in developing countries, expose us to the risk of such violations. Our policies mandate compliance with these anti-corruption laws. Despite our training and compliance program, we cannot provide assurance that our internal control policies and procedures will always protect us from reckless or criminal acts committed by our employees or agents. Violations, or allegations, could damage our reputation, as well as result in substantial fines, sanctions, civil and/or criminal penalties, termination of relationships with business partners and curtailment of operations in certain jurisdictions, and as a result might materially and adversely affect our business, results of operations or financial condition.

Additionally, to conduct our operations, we regularly move data across borders, and consequently we are subject to a variety of increasingly complex and changing laws and regulations regarding privacy, data protection and data security, including those related to the collection, storage, use, transmission and protection of personal information and other customer, vendor or employee data. The interpretation and enforcement of such laws and regulations, such as the European Union’s General Data Protection Regulation, are continuously developing and evolving and there is significant uncertainty with respect to how compliance with these laws and regulations may evolve and the costs and complexity of future compliance. Violations could result in substantial fines, sanctions or civil penalties, damage to our reputation and might materially and adversely affect our business, results of operations or financial condition.

International trade policies may impact demand for our products and our competitive position. Our results could be impacted by changes in tariffs, trade agreements or other trade restrictions imposed or agreed to by the U.S. or foreign governments. For example, a government’s adoption of “buy national” policies or retaliation by another government against such policies could have a negative impact on our results of operations. Trade restrictions, including withdrawal from or modification of existing trade agreements, negotiation of new trade agreements, and imposition of new (and retaliatory) tariffs against certain countries or covering certain products, including developments in U.S.-China trade relations, has the potential to adversely impact demand for our products, our costs, customers, suppliers and/or the U.S. or foreign economies or certain sectors thereof in which we compete, and impair our ability to expand our business by offering new technologies, products and services. It remains unclear what the U.S. federal government or foreign governments will or will not do in the future with respect to tariffs or other international trade agreements and policies. Trade restrictions, and changes in or uncertainty surrounding global trade policies, may adversely impact our competitive position, businesses, financial condition, results of operations and cash flows.

The global nature of our business exposes us to foreign currency fluctuations that may affect our future revenues, debt levels and profitability. As noted above, we have manufacturing facilities and technical service centers, and sales and distribution centers around the world, and the majority of our foreign operations use the local currency as their functional currency. These include, among others, the Brazilian real, British pound sterling, Canadian dollar, Czech koruna, Chinese renminbi, Euro, Japanese yen, Korean won, Malaysian ringgit, Mexican peso, Singaporean dollar, Swedish krona, and the Swiss franc. Since our financial statements are denominated in U.S. dollars, changes in currency exchange rates between the U.S. dollar and other currencies expose us to translation risk when the local currency financial statements are translated to U.S. dollars. Changes in currency exchange rates may also expose us to transaction risk. We may buy hedges in certain currencies to reduce or offset our exposure to currency exchange rate fluctuations; however, these transactions may not be adequate or effective to protect us against unfavorable exchange rate fluctuations. We have not engaged in any speculative hedging activities. Currency fluctuations may adversely impact our revenues and profitability in the future.

RISKS RELATED TO SUPPLY AND MANUFACTURING

The ability of suppliers to deliver raw materials, parts and components and energy resources, and our ability to manufacture without disruption, could affect our results of operations. We use a wide range of materials (including steel,

stainless steel, titanium, aluminum, Inconel, Hastelloys and other specialty materials) and components (including semiconductors and other electronic components) in the global production of our products, which come from numerous suppliers around the world. Our operations and those of our suppliers are subject to disruption for a variety of reasons, including COVID-19 related supplier plant shutdowns or slowdowns, transportation delays, work stoppages, labor shortages, price inflation, financial issues such as supplier bankruptcy, information technology failures, and hazards such as fire, earthquakes, flooding, droughts or other natural disasters, new laws or regulations, global economic or political events including terrorist attacks and war, and suppliers' allocations to other purchasers. Because not all of our business arrangements provide for guaranteed supply, and some key raw materials, parts and components and energy resources may be available only from a single supplier or a limited group of suppliers, we are subject to supply and pricing risk. For example, we expect to continue to be impacted by the following supply chain issues, due to economic, political and other factors largely beyond our control: increased material costs and component shortages, supply chain disruptions and delays, and cost inflation, all of which could continue or escalate in the future. The effects of climate change, including extreme weather events, long-term changes in temperature levels, water availability, supply costs impacted by increasing energy costs, or energy costs impacted by carbon prices or offsets may exacerbate these risks. Such disruptions could interrupt our ability to manufacture certain products and result in increased pricing, and could materially and adversely affect our business, financial condition, results of operations and cash flows.

Any product liability, warranty, contractual or other claims may harm our business or otherwise adversely affect our financial condition. We are exposed to potential product liability risks that are inherent in the design, manufacture and sale of our products and the products we buy from third parties and sell to our customers, and to potential warranty, contractual or other claims. Our products are complex and may contain defects, errors, or experience failures or unsatisfactory performance, due to any number of issues, including issues in materials, design, fabrication, packaging and/or use within a system or item of equipment. Further, because of the complexity of our products, defects or errors might only be detected when the products are in use. Development of new products increases complexity and adds risk to manufacturing reliability, and increases the likelihood of product defects or errors. Risks associated with product defects are exacerbated by the fact that our customers typically integrate our products into other equipment and systems. Our products may be responsible for critical functions in our customers' products. Failure of our products to perform to specifications, or other product defects, could lead to substantial damage to the products we sell to our customers, the equipment and/or systems into which our products are integrated and to the end users of such equipment/and or systems. Such defects could give rise to warranty claims or claims under indemnification clauses in our agreements, which may range from individual customer claims to full recalls of all products in the field, and result in significant costs, including costs related to developing solutions, recalling products, inspecting, repairing or replacing defective products, or writing down defective inventory, and could result in the loss of sales and divert the attention of our engineering personnel from our product development efforts. In addition, defects in our products could result in failure to achieve market acceptance, a loss of participation in customer programs, a shifting of business to our competitors, and litigation or regulatory action against us, and could harm our reputation, our relationships with customers and our ability to attract new customers, as well as the perceptions of our brands. Other potential adverse impacts of product defects include shipment delays, write-offs of property, plant and equipment and intangible assets, and losses on unfavorable purchase commitments.

Moreover, the occurrence of defects may give rise to product liability claims, particularly if defects in our products or the products into which they are integrated result in personal injury or death, and could result in significant costs, expenses and losses. For example, we may be exposed to potential liability for personal injury, property damage or death as a result of the failure of an aircraft or automotive component designed, manufactured or sold by us, or the failure of an aircraft or automotive component that has been serviced by us or of the components themselves. If a product liability claim is brought against us, the cost of defending the claim could be significant, and could divert the efforts of our technical and management personnel and harm our business, even if we are successful. We may be named in product liability claims even if there is no evidence that our products caused the damage in question, and even though we may have indemnity from our customers, and such claims could result in significant costs and expenses.

We vigorously defend ourselves in connection with these matters. We cannot, however, assure you that the costs, charges and liabilities associated with these matters will not be material, or that those costs, charges and liabilities will not exceed any amounts reserved for them in our Consolidated Financial Statements. Further, while we have liability insurance for certain risks, our insurance may not cover all liabilities, including potential reputational impacts. Additionally, insurance coverage may not be available in the future on acceptable terms or at a cost acceptable to us. The above is exacerbated by the fact that our products may be used, and perform critical functions, in various high-risk applications such as aerospace, automobiles, and robotics, among others. Accordingly, defects in our products could have an adverse impact on us, on our customers and the end users of our customers' products. If any of these risks materialize, there could be a material adverse effect on our business, results of operations and financial condition.

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RISKS RELATED TO HUMAN CAPITAL

Our future success depends, in part, on our ability to continue to attract, develop, engage and retain qualified employees. Our executive officers and key management personnel are critical to driving business performance and successfully executing the Company's growth strategy. Because of the complex nature of many of our products and services, and our focus on technological and product innovations, we are generally dependent on an educated and highly skilled workforce, including our engineering talent and our sales professionals. We manage human capital through our Talent Management System, which is aimed at enhancing our ability to attract and hire talented employees, as well as supporting their growth, development and engagement; however, we cannot guarantee the system's effectiveness. Failure to attract, develop, engage and retain qualified employees, whether as a result of an insufficient number of qualified applicants, difficulty in recruiting new employees, or inadequate resources to train, integrate and retain qualified employees, could impair our ability to execute our business strategy, and could adversely affect our business, financial condition, results of operations or cash flows. In addition, while we aim to reduce the impact of the departure of employees, our operations or ability to execute our business strategy may be impacted by the loss of employees, particularly when departures involve groups of employees, such as the restructuring and workforce reduction actions taken in 2020. Such losses may adversely affect the Company through decreased employee morale, the loss of knowledge of departing employees, and the devotion of resources to reorganizing and reassigning job roles and responsibilities, and could increase the risk of claims or litigation from former employees.

Our business, financial condition, results of operations and cash flows could be adversely impacted by strikes or work stoppages. We employ approximately 5,100 people worldwide. Approximately 30% of these employees are covered by collective bargaining agreements, trade union agreements and/or national industry agreements. Although we believe that our relations with our employees and labor unions that represent our employees are good, and we have experienced no material strikes or work stoppages recently, we cannot assure you that we will not experience in the future these and other types of conflicts with labor unions, works councils, other groups representing employees or our employees generally, nor that any future negotiations with our labor unions will not result in significant increases in the cost of labor, including healthcare, pensions or other benefits. Any potential strikes or work stoppages, and the resulting adverse impact on our relationships with customers, could have a material adverse effect on our business, financial condition, results of operations or cash flows. Similarly, a protracted strike or work stoppage at any of our major customers, suppliers or other vendors could materially adversely affect our business.

RISKS RELATED TO INFORMATION TECHNOLOGY, CYBERSECURITY AND DATA PRIVACY

Any disruption or failure in the operation of our information systems, including from conversions or integrations of information technology ("IT") or reporting systems, could have a material adverse effect on our business, financial condition, results of operations and cash flows. Our IT systems are an integral part of our business. We depend upon our IT systems to help communicate internally and externally, to manage and support a variety of business processes and activities, such as processing orders, managing inventory, making payments, collecting accounts receivable, and storing information. We are relying on our IT infrastructure to support our operations as we manage the impact of COVID-19, including through initiating remote-work protocols for a substantial number of our employees in regions impacted by the spread of the virus. In addition, our IT systems allow us to purchase, sell and ship products efficiently and on a timely basis, to maintain cost-effective operations, and to help provide superior service to our customers. Moreover, we use IT systems to record, process and summarize financial information and results of operations for internal reporting purposes and to comply with regulatory financial reporting, legal and tax requirements. We periodically implement, upgrade and integrate IT systems, such as our enterprise resource planning ("ERP") and customer relationship management ("CRM") platforms across our businesses. If we experience a problem with the functioning of an important IT system as a result of the increased burden placed on our IT infrastructure or a security breach, including during system upgrades and/or new system implementations, the resulting disruptions could have an adverse effect on our business or operating results.

Increased cybersecurity requirements, vulnerabilities, threats and more sophisticated and targeted IT-related crime could pose a risk to our systems, networks, products, data and services and have a material adverse effect on our business, financial condition, results of operations and cash flows. In the ordinary course of our business, we store sensitive data, including intellectual property, our proprietary business information and that of our customers, suppliers and business partners, and personally identifiable information in our data centers and on our networks. In addition to traditional IT systems, we leverage cloud-based systems, where data is stored and exchanged with external third party vendors. The secure maintenance and transmission of this information is critical to our business operations. Despite our security measures, our IT systems and infrastructure, including vendor-hosted systems, may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. These cybersecurity threats and incidents can range from uncoordinated individual attempts to gain unauthorized access to IT systems to sophisticated and targeted measures known as advanced

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persistent threats, directed at the Company, its products, its customers and/or its third-party service providers, including cloud providers. These threats and incidents originate from many sources globally and include malwares that take the form of computer viruses, ransomware, worms, Trojan horses, spyware, adware, scareware, rogue software, and programs that act against the computer user. Our customers are increasingly requiring cybersecurity protections, and we may incur additional costs to comply with such demands. We seek to deploy measures to deter, prevent, detect, respond to and mitigate these threats, including identity and access controls and vulnerability assessments, but, despite these efforts, cybersecurity incidents, depending on their nature and scope, could compromise our networks and the information stored there, including critical data and confidential or proprietary information (our own or that of third parties), could be accessed, altered, publicly disclosed, lost or stolen. Such incidents could remain undetected for an extended period of time, and the losses arising from such incidents could exceed our available insurance coverage for such matters. Such incidents could also disrupt our operations, result in increased cybersecurity protection and remediation costs, legal claims or proceedings, liability under laws that protect the privacy of personal information, regulatory penalties, theft of intellectual property, and damage our reputation, which could adversely affect our business, revenues and competitive position. Further, cybersecurity and data protection laws and regulations continue to evolve in the U.S. and worldwide. This adds compliance complexity and may increase our costs of compliance and expose us to litigation, monetary damages, regulatory enforcement actions or fines in one or more jurisdictions. In addition, as security threats continue to evolve and increase in frequency and sophistication, it will likely require investing in additional resources to protect the security of our IT systems.

RISKS RELATED TO INTELLECTUAL PROPERTY

We may be unable to adequately protect or enforce our intellectual property rights. Our intellectual property rights may not be sufficiently broad or otherwise may not provide us a significant competitive advantage, and patents may not be issued for pending or future patent applications owned by or licensed to us. As patents expire, we could face increased competition, which could negatively impact our operating results. Infringement of our intellectual property and other proprietary rights by a third party could result in uncompensated lost market and revenue opportunities. We cannot be certain that the measures we have implemented will prevent our intellectual property from being improperly disclosed, challenged, invalidated, or circumvented, particularly in countries where intellectual property rights are not highly developed or protected. For example, competitors may avoid infringement by designing around our intellectual property rights or by developing non-infringing competing technologies. We may need to spend significant resources monitoring and enforcing our intellectual property rights and we may not be aware of or able to detect or prove infringement by third parties. Our ability to enforce our intellectual property rights is subject to litigation risks, as well as uncertainty as to the protection and enforceability of those rights in some countries. If we seek to enforce our intellectual property rights, we may be subject to claims that those rights are invalid or unenforceable, and others may seek counterclaims against us, which could have a negative impact on our business. In addition, changes in intellectual property laws or their interpretation may impact our ability to protect and assert our intellectual property rights, increase costs and uncertainties in the prosecution of patent applications and enforcement or defense of issued patents, and diminish the value of our intellectual property. If we do not protect and enforce our intellectual property rights successfully, or if they are circumvented, invalidated, or rendered obsolete by the rapid pace of technological change, it could have an adverse impact on our competitive position and our operating results.

Our employees, consultants and other parties are subject to confidentiality obligations, but this protection may be inadequate to deter or prevent misappropriation, theft, misuse, disclosure, loss or destruction of our proprietary information and/or infringement of our intellectual property. For example, employees and former employees, in particular former employees who become employees of our competitors, may misappropriate, use, publish or provide to our competitors, customers or other third parties our intellectual property or other proprietary information. Similarly, we provide access to certain of our intellectual property and other proprietary information to our direct and indirect customers and certain of our consultants who may wrongfully use or disclose such intellectual property or information. Any of these events could harm our competitive position, reduce the value of our investment in research and development and other strategic initiatives, cause us to lose business, damage our reputation, subject us to legal or regulatory proceedings, cause us to incur other loss or liability and otherwise adversely affect our business.

Third parties may claim that one or more of our products or services infringe their intellectual property rights. Regardless of the merit of such claims, any dispute or litigation regarding patents or other intellectual property could be costly and time-consuming to defend and resolve due to the complexity of our technology and the uncertainty of intellectual property litigation, and could divert our management and key personnel from our business operations. A claim of intellectual property infringement could force us to enter into a costly or restrictive license agreement, which might not be available under acceptable terms or at all, require us to redesign our products, which would be costly and time-consuming, or subject us to significant damages or to an injunction against the development and sale of certain of our products or services. Our intellectual property portfolio may not be useful in asserting a counterclaim, or negotiating a license, in response to a claim of intellectual property infringement. In addition, we may face claims based on the theft or unauthorized use or disclosure of third-party trade

secrets and other confidential business information. Any such incidents and claims could severely harm our business and reputation, result in significant expenses, harm our competitive position, and prevent us from selling certain products, all of which could have a significant adverse impact on our business and results of operations.

RISKS RELATED TO LIQUIDITY AND OTHER RISKS

We have significant indebtedness that could affect our operations and financial condition, and our failure to meet certain financial covenants required by our debt agreements may materially and adversely affect our assets, financial position and cash flows. At December 31, 2021, we had consolidated debt obligations of $603.7 million, representing approximately 30% of our total capital (indebtedness plus stockholders' equity) as of that date. Our level of indebtedness, proportion of variable rate debt obligations and the significant debt servicing costs associated with that indebtedness may adversely affect our operations and financial condition. For example, our indebtedness could require us to dedicate a substantial portion of our cash flows from operations to payments on our debt, thereby reducing the amount of our cash flows available for working capital, capital expenditures, investments in technology and research and development, acquisitions, dividends and other general corporate purposes; limit our flexibility in planning for, or reacting to, changes in the industries in which we compete; place us at a competitive disadvantage compared to our competitors, some of whom have lower debt service obligations and greater financial resources than we do; limit our ability to borrow additional funds; or increase our vulnerability to general adverse economic and industry conditions. In addition, a majority of our debt arrangements require us to maintain certain debt and interest coverage ratios and limit our ability to incur debt, make investments or undertake certain other business activities. These requirements could limit our ability to obtain future financing and may prevent us from taking advantage of attractive business opportunities. Our ability to meet the financial covenants or requirements in our debt arrangements may be affected by events beyond our control, and we cannot assure you that we will satisfy such covenants and requirements. A breach of these covenants or our inability to comply with the restrictions could result in an event of default under our debt arrangements which, in turn, could result in an event of default under the terms of our other indebtedness. Upon the occurrence of an event of default under our debt arrangements, after the expiration of any grace periods, our lenders could elect to declare all amounts outstanding under our debt arrangements, together with accrued interest, to be immediately due and payable. If this were to happen, we cannot assure you that our assets would be sufficient to repay in full the payments due under those arrangements or our other indebtedness or that we could find alternative financing to replace that indebtedness.

Conditions in the worldwide credit markets may limit our ability to expand our credit lines beyond current bank commitments. In addition, our profitability may be adversely affected as a result of increases in interest rates. At December 31, 2021, we and our subsidiaries had $603.7 million aggregate principal amount of consolidated debt obligations outstanding, of which approximately 66% had interest rates that float with the market (not hedged against interest rate fluctuations). A 100 basis point increase in the interest rate on the floating rate debt in effect at December 31, 2021 would result in an approximate $4.0 million annualized increase in interest expense.

We have significant goodwill and an impairment of our goodwill could cause a decline in our net worth. Our total assets include substantial goodwill. At December 31, 2021, our goodwill totaled $955.4 million. The goodwill results from our prior acquisitions, representing the excess of the purchase price we paid over the net assets of the companies acquired. We assess whether there has been an impairment in the value of our goodwill during each calendar year or more frequently if an event or change in circumstances indicates that the fair value of a reporting unit has been reduced below its carrying value. If future operating performance at one or more of our reporting units does not meet expectations or fair values fall due to significant stock market declines, we may be required to reflect a non-cash charge to operating results for goodwill impairment. The recognition of an impairment of a significant portion of goodwill would negatively affect our results of operations and total capitalization, the effect of which could be material. See "Part II - Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies".

We may not realize all of the intangible assets related to the Aerospace Aftermarket businesses. We participate in aftermarket RSPs under which we receive an exclusive right to supply designated aftermarket parts over the life of the related aircraft engine program to our customer, GE. As consideration, we pay participation fees, which are recorded as intangible assets and are recognized as a reduction of sales over the estimated life of the related engine programs. Our total investments in participation fees under our RSPs as of December 31, 2021 equaled $299.5 million, all of which have been paid. At December 31, 2021, the remaining unamortized balance of these participation fees was $147.5 million.

We entered into CRPs, also with GE, which provide for, among other items, the right to sell certain aftermarket component repair services for CFM56, CF6, CF34 and LM engines directly to other customers over the life of the engine program as one of a few GE licensed suppliers. In addition, the CRPs extended certain contracts under which the Company currently provides these services

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directly to GE. Our total investments in CRPs as of December 31, 2021 equaled $111.8 million, all of which have been paid. At December 31, 2021, the remaining unamortized balance of the CRPs was $76.2

million. We recorded the CRP payments as intangible assets which are recognized as a reduction of sales over the remaining useful life of these engine programs.

The realizability of each asset is dependent upon future revenues related to the programs' aftermarket parts and services and is subject to impairment testing if circumstances indicate that its carrying amount may not be recoverable. The potential exists that actual revenues will not meet expectations due to a change in market conditions, including, for example, the replacement of older engines with new, more fuel-efficient engines or our ability to maintain market share within the aftermarket business. A shortfall in future revenues may result in the failure to realize the net amount of the investments, which could adversely affect our financial condition and results of operations. In addition, profitability could be impacted by the amortization of the participation fees and licenses, and the expiration of the international tax incentives on these programs. See "Part II - Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies".

We carry significant inventories and a loss in net realizable value could cause a decline in our net worth. At December 31, 2021, our inventories totaled $239.7 million. Inventories are valued at the lower of cost or net realizable value based on management's judgments and estimates concerning future sales levels, quantities and prices at which such inventories will be sold in the normal course of business. Accelerating the disposal process or changes in estimates of future sales potential may necessitate future reduction to inventory values. See "Part II - Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies".

We maintain pension and other postretirement benefit plans in the U.S. and certain international locations. Our costs of providing defined benefit plans are dependent upon a number of factors, such as the rates of return on the plans' assets, interest rates, exchange rate fluctuations, future governmental regulation, global fixed income and equity prices, and our required and/or voluntary contributions to the plans. Declines in the stock market, prevailing interest rates, declines in discount rates, improvements in mortality rates and rising medical costs may cause an increase in our pension and other postretirement benefit expenses in the future and result in reductions in our pension fund asset values and increases in our pension and other postretirement benefit obligations. These changes have caused and may continue to cause a significant reduction in our net worth and without sustained growth in the pension investments over time to increase the value of the plans' assets, and depending upon the other factors listed above, we could be required to increase funding for some or all of these pension and postretirement plans.

Changes in taxation requirements could affect our financial results. Our products are subject to import and excise duties and/or sales or value-added taxes in many jurisdictions in which we operate. Increases in indirect taxes could affect our products' affordability and therefore reduce our sales. We are also subject to income tax in numerous jurisdictions in which we generate revenues. Changes in tax laws, tax rates or tax rulings may have a significant adverse impact on our effective tax rate. Among other things, our tax liabilities are affected by the mix of pretax income or loss among the tax jurisdictions in which we operate and the potential repatriation of foreign earnings to the U.S. Further, during the ordinary course of business, we are subject to examination by the various tax authorities of the jurisdictions in which we operate which could result in an unanticipated increase in taxes. Any potential changes or interpretive guidance may impact current and deferred income tax expense and deferred tax balances for U.S operations as well as the potential future repatriation of foreign income. The impact of any proposed changes in tax regulations may adversely affect our financial condition, results of operations and cash flow.

Changes in accounting guidance could affect our financial results. New accounting guidance that may become applicable to us from time to time, or changes in the interpretations of existing guidance, could have a significant effect on our reported results for the affected periods. Adoption of new accounting guidance could have a material impact on our financial statements and may retroactively affect the accounting treatment of transactions completed before adoption. See Note 1 of the Consolidated Financial Statements.

Actions of activist stockholders could cause us to incur substantial costs, divert management's attention and resources, and have an adverse effect on our business. From time to time, we may be subject to proposals by stockholders urging us to take certain corporate actions. If activist stockholder activities ensue, our business could be adversely affected because responding to proxy contests and reacting to other actions by activist stockholders can be costly and time-consuming, disrupt our operations and divert the attention of management and our employees. For example, we may be required to retain the services of various professionals to advise us on activist stockholder matters, including legal, financial, and communications advisers, the costs of which may negatively impact our future financial results. In addition, perceived uncertainties as to our future direction, strategy or leadership created as a consequence of activist stockholder initiatives may result in the loss of potential business opportunities, harm our ability to attract new investors, customers, and employees, and cause our stock price to experience periods of volatility or stagnation.

RISKS RELATED TO STRATEGIC TRANSACTIONS

Our restructuring actions could have long-term adverse effects on our business. From time to time, we have implemented restructuring activities across our businesses to adjust our cost structure, and we may engage in similar restructuring activities in the future. We may not achieve expected cost savings from workforce reductions or restructuring activities and actual charges, costs and adjustments due to these actions may vary materially from our estimates. Our ability to realize anticipated cost savings, synergies and revenue enhancements may be affected by a number of factors, including the following: our ability to effectively eliminate duplicative back office overhead and overlapping sales personnel, rationalize manufacturing capacity, synchronize IT systems, consolidate warehousing and other facilities and shift production to more economical facilities, significant cash and non-cash integration and implementation costs or charges in order to achieve those cost savings, which could offset any such savings; and our ability to avoid labor disruption in connection with these activities. In addition, delays in implementing planned restructuring activities or other productivity improvements may diminish the expected operational or financial benefits.

Our acquisition and other strategic initiatives, some of which may be outside the industries in which we currently operate, may not be successful. We have made a number of acquisitions in the past, and we anticipate that we may, from time to time, acquire additional businesses, assets or securities of companies, and enter into joint ventures and other strategic relationships that we believe would provide a strategic fit with our businesses. These activities expose the Company to a number of risks and uncertainties, the occurrence of any of which could materially adversely affect our business, cash flows, financial condition and results of operations. A portion of the industries that we serve are mature industries. As a result, our future growth may depend in part on the successful acquisition and integration of acquired businesses into our existing operations. On the other hand, if we acquire a company that operates in an industry that is different from the ones in which we currently operate, our lack of experience with that company's industry could have a material adverse impact on our ability to manage that business and realize the benefits of that acquisition. We may not be able to identify and successfully negotiate suitable acquisitions, obtain financing on satisfactory terms, negotiate reasonable terms, properly perform due diligence and determine all the significant risks associated with a particular acquisition, avoid diversion of our management's attention from other important business activities, or obtain regulatory approvals or otherwise complete acquisitions in the future.

We could have difficulties integrating acquired businesses with our existing operations, including coordinating and consolidating separate systems, retaining market acceptance of acquired products and services, maintaining employee morale and retaining key employees, and implementing our enterprise resource planning systems and operational procedures and disciplines. Any such difficulties may make it more difficult to maintain relationships with employees, customers, business partners and suppliers. In addition, even if integration is successful, the financial performance of acquired businesses may not be as expected and there can be no assurance that we will realize anticipated benefits from our acquisitions. We cannot assure you that we will effectively assimilate the business or product offerings of acquired companies into our business or product offerings or realize anticipated operational synergies. These activities may result in difficulties, significant expense and accounting charges, disrupt our business or divert management's time and attention.

Acquisitions involve numerous other risks, including potential exposure to unknown liabilities of acquired companies and the possible loss of key employees and customers of the acquired business. Certain of the acquisition agreements by which we have acquired businesses require the former owners to indemnify us against certain liabilities related to the business operations before we acquired it. However, the liability of the former owners is limited and certain former owners may be unable to meet their indemnification responsibilities. We cannot assure you that these indemnification provisions will protect us fully or at all, and as a result we may face unexpected liabilities that adversely affect our financial condition. In connection with acquisitions or joint venture investments outside the U.S., we may enter into derivative contracts to purchase foreign currency in order to hedge against the risk of foreign currency fluctuations in connection with such acquisitions or joint venture investments, which subjects us to the risk of foreign currency fluctuations associated with such derivative contracts. Additionally, our final determinations and appraisals of the fair value of assets acquired and liabilities assumed in our acquisitions may vary materially from earlier estimates.

We continually assess the strategic fit of our existing businesses and may divest or otherwise dispose of businesses that are deemed not to fit with our strategic plan or are not achieving the desired return on investment, and we cannot be certain that our business, operating results and financial condition will not be materially and adversely affected. A successful divestiture depends on various factors, including our ability to effectively transfer liabilities, contracts, facilities and employees to any purchaser, identify and separate the intellectual property to be divested from the intellectual property that we wish to retain, reduce fixed costs previously associated with the divested assets or business, and collect the proceeds from any divestitures. In addition, if customers of the divested business do not receive the same level of service from the new owners, this may adversely affect our other businesses to the extent that these customers also purchase other products offered by us. All

of these efforts require varying levels of management resources, which may divert our attention from other business operations. If we do not realize the expected benefits, our consolidated financial position, results of operations and cash flows could be negatively impacted. In addition, divestitures of businesses involve a number of risks, including significant costs and expenses, the loss of customer relationships, and a decrease in revenues and earnings associated with the divested business. Furthermore, divestitures potentially involve significant post-closing separation activities, which could involve the expenditure of material financial resources and significant employee resources. Any divestiture may result in a dilutive impact to our future earnings if we are unable to offset the dilutive impact from the loss of revenue associated with the divestiture, as well as significant write-offs, including those related to goodwill and other intangible assets, which could have a material adverse effect on our results of operations and financial condition.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Number of Facilities - Owned

Location	Industrial	Aerospace	Other	Total
Manufacturing:				
North America	5	5	—	10
Europe	8	—	—	8
Asia	1	2	—	3
Central and Latin America	2	—	—	2
	16	7	—	23
Non-Manufacturing:				
North America	—	—	1*	1
	—	—	1	1

* The Company's Corporate office.

Number of Facilities - Leased

Location	Industrial	Aerospace	Other	Total
Manufacturing:				
North America	3	3	—	6
Europe	4	—	—	4
Asia	4	6	—	10
	11	9	—	20
Non-Manufacturing:				
North America	8	2	1**	11
Europe	22	1	—	23
Asia	25	—	—	25
Central and Latin America	3	—	—	3
	58	3	1	62

** Industrial Segment headquarters and certain Shared Services groups.

Item 3. Legal Proceedings

We are subject to litigation from time to time in the ordinary course of business and various other suits, proceedings and claims are pending against us and our subsidiaries. While it is not possible to determine the ultimate disposition of each of these proceedings and whether they will be resolved consistent with our beliefs, we expect that the outcome of these proceedings, individually or in the aggregate, will not have a material adverse effect on our consolidated financial position, cash flows or results of operations.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

The Company's common stock is traded on the New York Stock Exchange under the symbol "B". As of February 16, 2022, there were approximately 1,664 holders of record of the Company's common stock.

Dividends

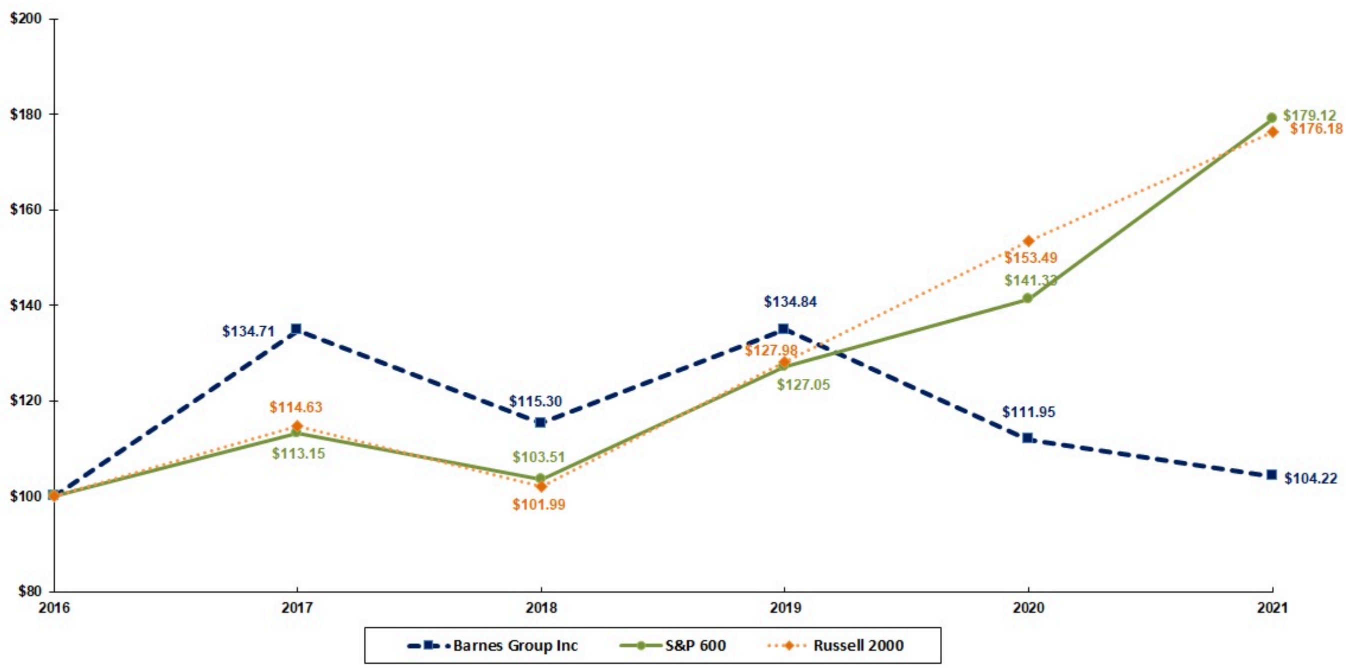
Payment of future dividends will depend upon the Company's financial condition, results of operations and other factors deemed relevant by the Company's Board of Directors, as well as any limitations resulting from financial covenants under the Company's credit facilities or debt indentures.

Securities Authorized for Issuance Under Equity Compensation Plans

For information regarding Securities Authorized for Issuance Under Equity Compensation Plans, see Part III, Item 12 of this Annual Report.

Performance Graph

A stock performance graph based on cumulative total returns (price change plus reinvested dividends) for $100 invested in the Company on December 31, 2016 is set forth below.



	2016	2017	2018	2019	2020	2021
BGI	$100.00	$134.71	$115.30	$134.84	$111.95	$104.22
S&P 600	$100.00	$113.15	$103.51	$127.05	$141.33	$179.12
Russell 2000	$100.00	$114.63	$101.99	$127.98	$153.49	$176.18

The performance graph includes the S&P 600 Small Cap Index and the Russell 2000 Index, both of which include the Company.

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Issuer Purchases of Equity Securities

Period	Total Number of Shares (or Units) Purchased		Average Price Paid Per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs(2)
October 1-31, 2021	409	$	43.24	—	3,604,000
November 1-30, 2021	97	$	44.21	—	3,604,000
December 1-31, 2021	922	$	46.57	—	3,604,000
Total	1,428 (1)	$	45.45	—	

(1) All acquisitions of equity securities during the fourth quarter of 2021 were the result of the operation of the terms of the Company's stockholder-approved equity compensation plans and the terms of the equity rights granted pursuant to those plans to pay for the related income tax upon issuance of shares. The purchase price of a share of stock used for tax withholding is the market price on the date of issuance.

(2) At March 31, 2019, 1.5 million shares of common stock had not been purchased under the publicly announced Repurchase Program (the "Program" or "Repurchase Program"). On April 25, 2019, the Board of Directors of the Company increased the number of shares authorized for repurchase under the Program by 3.5 million shares of common stock (5.0 million authorized, in total). The Program permits open market purchases, purchases under a Rule 10b5-1 trading plan and privately negotiated transactions.

Item 6. Reserved

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with our consolidated financial statements and related notes in this Annual Report on Form 10-K. In addition to historical information, this discussion contains forward-looking statements that involve risks, uncertainties, and assumptions that could cause actual results to differ materially from our expectations. Factors that could cause such differences include those described in the section titled "Risk Factors" and elsewhere in this report. We undertake no obligation to update any of the forward-looking statements.

OVERVIEW

The Company achieved sales of $1,258.8 million in 2021, an increase of $134.5 million, or 12.0%, from 2020. Organic sales (net sales excluding both foreign currency translation, acquisition, and divestiture impacts) increased by $119.6 million, or 10.6%, including increases of $111.5 million, or 14.5%, at Industrial and $8.1 million, or 2.3% at Aerospace. The Company completed the sale of its Seeger business on February 1, 2020, reducing sales by $5.3 million in the 2021 period relative to the prior year period. The weakening of the U.S. dollar against foreign currencies increased net sales within the Industrial segment by approximately $20.2 million. Operating income increased 21.6% from $123.4 million in 2020 to $150.0 million in 2021 and operating margin increased from 11.0% in 2020 to 11.9% in 2021.

Impact of COVID-19

Global industrial and aerospace end markets came under significant pressure in 2020 as a result of COVID-19, restricting the level of global economic activity and causing a significant contraction in the economy. COVID-19 continued to present challenges across our businesses in 2021, with impacts including labor disruptions, supply chain constraints, inflationary pressures resulting in increased freight and raw material costs, amongst others. The Company has remained focused on cost management and productivity initiatives to mitigate these impacts, in addition to maintaining the safety of our employees, particularly throughout a recent resurgence of COVID-19 in the fourth quarter of 2021.

Throughout the pandemic and in support of continuing its manufacturing efforts, the Company continues to take a number of steps to protect its employees, suppliers and customers, as their safety and well-being is priority. The Company instituted additional precautions to comply with health and safety guidelines and to protect its employees, including enhanced deep cleaning, staggered shifts, temperature checking, use of face masks, practicing social distancing and limiting non-employees at our locations, amongst other safety related policies and procedures. Many of the Company's office workers in our manufacturing facilities, as well as the Corporate and segment headquarters, continue to work remotely, where possible. The Company's global supply chain management team continues to monitor and manage its ability to operate effectively given recent disruptions within its supply chain. Ongoing communications with the Company's suppliers to identify and mitigate risk and to manage inventory levels have continued. Notwithstanding the Company's continued operations, COVID-19 has had and may have further negative impacts on its operations, customers and supply chain despite the preventative and mitigating measures being taken. Uncertainties remain with regard to the impact of COVID-19 on our customers and customer demand for our products and services, as well as customer restrictions on our ability to visit their sites or otherwise access their employees. The Company will continue to monitor its facilities to ensure that they are in compliance with its safety requirements although the Company's facilities have generally operated at normal levels throughout 2020 and 2021.

The Company, as noted above, has continued to actively manage costs throughout the pandemic. To better align costs with the current business environment, the Company has taken several actions, which included restructuring and workforce reductions in 2020. Resulting pre-tax charges of $19.1 million were recorded in 2020, including $18.2 million and $0.9 million of charges that impacted operating income and Other Expense (Income), respectively. Pre-tax charges of $1.0 million were additionally recorded during 2021. See additional discussion within "Results of Operations" below.

Business Transformation

Acquisitions and strategic relationships with our customers have been a key growth driver for the Company, and we continue to seek alliances which foster long-term business relationships. These acquisitions have allowed us to extend into new or adjacent markets, expand our geographic reach, and commercialize new products, processes and services. The Company continually evaluates its business portfolio to optimize product offerings and maximize value. We have significantly transformed our business with our entrance into new markets, including most recently automation, and we continue to pursue strategic additions that align with our portfolio of differentiated products.

Management Objectives

Management is focused on continuing the Company's transformation by executing on its profitable growth strategy comprised of the following elements:

- Build a world-class Company focused on high margin, high growth businesses
- Leverage the Barnes Enterprise System ("BES") as a significant competitive advantage
- Expand and protect our intellectual property to deliver differentiated solutions
- Create value for all stakeholders.

The successful execution of this strategy requires making value-enhancing investments in organic growth (new products, processes, systems, services, markets and customers) and strategic acquisitions while divesting of businesses or existing product lines to effectively redeploy capital. Management remains focused on a deeper deployment of BES across the Company to advance commercial excellence, operational excellence and financial excellence.

The combined benefits from growth investment and execution of the strategic enablers are expected to generate long-term value for the Company's shareholders, customers and employees.

Our Business

The Company consists of two operating segments: Industrial and Aerospace.

Key Performance Indicators

Management evaluates the performance of its reportable segments based on the sales, operating profit, operating margins and cash generation of the respective businesses. Each segment has standard key performance indicators (“KPIs”), a number of which are focused on employee safety-related metrics (total recordable incident rate and lost time incident rate), customer metrics (on-time-delivery and quality), internal effectiveness and productivity/efficiency metrics (sales effectiveness, global sourcing, operational excellence, functional excellence, cost of quality, days working capital and return on invested capital) and specific KPIs on profitable growth.

Key Industry Data

In both segments, management tracks a variety of economic and industry data as indicators of the health and outlook of a particular sector.

At Industrial, key data for the manufacturing operations include the Institute for Supply Management’s manufacturing PMI Composite Index (and similar indices for European and Asian-based businesses); the Bureau of Economics Industrial Production Index ("the IPI"); IHS-Markit worldwide forecasts for light vehicle production, as well as new model introductions and existing model refreshes; North American heavy duty vehicle production; interconnection consulting hot runner systems worldwide report for auto, medical, personal care and packaging industries; and global GDP growth forecasts.

At Aerospace, management of the Aftermarket business monitors the number of aircraft in the active fleet, the number of aircraft temporarily or permanently taken out of service, aircraft utilization rates for the major airlines, engine shop visits, airline profitability, aircraft fuel costs and passenger traffic. The Aerospace OEM business regularly tracks orders, backlog and deliveries for each of the major aircraft manufacturers, as well as engine purchases made for new aircraft. Management also monitors annual appropriations for the U.S. defense market related to purchases of new or used aircraft and engine components.

RESULTS OF OPERATIONS

Sales

($ in millions)	2021	2020	$ Change	% Change	2019
Industrial	**$ 896.5**	$ 770.1	$ 126.4	16.4 %	$ 938.5
Aerospace	**362.4**	354.3	8.1	2.3 %	552.6
Total	**$ 1,258.8**	$ 1,124.4	$ 134.5	12.0 %	$ 1,491.1

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The Company reported net sales of $1,258.8 million in 2021, an increase of $134.5 million, or 12.0%, from 2020. Organic sales increased by $119.6 million, including increases of $111.5 million and $8.1 million at Industrial and Aerospace, respectively. The year-over-year increase at Industrial was driven by organic sales increases across the Industrial business units, driven primarily by recovering end-markets within each of the businesses, although continuing pressures resulting from semiconductor shortages and global supply chain sourcing constraints impacted recent automotive and broader industrial production. These pressures, largely associated with the continued effects and resurgence of COVID-19, impacted sales volumes within Industrial during the second half of 2021. Within Aerospace, the sales improvement relative to the 2020 period was driven by a volume increase within the Aerospace OEM business, whereas the Aerospace Aftermarket business was down slightly. The Company completed the sale of its Seeger business on February 1, 2020, reducing sales by $5.3 million during the 2021 period relative to the 2020 period. The weakening of the U.S. dollar against foreign currencies increased net sales within the Industrial segment by approximately $20.2 million. The Company's international sales increased by 14.6% year-over-year while domestic sales increased by 8.2%. Excluding the impact of foreign currency translation on sales, however, the Company's international sales in 2021 increased by 11.5% from 2020.

Expenses and Operating Income

($ in millions)	2021	2020	$ Change	% Change	2019
Cost of sales	**$ 803.9**	$ 721.2	$ 82.6	11.5 %	$ 944.2
% sales	**63.9 %**	64.1 %			63.3 %
Gross profit [(1)]	**$ 455.0**	$ 403.2	$ 51.8	12.9 %	$ 547.0
% sales	**36.1 %**	35.9 %			36.7 %
Selling and administrative expenses	**$ 305.0**	$ 279.8	$ 25.2	9.0 %	$ 310.5
% sales	**24.2 %**	24.9 %			20.8 %
Operating income	**$ 150.0**	$ 123.4	$ 26.6	21.6 %	$ 236.4
% sales	**11.9 %**	11.0 %			15.9 %

(1) Sales less cost of sales

Cost of sales in 2021 increased 11.5% from 2020 (as compared with the 12.0% increase in net sales noted above) and gross profit margin increased slightly in 2021. Gross margins were relatively flat at both Industrial and Aerospace, with the mix between the segments resulting in a slight improvement. At Industrial, gross profit increased primarily as a result of the profit contribution of higher sales volumes. Gross profit margins at Industrial during the 2021 and 2020 periods remained flat as the profit contribution of increased sales volume was partially offset by an increase in global sourcing costs, including increased freight and raw material. Within Aerospace, gross profit and gross profit margins remained relatively flat in 2021 driven by lower volumes on a full year basis within the higher margin Aftermarket businesses as compared to the 2020 period, largely offset by cost savings and productivity initiatives taken by management. Selling and administrative expenses in 2021 increased 9.0% from the 2020 period. Sales, however, increased 12.0% between the 2021 and 2020 periods. As a percentage of sales, selling and administrative costs decreased from 24.9% in 2020 to 24.2% in the 2021 period. The decrease in selling and administrative costs as a percentage of sales was driven by the absence of the $18.2 million of pre-tax charges related to restructuring and workforce actions and $2.5 million of divestiture charges related to the completion of the Seeger sale. Partially offsetting this decrease were investments in growth and innovation, and an increase in employee related costs, including incentive compensation within both segments. Operating income in 2021 increased 21.6% to $150.0 million from the 2020 period and operating income margin increased from 11.0% in the 2020 period to 11.9% in the 2021 period, primarily driven by the items noted above.

Interest expense

Interest expense in 2021 increased $0.3 million to $16.2 million from 2020, primarily as a result of the impact of higher average interest rates, partially offset by decreased borrowings during the period.

Other expense (income), net

Other expense (income), net in 2021 was $6.0 million compared to $5.9 million in 2020. Other expense (income) during the 2021 and 2020 periods includes other components of pension expense (income) of $2.4 million and $1.5 million, respectively. Other expense (income) also includes foreign currency losses of $0.6 million in the 2021 period compared with losses of $1.5 million in the 2020 period.

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Income Taxes

The Company's effective tax rate was 21.9% in 2021, compared with 37.6% in 2020. The decrease in the effective tax rate in 2021 was primarily due to the absence of tax expense related to the completed sale of the Seeger business in 2020, a benefit related to a realignment of tax basis goodwill and intangibles (discussed below), a benefit related to the Mutual Aid Process ("MAP") approval (discussed below), a favorable mix in earnings based on tax jurisdictions and a decrease in the global intangible low-taxed income ("GILTI") tax.

During the second quarter of 2021, the Italian tax authorities released tax guidance related to the application of tax basis realignment rules for intangible property ("Realignment") which provides Italian taxpayers with the opportunity to step up the basis of goodwill and intangibles to their fair market value and amortize the step up over 18 years for tax purposes in exchange for paying a 3% tax on the step up, payable over a three years period. The Company opted to elect the Realignment in June 2021 and accordingly recorded a tax payable of $3.0 million and a long-term tax payable of $6.0 million. The Company made its first required installment payment of $3.0 million during the third quarter of 2021, reducing the long-term tax payable accordingly. The Company also recorded a deferred tax asset of $83.9 million related to the Realignment. Accounting guidance requires that when a deferred tax asset is realigned for tax purposes, a corresponding revaluation reserve also be recorded. Under Italian tax rules, any dividends paid out of this revaluation reserve are subject to tax at a 24% rate. Accordingly, the Company recorded a deferred tax liability of $72.2 million related to the potential 24% tax due on any dividends, paid out of the revaluation reserve. The deferred tax asset and liability balances have been presented on a net basis on the Consolidated Balance Sheets. The Company also recorded a one-time $2.7 million benefit to the provision related to this election and related accounting. In December 2021 the Italian government increased the amortization period to 50 years; however the change has no impact on the accounting for the transaction as reported above.

In 2019 and 2017, the Company recorded additional income taxes resulting from audits at certain subsidiaries in Germany. The Company filed applications with the Internal Revenue Service ("IRS") under the MAP to allow for offsetting positions within the US tax filings for the Germany-related adjustments. In 2021 the MAP applications were approved by the IRS. The Company recognized a tax benefit of $2.0 million in 2021 to reflect the tax benefit realized as a result of the IRS approval.

The Aerospace and Industrial segments have a number of multi-year tax holidays in Singapore, China and Malaysia. The previous tax holiday in China expired at the end of 2020. The Company re-applied for the holiday and it was approved in December 2021. As a result of this tax holiday, the China tax rate was reduced from 25% to 15% and is effective for a three year period commencing January 1, 2021 (retroactively). Aerospace was granted an income tax holiday for operations recently established in Malaysia. This holiday commenced effective November 2020 (retroactively) and remains effective for a period of ten years. The Singapore tax holiday is scheduled to expire in December 2022. These holidays are subject to the Company meeting certain commitments in the respective jurisdictions.

During 2021, the Company repatriated $68.3 million, compared to $85.0 million in 2020. Pursuant to the Tax Cuts and Jobs Act (“Act”), neither dividend was taxable in the U.S in 2021. The Act, which was enacted in 2017, made broad and complex changes to the U.S. Tax Code and included, but was not limited to, requiring a one-time Transition Tax on certain unrepatriated accumulated earnings of foreign subsidiaries of the Company (payable over eight years) and exempted foreign dividends paid to the U.S. during the year from taxation if such earnings were included within the Transition Tax.

In 2022, the Company expects the effective tax rate to approximate 26%, an increase from the rate of 21.9% in 2021. The increase in the effective tax rate is driven primarily by the absence of the tax benefits recognized in 2021 relating to the realignment of tax basis of goodwill and intangibles and the MAP approval. An unfavorable projected earnings mix is also expected to contribute to the increase in the effective tax rate in 2022.

See Note 14 of the Consolidated Financial Statements for a reconciliation of the U.S. federal statutory income tax rate to the consolidated effective income tax rate.

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Income and Income Per Share

(in millions, except per share)	2021	2020	Change	% Change	2019
Net income	**$ 99.9**	$ 63.4	$ 36.5	57.6 %	$ 158.4
Net income per common share:					
Basic	**$ 1.96**	$ 1.25	$ 0.71	56.8 %	$ 3.09
Diluted	**$ 1.96**	$ 1.24	$ 0.72	58.1 %	$ 3.07
Weighted average common shares outstanding:					
Basic	**50.9**	50.9	—	0.1 %	51.2
Diluted	**51.1**	51.1	—	— %	51.6

Basic and diluted net income per common share increased for 2021 as compared to 2020 due to the increase in net income year over year. Basic and diluted weighted average common shares outstanding were consistent year over year and were only slightly impacted by the repurchase of 396,000 and 100,000 shares during 2020 and 2021, respectively, as part of the Company's publicly announced Repurchase Program as well as the issuance of additional shares for employee stock plans.

Financial Performance by Business Segment

Industrial

($ in millions)	2021	2020	$ Change	% Change	2019
Sales	**$ 896.5**	$ 770.1	$ 126.4	16.4 %	$ 938.5
Operating profit	**97.7**	66.6	31.1	46.8 %	114.0
Operating margin	**10.9 %**	8.6 %			12.1 %

Sales at Industrial were $896.5 million in 2021, an increase of $126.4 million, or 16.4%, from 2020. Organic sales increased by $111.5 million, or 14.5%, during 2021, with increased volumes across each of the businesses, primarily driven by a recovery within industrial end markets and the lessened impacts of COVID-19 on a full-year basis. The deepening impacts of COVID-19 during the second half of the year, and more specifically a resurgence during the fourth quarter of 2021, caused additional pressure on Industrial. This pressure drove further semiconductor shortages, global supply chain sourcing constraints and labor shortages, with these factors continuing to impact recent automotive and broader industrial production. On a sequential basis, Industrial sales declined in the fourth quarter of 2021 relative to the third quarter of 2021, primarily a result of the factors noted above. Volumes within our broader transportation markets improved during 2021, albeit tempered by the semiconductor shortage. Sales within our medical markets remained solid in 2021, consistent with this market trend throughout the pandemic. On a full year basis, Automation business saw strong year-over-year organic sales growth, sequential sales declined in the fourth quarter relative to the third quarter, driven by the macroeconomic trends discussed above, although sequential orders in the fourth quarter increased slightly. Personal care and packaging end markets demonstrated softness on a year-over-year basis, although orders in both markets improved sequentially during the fourth quarter of 2021 relative to the third quarter. The Company completed the sale of its Seeger business on February 1, 2020, reducing sales by $5.3 million during the 2021 period relative to the 2020 period. The impact of foreign currency translation increased sales by approximately $20.2 million as the U.S. dollar weakened against foreign currencies.

Operating profit in 2021 at Industrial was $97.7 million, an increase of $31.1 million, or 46.8% from 2020. Operating profit benefited from the impact of increased organic sales volumes, partially offset by an increase in employee related costs, including incentive compensation, and investments in growth and innovation. Global sourcing also impacted the current period as supply chain constraints drove freight and raw material cost increases across the broader industry. The prior year period included $15.9 million of restructuring charges, primarily employee severance and other termination benefits, and $2.5 million of divestiture charges related to the completion of the Seeger sale. Operating margin increased from 8.6% in the 2020 period to 10.9% in the 2021 period, primarily driven by the absence of these restructuring and divestiture items.

Outlook:

In Industrial, management remains focused on generating organic sales growth through the introduction of new products and services and by leveraging the benefits of its diversified products and global industrial end-markets. This being the case, our end markets continue to recover from the ongoing impacts of COVID-19 and increasing supply chain constraints. Markets within our key regions of North America, Europe and China, although having demonstrated recovery throughout the first half of the year, softened during the second half as supply chain disruptions impacted demand and shipments across most Industrial businesses and regions. General industrial end markets have shown significant year-over-year improvement, although order rates declined sequentially during the fourth quarter of 2021. For overall industrial end-markets, the manufacturing Purchasing Managers' Index ("PMI") are above 50 in most regions. PMI within the United States and Europe, however, have shown slight deterioration since the third quarter of 2021, whereas China has remained stable. Global light vehicle production in 2021 was relatively flat as compared with 2020, largely a result of the impacts of the semiconductor shortage, tempering overall strength within the transportation markets. Production of light vehicles is being forecasted to meaningfully improve in 2022 although the semiconductor shortage may continue to impact near-term automotive builds. Management expects this shortage to continue into 2022, with an expectation that semiconductor chip supply will improve as the year goes on. Our customers and the markets we serve may impose emissions reduction or other environmental standards and requirements, including our conventional fuel-based automotive markets, thereby impacting sales volumes within our automotive end markets. Management also tracks closely the impact of pricing changes and lead times on raw materials and freight, given the increasing pressure of supply chain constraints. Management remains focused on labor constraints that impacted the business throughout 2021 and as we enter 2022. Within our Molding Solutions business, global medical markets remain healthy and are expected to remain favorable given the recent demands of COVID-19, an aging population and expanded medical applications. The automotive hot runner and tool and die markets remain strong following the release of projects with automotive original equipment manufacturers related to model launches, including new electric vehicles. Orders within the packaging market have improved on both a year-over-year and sequential basis. Sales volumes at certain of our businesses is dependent upon the need for equipment used to produce plastic products, which may be significantly influenced by the demand for plastic products, the capital investment needs of companies in the plastic injection molding and plastics processing industries, changes in technological advances and changes in laws or regulations such as those related to single-use plastics, product and packaging composition, and recycling. Automation end-markets continue to trend positively from a year-over-year standpoint. Although order activity declined sequentially during the second half of 2021, we continue to focus on further expansion into adjacent end-markets. As noted above, our sales were positively impacted by $20.2 million from fluctuations in foreign currencies. To the extent that the U.S. dollar fluctuates relative to other foreign currencies, our sales may be impacted relative to the prior year periods. The relative impact on operating profit is not expected to be as significant as the impact on sales as most of our businesses have expenses primarily denominated in local currencies, where their revenues reside, however operating margins may be impacted. Management is focused on sales growth through innovation, acquisition and expanding geographic reach. Strategic investments in new technologies, manufacturing processes and product development are expected to provide benefits over the long term and management continues to evaluate such opportunities.

The Company is focused on the proactive management of costs to mitigate the ongoing impacts of COVID-19 and the continuing risks of supply chain constraints on operating profit. Management also remains focused on strategic investments and new product and process introductions, as well as driving productivity by leveraging BES. The Company continues to manage its cost structure to align with the intake of orders and sales given remaining uncertainty within certain end-markets as we enter 2022. Management will continue to explore opportunities for additional cost savings, while working closely with vendors and customers as it relates to the timing of deliveries and pricing initiatives. It is anticipated that operating profit will continue to be impacted by changes in sales volume, mix and pricing, inflation, labor and freight costs, utilities and the levels of investments in growth and innovation that are made within each of the Industrial businesses. Operating profit may also be impacted by enactment of or changes in tariffs, trade agreements and trade policies that may affect the cost, lead times and/or availability of goods, including but not limited to, steel and aluminum. Costs associated with new product and process introductions, restructuring and other cost initiatives, strategic investments and the integration of acquisitions may negatively impact operating profit.

Aerospace

($ in millions)	2021	2020	$ Change	% Change	2019
Sales	**$ 362.4**	$ 354.3	$ 8.1	2.3 %	$ 552.6
Operating profit	**52.3**	56.8	(4.5)	(7.9)%	122.5
Operating margin	**14.4 %**	16.0 %			22.2 %

Aerospace recorded sales of $362.4 million in 2021, a 2.3% increase from 2020. Sales increased 5% within the OEM business and declined 3% within the Aftermarket Maintenance Repair and Overhaul ("MRO") and spare parts businesses

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relative to the 2020 period. On a sequential basis, Aerospace sales improved in each sequential quarter, with Aftermarket sales demonstrating strong growth in the second half of 2021. Aftermarket sales, in fact, increased sequentially by 24% between the first and second half of 2021, with growth continuing to trend upwards as the business exited the year. The year-over-year increase in OEM sales was driven by growing narrow body airframe production including the return to flight of the Boeing 737 MAX. Sales within OEM, although having increased since the comparable 2020 period as well as sequentially during each of the 2021 quarters, continued to experience the impact of earlier reductions in engine and airframe build schedules, in addition to higher levels of inventory within the supply chain earlier in the year. The order schedules of our OEM customers stabilized throughout 2021 as customers continue to normalize their aircraft production schedules. Within Aftermarket, airline traffic and aircraft utilization have improved significantly during the second half of 2021, not withstanding the recent COVID-19 disruptions. The MRO business continued to demonstrate recovery as the distribution of vaccines increased, additional domestic health and travel restrictions were lifted and passenger traffic improved. Although Aerospace continues to demonstrate gradual signs of a recovery, a return to pre-COVID-19 levels is expected to take several years. See Outlook section below. Sales within the segment are largely denominated in U.S. dollars and therefore were not significantly impacted by changes in foreign currency.

Operating profit at Aerospace decreased 7.9% from 2020 to $52.3 million. The operating profit decrease resulted from the profit impact of decreased volumes within the higher margin Aftermarket businesses, partially offset by a volume increase at OEM, as discussed above. An increase in employee related costs, including incentive compensation, also impacted operating profit in the current period, partially offset by favorable productivity. The comparable prior year period included $2.3 million of restructuring charges, primarily employee severance and other termination benefits, whereas the 2021 period included $0.9 million of restructuring charges. Operating margin decreased from 16.0% in the 2020 period to 14.4% in the 2021 period, primarily a result of the impacts of the items discussed above.

Outlook:

Sales in the Aerospace OEM business are based on the general state of the aerospace market driven by the worldwide economy and are supported by its order backlog through participation in certain strategic commercial and defense-related engine and airframe programs. OEM sales and orders grew in 2021 relative to the similar 2020 period, although management expects orders to be tempered entering 2022 as customer aircraft production schedules continue to normalize, albeit at lower levels. The Company expects, however, that the OEM business will see recovery in demand for its manufactured components as aircraft production rates at Boeing and Airbus are increasing, though lower than pre-pandemic levels. Narrow body airframe production is ramping, whereas wide body airframe production remains under pressure. The duration and depth of the aerospace market disruptions remain uncertain at this time, however a full recovery to pre-pandemic levels is expected to take several years. Aerospace management continues to work with customers to evaluate engine and airframe build schedules, giving management the ability to react timely to such changes. Management is also working closely with suppliers to align raw material schedules with production requirements. Management also remains focused on labor constraints that impacted the business throughout 2021 and as we enter 2022. The business remains focused on executing long-term agreements while expanding our share of production on key programs. Backlog at OEM was $680.1 million at December 31, 2021, an increase of 18.9% since December 31, 2020, at which time backlog was $572.0 million. Approximately 40% of OEM backlog is expected to be recognized over the next 12 months. If COVID-19 continues to have a material impact on the aerospace industry, including our more significant OEM customers, it will continue to materially affect our Aerospace business and results of operations. The Aerospace OEM business may also be impacted by changes in the content levels on certain platforms, changes in customer sourcing decisions, adjustments to customer inventory levels, commodity and labor availability and pricing, vendor sourcing capacity and the use of alternate materials. Additional impacts may include the redesign of parts, quantity of parts per engine, cost schedules agreed to under contract with the engine and airframe manufacturers, as well as the pursuit and duration of new programs. Fluctuations in fuel costs and potential changes in regulatory requirements could impact airlines' decisions on maintaining, deferring or canceling new aircraft purchases, in part based on the value associated with new fuel efficient technologies and targets established by airlines to reduce greenhouse gas emissions.

COVID-19 continues to impact our Aerospace Aftermarket businesses. Reduced aircraft utilization, increased levels of aircraft removed from service and reduced airline profitability are expected to continue to impact our business in the mid-term. The Aftermarket business has, however, showed strong signs of a recovery during 2021 as orders have sequentially increased during each quarter. Domestic and international passenger traffic improved, the distribution of vaccines increased and certain domestic health and travel restrictions were lifted. Travel restrictions, especially on an international basis, continue to impact wide body aircraft utilization and corresponding Aftermarket orders, although freight-related air traffic remains strong. Sales in the Aerospace Aftermarket business may continue to be impacted by inventory management and changes in customer sourcing, deferred or limited maintenance activity during engine shop visits and the use of surplus (used) material during the engine repair and overhaul process. Management believes that its Aerospace Aftermarket business continues to be competitively positioned based on well-established long-term customer relationships, including maintenance and repair contracts in the MRO

business and long-term Revenue Sharing Programs ("RSPs") and Component Repair Programs ("CRPs"). The MRO business may also be impacted by airlines that closely manage their aftermarket costs as engine performance and quality improves. Fluctuations in fuel costs and potential changes in regulatory requirements and their corresponding impacts on airline profitability and behaviors within the aerospace industry could also impact levels and frequency of aircraft maintenance and overhaul activities, and airlines' decisions on maintaining, deferring or canceling new aircraft purchases, in part based on the economics associated with new fuel efficient technologies.

Given the pressures on sales growth resulting from COVID-19, the Company remains focused on the proactive management of costs and improved productivity to mitigate continued pressure on operating profit. Certain cost savings actions taken in the prior year remain in effect and have been critical in partially offsetting the lower profit contribution of lower Aftermarket sales. Aerospace will continue to explore opportunities for additional productivity in 2022, including working closely with vendors and customers as it relates to the timing of deliveries and pricing initiatives. Management also remains focused on strategic investments and new product and process introductions. Driving productivity through the application of BES continues as a key initiative. Operating profit is expected to be affected by the impact of the changes in sales volume noted above, mix and pricing, particularly as they relate to the higher profit Aftermarket RSP spare parts business, and investments made in each of its businesses. Operating profits may also be impacted by potential changes in tariffs, trade agreements and trade policies that may affect the cost and/or availability of goods and labor constraints. Costs associated with new product and process introductions, the physical transfer of work to other global regions, additional productivity initiatives and restructuring activities may also negatively impact operating profit.

LIQUIDITY AND CAPITAL RESOURCES

Management assesses the Company's liquidity in terms of its overall ability to generate cash to fund its operating and investing activities. Of particular importance in the management of liquidity are cash flows generated from operating activities, capital expenditure levels, dividends, capital stock transactions, effective utilization of surplus cash positions overseas and adequate lines of credit. The Company currently maintains sufficient liquidity and will continue to evaluate ways to enhance its liquidity position as it navigates through the disrupted business environment that has resulted from COVID-19.

The Company believes that its ability to generate cash from operations in excess of its internal operating needs is one of its financial strengths. Management continues to focus on cash flow and working capital management, and anticipates that operating activities in 2022 will generate sufficient cash to fund operations. See additional discussion regarding currently available debt facilities below. The Company continues to invest within its businesses, with its estimate of 2022 capital spending to be approximately $60 million.

In October 2014, the Company entered into a Note Purchase Agreement (“Note Purchase Agreement”), among the Company and New York Life Insurance Company, New York Life Insurance and Annuity Corporation and New York Life Insurance and Annuity Corporation Institutionally Owned Life Insurance Separate Account, as purchasers, for the issuance of $100.0 million aggregate principal amount of 3.97% senior notes due October 17, 2024 (the “3.97% Senior Notes”). The 3.97% Senior Notes are senior unsecured obligations of the Company and pay interest semi-annually on April 17 and October 17 of each year at an annual rate of 3.97%. The 3.97% Senior Notes will mature on October 17, 2024 unless earlier prepaid in accordance with their terms. Subject to certain conditions, the Company may, at its option, prepay all or any part of the 3.97% Senior Notes in an amount equal to 100% of the principal amount of the 3.97% Senior Notes so prepaid, plus any accrued and unpaid interest to the date of prepayment, plus the Make-Whole Amount, as defined in the Note Purchase Agreement, with respect to such principal amount being prepaid. The Note Purchase Agreement contains customary affirmative and negative covenants that are similar to the covenants required under the Amended Credit Agreement, as discussed below. At December 31, 2021, the Company was in compliance with all covenants under the Note Purchase Agreement.

On October 8, 2020, the Company entered into the sixth amendment to its fifth amended and restated revolving credit agreement with Bank of America (the “Sixth Amendment”) and the first amendment to the Note Purchase Agreement with New York Life (the “First NPA Amendment” and, collectively with the Sixth Amendment, the "Amendments"). The Sixth Amendment maintained the borrowing availability of $1,000.0 million along with access to request an additional $200.0 million through an accordion feature. The Sixth Amendment and the First NPA Amendment provided for an increase in the Company’s maximum ratio of Consolidated Senior Debt, as defined, to Consolidated EBITDA, as defined, from 3.25 times (or, if a certain permitted acquisition above $150.0 million is consummated, 3.50 times) to 3.75 times in each case at the end of the four fiscal quarters, beginning with December 31, 2020, and regardless of whether a permitted acquisition, as defined, is consummated, providing additional financing flexibility and access to liquidity. Additionally, the Sixth Amendment requires the Company to maintain a maximum ratio of Consolidated Total Debt, as defined, to Consolidated EBITDA, of not more than 3.75 times in each case, at the end of the four fiscal quarters, beginning with December 31, 2020 and regardless of whether a permitted

acquisition, as defined, is consummated. Furthermore, the First NPA Amendment provides for (i) adjustments to the ratio of Consolidated Total Debt to Consolidated EBITDA to conform to a more restrictive total leverage ratio that may be required under the Sixth Amendment, (ii) an increase in the amount of allowable add-back for restructuring charges when calculating Consolidated EBITDA from $15.0 million to $25.0 million and (iii) a required fee payment equal to 0.50% per annum times the daily outstanding principal amount of the note during each of the four fiscal quarters, following the quarter ended December 31, 2020, if the Company's Senior Leverage Ratio, as defined, exceeds 3.25 times. In October 2020, the Company paid fees and expenses of $1.4 million in conjunction with executing the Amendments. Such fees have been deferred within Other Assets on the accompanying Consolidated Balance Sheet and are being amortized on the Consolidated Statements of Income.

On February 10, 2021, the Company and certain of its subsidiaries entered into the sixth amended and restated senior unsecured revolving credit agreement (the "Amended Credit Agreement") and retained Bank of America, N.A. as the Administrative Agent for the lenders. The Amended Credit Agreement maintains the $1,000.0 million of availability under the facility, while increasing the available borrowings under the accordion feature from $200.0 million to $250.0 million (aggregate availability of $1,250.0 million) and extends the maturity date through February 2026. The Amended Credit Agreement also adjusts the interest rate to either the Eurocurrency rate, as defined in the Amended Credit Agreement, plus a margin of 1.175% to 1.775% or the base rate, as defined in the Amended Credit Agreement, plus a margin of 0.175% to 0.775%, depending on the Company's leverage ratio at the time of the borrowing. Multi-currency borrowings, pursuant to the Amended Credit Agreement, bear interest at their respective interbank offered rate (i.e. Euribor) or 0.00% (higher of the two rates) plus a margin of between 1.175% and 1.775%. As with the earlier facility, the Company's borrowing capacity is limited by various debt covenants in the Amended Credit Agreement, as described further below. The Amended Credit Agreement required the Company to maintain a Senior Debt Ratio of not more than 3.75 times at the end of each fiscal quarter ending on or before September 30, 2021, after which the ratio reverted to 3.25 times (or, if a permitted acquisition above $150.0 million is consummated, 3.50 times at the end of each of the first four fiscal quarters ending after the consummation of any such acquisition). In addition, the Amended Credit Agreement requires the Company to maintain a Total Debt Ratio of not more than 3.75 for each fiscal quarter (or, if a permitted acquisition above $150.0 million is consummated, 4.25 times at the end of each of the first four fiscal quarters ending after the consummation of any such acquisition). A ratio of Consolidated EBITDA to Consolidated Cash Interest Expense, as defined, of not less than 4.25, is required at the end of each fiscal quarter. The Amended Credit Agreement also contemplates the potential replacement of LIBOR (as defined below) with a successor financing rate, pursuant to the intent of the United Kingdom's Financial Conduct Authority to phase out use of LIBOR. See additional discussion immediately below regarding the Company's ongoing evaluation related to this potential change in financing rates. The Company paid fees and expenses of $4.3 million in conjunction with executing the Amended Credit Agreement. Such fees have been deferred within Other assets on the Consolidated Balance Sheets and will be amortized into interest expense on the Consolidated Statements of Income through its maturity. The Company subsequently amended the Credit Agreement on October 11, 2021, defining certain applicable multi-currency borrowing rates that may be used as replacement rates for LIBOR, which is expected to be discontinued by reference rate reform. See Note 1 of the Consolidated Financial Statements, as well as discussion below.

The United Kingdom's Financial Conduct Authority, which regulates the London Interbank Offered Rate ("LIBOR"), announced its intent to phase out the use of LIBOR by December 31, 2021. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, a steering committee comprised of large U.S. financial institutions, identified the Secured Overnight Financing Rate ("SOFR") as its preferred benchmark alternative to U.S. dollar LIBOR. Published by the Federal Reserve Bank of New York, SOFR represents a measure of the cost of borrowing cash overnight, collateralized by U.S. Treasury securities, and is calculated based on directly observable U.S. Treasury-backed repurchase transactions. The Company's Amended Credit Agreement and corresponding interest rate swap are tied to LIBOR, with each maturing in February 2026, as noted above. In March 2021, the ICE Benchmark Association announced that it will extend the publication of overnight, 1, 3, 6 and 12 month LIBOR rates until June 30, 2023, while ceasing publication of all other LIBOR rates including 1 week and 2 month rates. The Company's Amended Credit Agreement was further amended in October 2021 to address the replacement of LIBOR, defining certain applicable multi-currency borrowing rates that may be used as a replacement. The Company is continuing to monitor the potential impact of the replacement of LIBOR, but does not anticipate a material impact on our business, financial condition, results of operations and cash flows.

At December 31, 2021, the Company was in compliance with all applicable covenants. The Company anticipates continued compliance under the Agreements in each of the next four quarters. The Company's most restrictive financial covenant is the Senior Debt Ratio, which required the Company to maintain a ratio of Consolidated Senior Debt to Consolidated EBITDA of not more than 3.25 times at December 31, 2021. The actual ratio at December 31, 2021 was 2.44 times, as defined.

In 2021, 2020 and 2019, the Company acquired 0.1 million shares, 0.4 million shares and 0.9 million shares of the Company's common stock, respectively, under the Repurchase Program at a cost of $5.2 million, $15.6 million and $50.3

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million, respectively. Management will continue to evaluate additional repurchases based on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. See "Part II - Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds".

Operating cash flow may be supplemented with external borrowings to meet near-term business expansion needs and the Company's current financial commitments. The Company has assessed its credit facilities in conjunction with the Amended Credit Facility and currently expects that its bank syndicate, comprised of 12 banks, will continue to support its recently executed Amended Credit Agreement, which matures in February 2026. At December 31, 2021, the Company had $504.7 million unused and available for borrowings under its $1,000.0 million Amended Credit Facility, subject to covenants in the Company's Amended Credit Agreement. At December 31, 2021, additional borrowings of $325.6 million of Total Debt including $201.7 million of Senior Debt would have been allowed under the financial covenants. The Company intends to use borrowings under its Amended Credit Agreement to support the Company's ongoing growth initiatives. The Company continues to analyze potential acquisition targets and end markets that meet our strategic criteria with an emphasis on proprietary, highly-engineered industrial technologies. The Company believes its credit facilities and access to capital markets, coupled with cash generated from operations, are adequate for its anticipated future requirements. The Company maintains communication with its bank syndicate as it continues to monitor its cash requirements and available costs of borrowing within the market.

The Company had no borrowings under short-term bank credit lines at December 31, 2021.

The Company entered into an interest rate swap agreement (the "2017 Swap") on April 28, 2017, with one bank, which converted the interest on the first $100.0 million of the Company's one-month LIBOR-based borrowings from a variable rate plus the borrowing spread to a fixed rate of 1.92% plus the borrowing spread. The 2017 Swap expired on January 31, 2022. On March 24, 2021, the Company entered into a new interest rate swap agreement (the "2021 Swap") with this same bank that commenced on January 31, 2022 and that converted the interest on the first $100.0 million of the Company's one-month LIBOR-based borrowings from a variable rate plus the borrowing spread to a fixed rate of 1.17% plus the borrowing spread. The 2021 Swap will expire on January 30, 2026. These interest rate swap agreements (the "Swaps") remain in place at December 31, 2021 and are accounted for as cash flow hedges. At December 31, 2021, the Company's total borrowings were comprised of approximately 34% fixed rate debt and 66% variable rate debt. At December 31, 2020, the Company's total borrowings were comprised of approximately 30% fixed rate debt and 70% variable rate debt.

The funded status of the Company's pension plans is dependent upon many factors, including actual rates of return that impact the fair value of pension assets and changes in discount rates that impact projected benefit obligations. The unfunded status of the pension plans decreased from $55.0 million at December 31, 2020 to $22.3 million at December 31, 2021 as the fair value of the pension plan assets increased and the projected benefit obligations ("PBOs") decreased, following an update to certain actuarial assumptions. The Company recorded $29.8 million of non-cash after-tax increases in stockholders equity (through other non-owner changes to equity) when recording the current year adjustments for changes in the funded status of its pension and postretirement benefit plans as required under accounting for defined benefit and other postretirement plans. This increase in stockholders equity resulted primarily from changes in actuarial assumptions, primarily an increase in discount rates, the amortization of actuarial losses and prior service costs recorded earlier and favorable variances between expected and actual returns on pension plan assets.

In 2021, the Company made no discretionary contributions to its U.S Qualified pension plans. The Company expects to contribute approximately $4.6 million to its various defined benefit pension plans in 2022. No discretionary contributions to the U.S. Qualified pension plans are currently planned in 2022. See Note 12 of the Consolidated Financial Statements.

As noted above, the U.S. government enacted the Act on December 22, 2017. The Company completed its computation of the Transition Tax as required pursuant to SAB 118 in 2018, resulting in a final net Transition Tax expense of $86.7 million. The Company elected to pay the Transition Tax over the allowed eight-year period. The installment payments for the Transition Tax are not expected to have a material impact on the liquidity or capital resources of the Company. The Company expects to make the payments through the use of available cash or borrowings under the Amended Credit Agreement.

The Company completed the sale of the Seeger business to Kajo Neukirchen Group effective February 1, 2020. Gross proceeds received were 39.0 million Euros ($42.9 million) after consideration of post-closing adjustments, which were made during 2020, pursuant to the terms of the SPA. The Company yielded net cash proceeds of $36.1 million after consideration of cash sold and transaction costs. Resulting tax charges of $4.2 million were recognized in the first quarter of 2020 following the completion of the sale. The Company utilized the proceeds from the sale to reduce debt under the Amended Credit Agreement.

At December 31, 2021, the Company held $102.9 million in cash and cash equivalents, the majority of which was held by foreign subsidiaries. These amounts have no material regulatory or contractual restrictions and, on a long term basis, are expected to primarily fund international investments. The Act changed the impact of U.S taxation on foreign distributions. The Company is continuously evaluating its position regarding the potential repatriation of overseas cash. The evaluation of potential repatriation is dependent upon several variables, including foreign taxation of dividends and the impact of withholding tax. The Company repatriated $68.3 million to the U.S. during 2021.

The Company's efforts to comply with numerous federal, state and local laws and regulations applicable to its business and products often results in capital expenditures. The Company makes capital expenditures to design and upgrade its aerospace and industrial products to comply with or exceed standards applicable to the industries we serve. The Company's ongoing HSE compliance program also results in capital expenditures. Regulatory and HSE considerations are a part of significant capital expenditure decisions; however, expenditures during 2021 related solely to regulatory compliance were not material.

Any future acquisitions are expected to be financed through cash, borrowings and equity, or a combination thereof. We may from time to time seek to retire or repurchase our outstanding debt through cash purchases and/or exchanges for equity securities, in open market purchases, under a Rule 10b5-1 trading plan, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors.

Cash Flow

($ in millions)	2021	2020	$ Change	% Change	2019
Operating activities	**$ 167.8**	$ 215.5	$ (47.7)	(22.1)%	$ 248.3
Investing activities	**(29.8)**	(4.2)	(25.6)	NM	(62.2)
Financing activities	**(114.7)**	(219.7)	105.0	47.8 %	(192.0)
Exchange rate effect	**(2.9)**	6.1	(8.9)	NM	(1.0)
Increase (decrease) in cash, cash equivalents and restricted cash	**$ 20.4**	$ (2.3)	$ 22.8	NM	$ (6.9)

NM – Not meaningful

Operating activities provided $167.8 million in 2021 compared to $215.5 million in 2020. Operating cash flows in the 2021 period were positively impacted by improved operating results compared to the 2020 period; however, this was offset by the absence of $99.6 million of cash generated by working capital in the 2020 period which was driven by a reduction in accounts receivable. The 2021 period includes a use of cash for working capital of $3.2 million.

Investing activities used $29.8 million in 2021 and $4.2 million in 2020. Net cash proceeds of $36.1 million from the sale of the Seeger business are included in investing activities for the 2020 period. See Note 2 of the Consolidated Financial Statements. In 2021, investing activities included capital expenditures of $34.1 million compared to $40.7 million in 2020. The Company expects capital spending in 2022 to approximate $60 million. Capital expenditures relate to both maintenance and support of growth initiatives, which include the purchase of equipment to support new products and services, and are expected to be funded primarily through cash flows from operations.

Cash used by financing activities in 2021 included a net decrease in borrowings of $67.4 million compared to a net decrease of $174.2 million in 2020. Proceeds from the issuance of common stock were $1.4 million and $2.0 million in 2021 and 2020, respectively. In 2021, the Company repurchased 0.1 million shares of the Company's stock at a cost of $5.2 million compared with the purchase of 0.4 million shares at a cost of $15.6 million in 2020. Total cash used to pay dividends was $32.4 million in both the 2021 and 2020 periods. Withholding taxes paid on stock issuances were $1.4 million in the 2021 period and $3.4 million in the 2020 period. Other financing cash flows during 2021 and 2020 included $0.8 million of net cash payments and $5.6 million of net cash proceeds, respectively, related to the settlement of foreign currency hedges related to intercompany financings. Other financing cash flows in the 2021 period also included $4.3 million of payments made in conjunction with executing the Amended Credit Agreement and $4.2 million of payments related to the residual interest in a subsidiary. Other financing cash flows in the 2020 period also included $1.4 million of payments made in conjunction with executing amendments to the Amended Credit Agreement and the Note Purchase Agreement.

Debt Covenants

As noted above, borrowing capacity is limited by various debt covenants in the Company's debt agreements. Following is a reconciliation of Consolidated EBITDA, a key metric in the debt covenants, to the Company's net income (in millions):

	2021
Net income	**$ 99.9**
Add back:	
Interest expense	**16.2**
Income taxes	**27.9**
Depreciation and amortization	**92.2**
Adjustment for non-cash stock based compensation	**11.4**
Other adjustments	**0.1**
Consolidated EBITDA, as defined within the Amended Credit Agreement	**$ 247.8**
Consolidated Senior Debt, as defined, as of December 31, 2021	**$ 603.7**
Ratio of Consolidated Senior Debt to Consolidated EBITDA	**2.44**
Maximum	**3.25**
Consolidated Total Debt, as defined, as of December 31, 2021	**$ 603.7**
Ratio of Consolidated Total Debt to Consolidated EBITDA	**2.44**
Maximum	**3.75**
Consolidated Cash Interest Expense, as defined, as of December 31, 2021	**$ 16.2**
Ratio of Consolidated EBITDA to Consolidated Cash Interest Expense	**15.29**
Minimum	**4.25**

The Amended Credit Agreement allows for certain adjustments within the calculation of the financial covenants. Other adjustments consist primarily of restructuring charges, due diligence and transaction expenses and net gains on the sale of assets as permitted under the Amended Credit Agreement. The Company's financial covenants are measured as of the end of each fiscal quarter. At December 31, 2021, additional borrowings of $325.6 million of Total Debt including $201.7 million of Senior Debt would have been allowed under the covenants. Senior Debt includes primarily the borrowings under the Amended Credit Agreement, the 3.97% Senior Notes and the borrowings under the lines of credit. The Company's unused committed credit facilities at December 31, 2021 were $504.7 million; however, the borrowing capacity was limited by the debt covenants to $325.6 million of Total Debt and $201.7 million of Senior Debt at December 31, 2021.

Contractual Obligations and Commitments

At December 31, 2021, the Company had the following contractual obligations and commitments:

($ in millions)	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt obligations (1)	$ 601.8	$ 1.8	$ 103.6	$ 496.4	$ —
Estimated interest payments under long-term obligations (2)	42.5	11.5	22.8	8.2	—
Operating lease obligations (3)	33.1	11.7	12.1	2.8	6.5
Purchase obligations (4)	251.0	225.8	23.1	1.5	0.6
Expected pension contributions (5)	4.6	4.6	—	—	—
Expected benefit payments – other postretirement benefit plans (6)	21.7	2.9	5.2	4.5	9.1
Long-term U.S. Tax Reform obligations(7)	52.1	—	30.4	21.7	—
Total	$ 1,006.8	$ 258.3	$ 197.2	$ 535.1	$ 16.2

(1) Long-term debt obligations represent the required principal payments under such agreements. As noted above, the Company entered into an Amended Credit Agreement on February 10, 2021, extending the maturity of the $1,000.0 million facility from February 2022 to February 2026.

(2) Interest payments under long-term debt obligations have been estimated based on the borrowings outstanding and market interest rates as of December 31, 2021. The Amended Credit Agreement extends the maturity of the facility and the timing of corresponding interest payments through February 2026.

(3) The Company's operating lease payments included herein reflect the future minimum undiscounted fixed lease payments, which represent the basis for calculating the Company's operating lease liabilities as of December 31, 2021. Refer to Note 19 of the Consolidated Financial Statements.

(4) The amounts do not include purchase obligations reflected as current liabilities on the consolidated balance sheet. The purchase obligation amount includes all outstanding purchase orders as of the balance sheet date as well as the minimum contractual obligation or termination penalty under other contracts.

(5) The amount included in "Less Than 1 Year" reflects anticipated contributions to the Company's various pension plans. Anticipated contributions beyond one year are not determinable.

(6) Amounts reflect anticipated benefit payments under the Company's other postretirement benefit plans based on current actuarial assumptions. Expected benefit payments, as presented above, do not extend beyond 2031. See Note 12 of the Consolidated Financial Statements.

(7) Amounts reflect anticipated long-term payments related to the Tax Cuts and Jobs Act that was enacted on December 22, 2017. Payments are allowed over an eight-year period. See Note 14 of the Consolidated Financial Statements. The amount payable in 2022 is included within accrued liabilities on the Consolidated Balance Sheets.

The above table does not reflect unrecognized tax benefits as the timing of the potential payments of these amounts cannot be determined. See Note 14 of the Consolidated Financial Statements.

OTHER MATTERS

Inflation

Inflation generally affects the Company through its costs of labor, equipment, raw materials, freight and utilities. The Company strives to offset these items by price increases, commodity price escalator provisions, operating improvements, and other cost-saving initiatives. In certain end markets, implementing price increases may be difficult and there is no assurance that the Company will be successful. From time to time, the Company may encounter difficulties in obtaining certain raw materials or components necessary for production due to supply chain constraints and logistical challenges, which may also negatively impact the pricing of materials and components sourced or used by the Company. Beginning in 2021 and into 2022, for example, raw material availability and inflationary pressures have impacted certain of our business. See "Part I, Item 1A. Risk Factors.

Critical Accounting Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant accounting policies are disclosed in Note 1 of the Consolidated Financial Statements. The most significant areas involving management judgments and estimates are described below. Actual results could differ from such estimates.

Inventory Valuation: Inventories are valued at the lower of cost, determined on a first-in, first-out basis, or net realizable value. The primary components of cost included in inventories are raw material, labor and overhead. Provisions are made to reduce excess or obsolete inventories to their estimated net realizable value. The process for evaluating the value of excess and obsolete inventory 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 and estimated costs. Estimates of excess and obsolete inventory may differ from actual results due to changes in market value, channels of distribution, customer preferences and overall economic and market conditions. Accelerating the disposal process or changes in estimates based on future sales potential or estimated costs may necessitate future adjustments to these provisions.

Revenue recognition: Revenue is recognized by the Company when control of the product or solution is transferred to the customer. Control is generally transferred when products are shipped or delivered to customers, title is transferred, the significant risks and rewards of ownership have transferred, the Company has rights to payment and rewards of ownership pass to the customer. Customer acceptance may also be a factor in determining whether control of the product has transferred. Although revenue is generally transferred at a point in time, a certain portion of businesses with customized products or contracts in which the Company performs work on customer-owned assets requires the use of an over time recognition model as certain contracts meet one or more of the established criteria pursuant to the accounting standards governing revenue recognition. Also, service revenue is recognized as control transfers, which is concurrent with the services being performed. The estimation of both total revenue and cost at completion includes a number of variables and requires significant judgement. A portion of our Aerospace OEM business as well as a portion of our Molding Solutions Products business has an estimate at completion process in which management reviews the progress and execution of our performance obligations for significant contracts with revenue recognized under an over time model. Factors considered in these estimates include, but are not limited to, performance under the contract, progress towards completion, identified risks and opportunities, sourcing determinations

and related changes in estimates of costs to be incurred. The potential exists that there will be a material change in estimates or assumptions used to calculate revenue recognized under an over time model and as a result changes to these estimates could have a material adverse effect on our results of operations. Adjustments to net sales, cost of sales and the related impact to operating income are recognized as necessary. Revenue recognized from performance obligations satisfied in previous periods was not material in 2021, 2020 and 2019. See Note 3 of the Consolidated Financial Statements.

Business Acquisitions, Intangible Assets and Goodwill: Assets and liabilities acquired in a business combination are recorded under the acquisition method of accounting at their estimated fair values at the dates of acquisition. At December 31, 2021, the Company had $955.4 million and $271.1 million of goodwill and identifiable intangible assets related to acquisitions, respectively. Goodwill represents the cost of acquisitions in excess of fair values assigned to the underlying identifiable net assets of acquired businesses. Identifiable intangible assets acquired in business acquisitions include customer relationships, patents and technology and trademarks/trade names. The fair value of acquired customer relationship intangibles was determined as of the acquisition dates based on estimates and judgments regarding expectations for the future after-tax cash flows arising from customer relationships that existed on the acquisition date over their estimated lives, less a contributory assets charge, all of which is discounted to present value using an appropriate discount rate. The fair value of the patents and technology and trademark/trade name intangible assets were determined utilizing the relief from royalty method which is a form of the income approach. Under this method, an after-tax royalty rate based on market royalty rates is applied to projected revenue associated with the patents/technology and trademark/trade name and discounted to present value using an appropriate discount rate. See Note 6 of the Consolidated Financial Statements.

Goodwill and indefinite-lived intangible assets are subject to impairment testing annually or more frequently if an event or change in circumstances indicates that the fair value of a reporting unit has been reduced below its carrying value. Management completes its annual impairment assessments during the second quarter of each year as of April 1. The Company utilizes the option to first assess qualitative factors to determine whether it is necessary to perform the Step 1 quantitative goodwill impairment test in accordance with applicable accounting standards. Under the qualitative assessment, management considers relevant events and circumstances including but not limited to macroeconomic conditions, industry and market considerations, overall unit performance and events directly affecting a unit. If the Company determines that the Step 1 quantitative impairment test is required, management estimates the fair value of the reporting unit primarily using the income approach, which reflects management's cash flow projections, and also evaluates the fair value using the market approach. Inherent in management's development of cash flow projections are assumptions and estimates, including those related to future earnings and growth rates and the weighted average cost of capital. The Company compares the fair value of the reporting unit with the carrying value of the reporting unit. If the fair values were to fall below the carrying values, the Company would recognize a non-cash impairment charge to income from operations for the amount by which the carrying amount of any reporting unit exceeds the reporting unit's fair value, assuming the loss recognized does not exceed the total amount of goodwill for the reporting unit. Based on our second quarter assessment, the estimated fair value of the Automation reporting unit, which represents the October 2018 acquisition of Gimatic, exceeded its carrying value while the estimated fair value of each of the remaining reporting units significantly exceeded their carrying values. There was no goodwill impairment at any reporting units in 2021. Based on our assessments, a ten percentage point decrease in the fair value of any reporting unit would not impact our conclusion that goodwill was not impaired. Many of the factors used in assessing fair value are outside the control of management, and these assumptions and estimates can change in future periods as a result of both Company-specific and overall economic conditions, including the impacts of COVID-19. Management's quantitative assessment includes a review of the potential impacts of current and projected market conditions from a market participant's perspective on reporting units' projected cash flows, growth rates and cost of capital to assess the likelihood of whether the fair value would be less than the carrying value. The Company also completed its annual impairment testing of its trade names, indefinite-lived intangible assets, in the second quarter of 2021 and determined that there were no impairments.

The Company executed an SPA to sell Seeger in December 2019 and subsequently classified the assets and liabilities of Seeger as "held for sale" on the Consolidated Balance Sheet as of December 31, 2019. Pursuant to the required accounting guidance, the Company allocated $15.0 million of goodwill from the Engineered Components ("EC") reporting unit to Seeger based on the estimated relative fair values of the business to be disposed of and the portion of the reporting unit that will be retained. The Company subsequently recorded a non-cash impairment charge of $5.6 million related to the goodwill that was allocated to Seeger. The impairment charge was recorded within Selling and Administrative expenses on the Consolidated Statement of Income for the period ended December 31, 2019. The Company assessed the goodwill within the remaining EC reporting unit and determined that there was no further impairment. See Note 2 of the Consolidated Financial Statements.

The Company assesses the impairment of the identifiable finite-lived intangible assets subject to amortization whenever significant events or significant changes in circumstances indicate that their carrying value may not be recoverable. The Company did not identify any impairments related to such intangible assets during 2021.

Aerospace Aftermarket Programs: The Company participates in aftermarket RSPs under which the Company receives an exclusive right to manufacture and supply designated aftermarket parts over the life of the related aircraft engine program to our customer, GE. As consideration, the Company has paid participation fees, which are recorded as intangible assets. The carrying value of these intangible assets was $147.5 million at December 31, 2021. The Company records amortization of the related asset as sales dollars are being earned based on a proportional sales dollar method. Specifically, this method amortizes each asset as a reduction to revenue based on the proportion of sales under a program in a given period to the estimated aggregate sales dollars over the life of that program which reflects the pattern in which economic benefits are realized.

The Company also participates in CRPs with GE which provide for, among other items, the right to sell certain aftermarket component repair services for CFM56, CF6, CF34 and LM engines directly to other customers over the life of the engine program as one of a few GE licensed suppliers. In addition, the CRPs extended certain existing contracts under which the Company provides these services directly to GE. Our total investments in CRPs as of December 31, 2021 equaled $111.8 million, all of which have been paid. At December 31, 2021, the carrying value of the CRPs was $76.2 million. The Company recorded the CRP payments as an intangible asset which is recognized as a reduction of sales over the remaining life of these engine programs based on the estimated sales over the life of such programs. This method reflects the pattern in which the economic benefits of the CRPs are realized.

The recoverability of each asset is subject to significant estimates about future revenues related to the programs' aftermarket parts and services. The Company evaluates these intangible assets for recoverability and updates amortization rates on an agreement by agreement basis for the RSPs and on an individual asset basis for the CRPs. The assets are reviewed for recoverability periodically including whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Annually, the Company evaluates the remaining life of these assets to determine whether events and circumstances warrant a revision to the remaining periods of amortization. Management updates revenue projections, which include a comparison of actual experience against projected revenue and industry projections. The potential exists that actual revenues will not meet expectations due to a change in market conditions, including, for example, the replacement of older engines with new, more fuel-efficient engines or the Company's ability to capture additional production share within the aftermarket business. A shortfall in future revenues may indicate a triggering event requiring a write down or further evaluation of the recoverability of the assets or require the Company to accelerate amortization expense prospectively dependent on the level of the shortfall. Management considered the impacts of the COVID-19 pandemic on the broader aerospace end markets during its evaluation of these intangible assets in 2021. The Company has not identified any impairment of these assets, although changes in projected RSP and CRP revenue has impacted amortization rates that will be applied prospectively. See Note 6 of the Consolidated Financial Statements.

Pension and Other Postretirement Benefits: Accounting policies and significant assumptions related to pension and other postretirement benefits are disclosed in Note 12 of the Consolidated Financial Statements. As discussed further below, the significant assumptions that impact pension and other postretirement benefits include discount rates, mortality rates and expected long-term rates of return on invested pension assets.

The Company selected the expected long-term rate of return of its U.S. defined benefit plans based on consideration of historical and projected rates of return on the weighted target asset mix of our pension investments. The target mix reflects a 65% equity investment target and a 35% target for fixed income and cash investments (in aggregate). The equity investment of 65% is more heavily weighted on global equity investment targets, rather than U.S. targets. The historical rates of return for the Company's defined benefit plans were calculated based upon compounded average rates of return of published indices. Management selected a long-term expected rate of return on its U.S. pension assets of 7.25%. The long-term rates of return for non-U.S. plans were selected based on actual historical rates of return of published indices that reflect the plans’ target asset allocations.

The discount rate used for the Company’s U.S. pension plans reflects the rate at which the pension benefits could be effectively settled. At December 31, 2021, the Company selected a discount rate of 2.95% based on a bond matching model for its U.S. pension plans. Market interest rates have increased in 2021 as compared with 2020 and, as a result, the discount rate used to measure pension liabilities increased from 2.65% at December 31, 2020. The discount rates for non-U.S. plans were selected based on highly rated long-term bond indices and yield curves that match the duration of the plan’s benefit obligations.

A one-quarter percentage point change in the assumed long-term rate of return on the Company’s U.S. pension plans as of December 31, 2021 would impact the Company’s 2022 pre-tax income by approximately $1.0 million. A one-quarter percentage point decrease in the discount rate on the Company's U.S. pension plans as of December 31, 2021 would also

decrease the Company's 2022 pre-tax income by approximately $1.1 million. The Company reviews these and other assumptions at least annually.

The Company recorded $29.8 million of non-cash after-tax increases in stockholders equity (through other non-owner changes to equity) when recording the current year adjustments for changes in the funded status of its pension and postretirement benefit plans as required under accounting for defined benefit and other postretirement plans. This increase in stockholders equity resulted primarily from changes in actuarial assumptions, primarily an increase in discount rate, the amortization of actuarial losses and prior service costs recorded earlier (including curtailment and settlement charges resulting from actions taken during 2021) and favorable variances between expected and actual returns on pension plan assets.
During 2021, the fair value of the Company's pension plan assets increased by $7.2 million and the projected benefit obligation decreased by $25.6 million. The decrease in the projected benefit obligation included payments of benefits to plan participants of $29.5 million, a $14.5 million (pre-tax) decrease due to actuarial gains resulting primarily from a change in the discount rates used to measure pension liabilities partially offset by annual service and interest costs of $6.5 million and $12.7 million, respectively. Changes to other actuarial assumptions in 2021 did not have a material impact on our stockholders equity or projected benefit obligation. Actual pre-tax gains on total pension plan assets were $33.1 million compared with an expected pre-tax return on pension assets of $27.9 million. Pension expense for 2022 is expected to decrease from $7.8 million in 2021 to $3.8 million.

Income Taxes: As of December 31, 2021, the Company had recognized $22.0 million of deferred tax assets, net of valuation reserves. The realization of these benefits is dependent, in part, on the amount and timing of future taxable income in jurisdictions where the deferred tax assets reside. For those jurisdictions where the expiration dates of tax loss carryforwards or the proposed operating results indicate that realization is unlikely, a valuation allowance is provided. Management currently believes that sufficient taxable income should be earned in the future to realize the deferred tax assets, net of valuation allowances recorded.

The valuation of deferred tax assets requires significant judgment. Management's assessment that the deferred tax assets will be realized represents its estimate of future results; however, there can be no assurance that such expectations will be met. Changes in management's assessment of achieving sufficient future taxable income could materially increase the Company's tax expense and could have a material adverse impact on the Company's financial condition and the results of operations.

Additionally, the Company is exposed to certain tax contingencies in the ordinary course of business and records those tax liabilities in accordance with the guidance for accounting for uncertain tax positions. For tax positions where the Company believes it is more likely than not that a tax benefit will be sustained, the Company has recorded the largest amount of tax benefit with a greater than 50% likelihood of being realized. For those income tax positions where it is more likely than not that a tax benefit will not be sustained, no tax benefit is recognized in the financial statements. A change in judgement that results in subsequent recognition, derecognition or change in measurement of a tax position taken in a earlier period will be recognized in the period that the change occurred. We do not anticipate a significant change in our unrecognized tax benefits within the next twelve months. The Company or its subsidiaries file income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. With a few exceptions, tax years remaining open to examination in significant foreign jurisdictions include tax years 2016 and forward and for the U.S. include tax years 2016 and forward. See Note 14 of the Consolidated Financial Statements. A one percentage point increase/decrease in our tax rate would have affected our 2021 earnings by $1.3 million. Changes in judgement related to tax positions taken in previous periods was not material in 2021, 2020 and 2019.

As noted above, a significant portion of revenue is generated by foreign locations. Current guidance requires the recognition of a tax liability under the assumption that foreign earnings will be repatriated in the future, unless the Company can assert that the earnings are indefinitely reinvested. Management's annual assessment in determining whether the earnings are indefinitely reinvested is based on an analysis of U.S. cash requirements and working capital requirements of the foreign operations, including capital expenditures, combined with any limitations, such as dividend restrictions or local law limits, which would limit possible repatriation. The Company has recognized a deferred tax liability for U.S. taxes of $0.2 million on $3.5 million of undistributed earnings of its international subsidiaries, earned before 2017 and the application of the Transition Tax implemented by the Act. All remaining earnings are considered indefinitely reinvested as defined per the indefinite reversal criterion within the accounting guidance for income taxes.

Stock-Based Compensation: The Company accounts for its stock-based employee compensation plans at fair value on the grant date and recognizes the related cost in its consolidated statement of income in accordance with accounting standards related to share-based payments. The fair values of stock options are estimated using the Black-Scholes option-pricing model based on certain assumptions. The fair values of service and performance based share awards are determined based on the fair market value of the Company's stock price on the grant date. The fair values of market based performance share awards are

determined using the Monte Carlo valuation method. Compensation expense is based on fair value and is recorded each period based upon a probability assessment of achieving performance goals. See Note 13 of the Consolidated Financial Statements.

EBITDA

Earnings before interest expense, income taxes, and depreciation and amortization ("EBITDA") for 2021 was $235.1 million compared to $205.1 million in 2020. EBITDA is a measurement not in accordance with generally accepted accounting principles ("GAAP"). The Company defines EBITDA as net income plus interest expense, income taxes, and depreciation and amortization which the Company incurs in the normal course of business. The Company does not intend EBITDA to represent cash flows from operations as defined by GAAP, and the reader should not consider it as an alternative to net income, net cash provided by operating activities or any other items calculated in accordance with GAAP, or as an indicator of the Company's operating performance. The Company's definition of EBITDA may not be comparable with EBITDA as defined by other companies. The Company believes EBITDA is commonly used by financial analysts and others in the industries in which the Company operates and, thus, provides useful information to investors. Accordingly, the calculation has limitations depending on its use.

Following is a reconciliation of EBITDA to the Company's net income (in millions):

	2021	2020
Net income	**$ 99.9**	$ 63.4
Add back:		
Interest expense	**16.2**	15.9
Income taxes	**27.9**	38.1
Depreciation and amortization	**91.1**	87.7
EBITDA	**$ 235.1**	$ 205.1

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the potential economic loss that may result from adverse changes in the fair value of financial instruments. The Company's financial results could be impacted by changes in interest rates and foreign currency exchange rates, and commodity price changes. The Company uses financial instruments to hedge its exposure to fluctuations in interest rates and foreign currency exchange rates. The Company does not use derivatives for speculative or trading purposes.

The Company's long-term debt portfolio consists of fixed-rate and variable-rate instruments and is managed to reduce the overall cost of borrowing while also minimizing the effect of changes in interest rates on near-term earnings. The Company's primary interest rate risk is derived from its outstanding variable-rate debt obligations. Financial instruments have been used by the Company to hedge its exposures to fluctuations in interest rates.

In April 2017, the Company entered into an interest rate swap agreement (the "2017 Swap") transacted with one bank which converted the interest on the first $100.0 million of borrowings from a variable rate plus the borrowing spread to a fixed rate of 1.92% plus the borrowing spread. The 2017 Swap expired on January 31, 2022. On March 24, 2021, the Company entered into a new interest rate swap agreement (the "2021 Swap") with this same bank that commenced on January 31, 2022 and converted the interest on the first $100.0 million of the Company's one-month LIBOR-based borrowings from a variable rate plus the borrowing spread to a fixed rate of 1.17% plus the borrowing spread. The 2021 Swap will expire on January 30, 2026. The result of a hypothetical 100 basis point increase in the interest rate on the average bank borrowings of the Company's variable-rate debt during 2021 would have reduced annual pretax profit by $4.7 million.

At December 31, 2021, the fair value of the Company's fixed-rate debt was $112.4 million, compared with its carrying amount of $106.5 million. The Company estimates that a 100 basis point decrease in market interest rates at December 31, 2021 would have increased the fair value of the Company's fixed rate debt to $115.4 million.

The Company has manufacturing, sales and distribution facilities around the world and thus makes investments and conducts business transactions denominated in various currencies. The Company is exposed primarily to financial instruments denominated in currencies other than the functional currency at its international locations. A 10% adverse change in foreign currencies relative to the U.S dollar at December 31, 2021 would have resulted in a $3.8 million loss in the fair value of those financial instruments. At December 31, 2021, the Company held $102.9 million of cash and cash equivalents, the majority of which is held by foreign subsidiaries.

Foreign currency commitments and transaction exposures are managed at the operating units as an integral part of their businesses in accordance with a corporate policy that addresses acceptable levels of foreign currency exposures.

Additionally, to reduce foreign currency exposure, management generally maintains the majority of foreign cash and short-term investments in functional currency and uses forward currency contracts for non-functional currency denominated monetary assets and liabilities and anticipated transactions in an effort to reduce the effect of the volatility of changes in foreign exchange rates on the income statement. Management assesses the strength of currencies in certain countries such as Brazil and Mexico, relative to the U.S. dollar, and may elect during periods of local currency weakness to invest excess cash in U.S. dollar-denominated instruments.

The Company's exposure to commodity price changes relates to certain manufacturing operations that utilize high-grade steel spring wire, stainless steel, titanium, Inconel, Hastelloys and other specialty metals. The Company attempts to manage its exposure to price increases through its procurement and sales practices. See "Part I - Item 1A - Risk Factors" for additional disclosure related to this market risk.

The results of the Company could be impacted by changes in tariffs, trade agreements or other trade restrictions imposed or agreed to by the U.S. or foreign governments.

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Item 8. Financial Statements and Supplementary Data

BARNES GROUP INC.
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands, except per share data)

	Years Ended December 31,		
	2021	**2020**	**2019**
Net sales	**$ 1,258,846**	$ 1,124,391	$ 1,491,118
Cost of sales	**803,850**	721,238	944,154
Selling and administrative expenses	**304,978**	279,783	310,516
	1,108,828	1,001,021	1,254,670
Operating income	**150,018**	123,370	236,448
Interest expense	**16,209**	15,944	20,629
Other expense (income), net	**5,992**	5,931	8,975
Income before income taxes	**127,817**	101,495	206,844
Income taxes	**27,944**	38,120	48,494
Net income	**$ 99,873**	$ 63,375	$ 158,350
Per common share:			
Basic	**$ 1.96**	$ 1.25	$ 3.09
Diluted	**$ 1.96**	$ 1.24	$ 3.07
Weighted average common shares outstanding:			
Basic	**50,926,374**	50,880,846	51,213,518
Diluted	**51,079,063**	51,097,586	51,633,169

See accompanying notes.

BARNES GROUP INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)

	Years Ended December 31,		
	2021	**2020**	**2019**
Net income	**$ 99,873**	$ 63,375	$ 158,350
Other comprehensive (loss) income, net of tax			
Unrealized gain (loss) hedging activities, net of tax [1]	**917**	(642)	(949)
Foreign currency translation adjustments, net of tax [2]	**(60,252)**	86,894	(13,689)
Defined benefit pension and other postretirement benefits, net of tax [3]	**29,812**	1,928	(5,357)
Total other comprehensive (loss) income, net of tax	**(29,523)**	88,180	(19,995)
Total comprehensive income	**$ 70,350**	$ 151,555	$ 138,355

(1) Net of tax of $334, $(230) and $(326) for the years ended December 31, 2021, 2020 and 2019, respectively.

(2) Net of tax of $0, $(66) and $(108) for the years ended December 31, 2021, 2020 and 2019, respectively.

(3) Net of tax of $8,916, $401 and $(1,420) for the years ended December 31, 2021, 2020 and 2019, respectively.

See accompanying notes.

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BARNES GROUP INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

	December 31, 2021	December 31, 2020
Assets		
Current assets		
Cash and cash equivalents	**$ 102,860**	$ 79,145
Accounts receivable, less allowances (2021 – $5,625; 2020 – $6,348)	**262,257**	251,460
Inventories	**239,655**	238,008
Prepaid expenses and other current assets	**75,437**	73,732
Total current assets	**680,209**	642,345
Deferred income taxes	**21,976**	22,092
Property, plant and equipment, net	**341,462**	370,947
Goodwill	**955,370**	1,011,580
Other intangible assets, net	**500,246**	564,132
Other assets	**77,557**	65,130
Total assets	**$ 2,576,820**	$ 2,676,226
Liabilities and Stockholders' Equity		
Current liabilities		
Notes and overdrafts payable	**$ 1,900**	$ 2,115
Accounts payable	**131,076**	112,428
Accrued liabilities	**175,583**	178,560
Long-term debt – current	**1,835**	2,276
Total current liabilities	**310,394**	295,379
Long-term debt	**599,932**	699,868
Accrued retirement benefits	**76,784**	98,171
Deferred income taxes	**66,704**	91,668
Long-term tax liability	**52,114**	59,063
Other liabilities	**42,126**	49,400
Commitments and contingencies (Note 22)		
Stockholders' equity		
Common stock – par value $0.01 per share		
Authorized: 150,000,000 shares		
Issued: at par value (2021 – 64,343,582 shares; 2020 – 64,171,321 shares)	**643**	642
Additional paid-in capital	**516,562**	501,531
Treasury stock, at cost (2021 – 13,658,483 shares; 2020 – 13,530,074 shares)	**(523,642)**	(516,992)
Retained earnings	**1,587,041**	1,519,811
Accumulated other non-owner changes to equity	**(151,838)**	(122,315)
Total stockholders' equity	**1,428,766**	1,382,677
Total liabilities and stockholders' equity	**$ 2,576,820**	$ 2,676,226

See accompanying notes.

BARNES GROUP INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	Years Ended December 31,		
	2021	**2020**	**2019**
Operating activities:			
Net income	**$ 99,873**	$ 63,375	$ 158,350
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**91,085**	87,656	99,059
(Gain) loss on disposition of property, plant and equipment	**(1,027)**	(94)	236
Stock compensation expense	**11,470**	10,300	13,306
Seeger divestiture charges	**—**	6,677	—
Non-cash impairment charge related to divestiture	**—**	—	5,600
Changes in assets and liabilities, net of the effects of divestitures:			
Accounts receivable	**(18,793)**	107,381	29,212
Inventories	**(7,350)**	2,147	11,482
Prepaid expenses and other current assets	**(5,208)**	(5,721)	(10,640)
Accounts payable	**22,909**	(9,968)	(22,546)
Accrued liabilities	**(1,630)**	(37,430)	2,336
Deferred income taxes	**(19,354)**	(5,867)	(12,025)
Long-term retirement benefits	**3,423**	(1,418)	(16,233)
Long-term tax liability	**(6,949)**	(6,949)	(6,949)
Other	**(643)**	5,373	(2,887)
Net cash provided by operating activities	**167,806**	215,462	248,301
Investing activities:			
Proceeds from disposition of property, plant and equipment	**3,007**	449	577
Proceeds from the sale of businesses, net of cash sold	**—**	36,062	—
Capital expenditures	**(34,117)**	(40,698)	(53,286)
Business acquisitions, net of cash acquired	**—**	—	(6,061)
Other	**1,304**	—	(3,450)
Net cash used in investing activities	**(29,806)**	(4,187)	(62,220)
Financing activities:			
Net change in other borrowings	**(173)**	(5,855)	5,490
Payments on long-term debt	**(115,507)**	(266,424)	(341,419)
Proceeds from the issuance of long-term debt	**48,300**	98,107	236,552
Proceeds from the issuance of common stock	**1,427**	1,989	5,492
Common stock repurchases	**(5,229)**	(15,550)	(50,347)
Dividends paid	**(32,402)**	(32,402)	(32,544)
Withholding taxes paid on stock issuances	**(1,421)**	(3,368)	(6,059)
Other	**(9,661)**	3,837	(9,158)
Net cash used provided by financing activities	**(114,666)**	(219,666)	(191,993)
Effect of exchange rate changes on cash flows	**(2,893)**	6,054	(1,002)
Increase (decrease) in cash, cash equivalents and restricted cash	**20,441**	(2,337)	(6,914)
Cash, cash equivalents and restricted cash at beginning of year	**91,468**	93,805	100,719
Cash, cash equivalents and restricted cash at end of year	**111,909**	91,468	93,805
Less: Restricted cash, included in Prepaid expenses and other current assets	**(4,524)**	(4,944)	—
Less: Restricted cash, included in Other assets	**(4,525)**	(7,379)	—
Cash and cash equivalents at end of year	**$ 102,860**	**$ 79,145**	**$ 93,805**

See accompanying notes.

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BARNES GROUP INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Dollars and shares in thousands)

	Common Stock (Number of Shares)	Common Stock (Amount)	Additional Paid-In Capital	Treasury Stock (Number of Shares)	Treasury Stock	Retained Earnings	Accumulated Other Non-Owner Changes to Equity	Total Stockholders' Equity
January 1, 2019	63,367	$ 634	$ 470,818	12,034	$ (441,668)	$ 1,363,772	$ (190,500)	$ 1,203,056
Comprehensive income	—	—	—	—	—	158,350	(19,995)	138,355
Dividends declared ($0.64 per share)	—	—	—	—	—	(32,544)	—	(32,544)
Common stock repurchases	—	—	—	900	(50,347)	—	—	(50,347)
Employee stock plans	506	5	18,464	117	(6,059)	(402)	—	12,008
December 31, 2019	63,873	639	489,282	13,051	(498,074)	1,489,176	(210,495)	1,270,528
Comprehensive income	—	—	—	—	—	63,375	88,180	151,555
Dividends declared ($0.64 per share)	—	—	—	—	—	(32,402)	—	(32,402)
Common stock repurchases	—	—	—	396	(15,550)	—	—	(15,550)
Employee stock plans	298	3	12,249	83	(3,368)	(338)	—	8,546
December 31, 2020	64,171	642	501,531	13,530	(516,992)	1,519,811	(122,315)	1,382,677
Comprehensive income	—	—	—	—	—	**99,873**	**(29,523)**	**70,350**
Dividends declared ($0.64 per share)	—	—	—	—	—	**(32,402)**	—	**(32,402)**
Residual interest in subsidiary	—	—	**2,177**	—	—	—	—	**2,177**
Common stock repurchases	—	—	—	**100**	**(5,229)**	—	—	**(5,229)**
Employee stock plans	**173**	**1**	**12,854**	**28**	**(1,421)**	**(241)**	—	**11,193**
December 31, 2021	**64,344**	**$ 643**	**$ 516,562**	**13,658**	**$ (523,642)**	**$ 1,587,041**	**$ (151,838)**	**$ 1,428,766**

See accompanying notes.

BARNES GROUP INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All dollar amounts included in the notes are stated in thousands except per share data and the tables in Note 21)

1. Summary of Significant Accounting Policies

General: The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The COVID-19 pandemic ("COVID-19") has resulted in a disruption in business activities worldwide and has caused weakened economic conditions, both in the United States and abroad. COVID-19 has had, and may continue to have, a significant negative impact on the Company's ongoing operations and the end markets in which it serves. The Company has assessed the impacts on its accounting estimates, assumptions and disclosures.

Consolidation: The accompanying consolidated financial statements include the accounts of the Company and all of its subsidiaries. Intercompany transactions and account balances have been eliminated.

Revenue recognition: The Company accounts for revenue in accordance with Accounting Standard Codification 606, Revenue from Contracts with Customers, which it adopted on January 1, 2018. Revenue is recognized by the Company when control of the product or solution is transferred to the customer. Control is generally transferred when products are shipped or delivered to customers, title is transferred, the significant risks and rewards of ownership have transferred, the Company has rights to payment and rewards of ownership pass to the customer. Customer acceptance may also be a factor in determining whether control of the product has transferred. Although revenue is generally transferred at a point in time, a certain portion of businesses with customized products or contracts in which the Company performs work on customer-owned assets requires the use of an over time recognition model as certain contracts meet one or more of the established criteria pursuant to the accounting standards governing revenue recognition. Also, service revenue is recognized as control transfers, which is concurrent with the services being performed. See Note 3. Management fees related to the Aerospace Aftermarket Revenue Sharing Programs ("RSPs") are satisfied through an agreed upon reduction from the sales price of each of the related spare parts. These fees recognize our customer's necessary performance of engine program support activities, such as spare parts administration, warehousing and inventory management, and customer support, and are not separable from our sale of products, and accordingly, they are reflected as a reduction to sales, rather than as costs incurred, when revenues are recognized.

Cash and cash equivalents: Cash in excess of operating requirements is generally invested in short-term, highly liquid, income-producing investments. All highly liquid investments purchased with an original maturity of three months or less are considered cash equivalents. Cash equivalents are carried at cost which approximates fair value.

Accounts receivable: The Company records accounts receivable at net realizable value. Balances are reviewed regularly and reserves are adjusted when events or circumstances indicate carrying values may not be recoverable. Effective January 1, 2020, the Company adopted the amended guidance related to credit losses on financial instruments. See "Recently Adopted Accounting Standards" below for additional discussion regarding the application of this amended guidance.

Inventories: Inventories are valued at the lower of cost, determined on a first-in, first-out basis, or net realizable value. The primary components of cost included in inventories are raw material, labor and overhead. Provisions are made to reduce excess or obsolete inventories to their estimated net realizable value. The process for evaluating the value of excess and obsolete inventory often requires the Company to make judgments and estimates concerning future sales levels, quantities and prices at which such inventory will be sold in the normal course of business and estimated costs. Accelerating the disposal process or changes in estimates based on future sales potential or estimated costs may necessitate future adjustments to these provisions.

Property, plant and equipment: Property, plant and equipment is stated at cost. Depreciation is recorded using a straight-line method of depreciation over estimated useful lives, generally ranging from 20 to 50 years for buildings and four to 12 years for machinery and equipment. The Company assesses the impairment of property, plant and equipment subject to depreciation whenever events or changes in circumstances indicate the carrying value may not be recoverable.

BARNES GROUP INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Goodwill: Goodwill represents the excess purchase cost over the fair value of net assets of companies acquired in business combinations. Goodwill is considered an indefinite-lived asset. Goodwill is subject to impairment testing in accordance with accounting standards governing such on an annual basis, in the second quarter, or more frequently if an event or change in circumstances indicates that the fair value of a reporting unit has been reduced below its carrying value. Based on the assessment performed there was no goodwill impairment in 2021.

The Company executed a Share Purchase and Transfer Agreement to sell its Seeger business in December 2019. The Company recorded a non-cash impairment charge of $5,600 related to the goodwill allocated to Seeger. The impairment charge was recorded within Selling and Administrative expenses on the Consolidated Statement of Income in the period ended December 31, 2019. The Company assessed the goodwill within the remaining Engineered Components reporting unit and determined that there was no further impairment. See Note 2.

Leases: Contracts are evaluated at inception to determine whether they contain a lease. Operating lease right-of use assets and liabilities are recognized based on the present value of the future minimum lease payments over the lease term at the lease commencement date for operating leases with an initial term greater than 12 months. The Company recognizes lease expense for minimum lease payments on a straight line basis over the term of the lease. Certain leases provide the option to purchase the leased property and are therefore evaluated for finance lease consideration. The depreciable life of leased assets are limited by the expected term of the lease, unless there is a transfer of title or purchase option and the Company believes it is reasonably certain of exercise. The Company utilizes its incremental borrowing rate by lease term to calculate the present value of our future lease payments if an implicit rate is not specified. See Note 19.

Aerospace Aftermarket Programs: The Company participates in aftermarket RSPs under which the Company receives an exclusive right to manufacture and supply designated aftermarket parts over the life of the related aircraft engine program. As consideration, the Company has paid participation fees, which are recorded as long-lived intangible assets. The Company records amortization of the related intangible asset as sales dollars are being earned based on a proportional sales dollar method. Specifically, this method amortizes each asset as a reduction to revenue based on the proportion of sales under a program in a given period to the estimated aggregate sales dollars over the life of that program. This method reflects the pattern in which the economic benefits of the RSPs are realized.

The Company also entered into Component Repair Programs ("CRPs") that provide for, among other items, the right to sell certain aftermarket component repair services for CFM56, CF6, CF34 and LM engines directly to other customers as one of a few GE licensed suppliers. In addition, the CRPs extended certain existing contracts under which the Company currently provides these services directly to GE. The Company recorded the consideration for these rights as an intangible asset that is amortized as a reduction to sales over the remaining life of these engine programs based on the estimated sales over the life of such programs. This method reflects the pattern in which the economic benefits of the CRPs are realized.

The recoverability of each asset is subject to significant estimates about future revenues related to the program's aftermarket parts and services. The Company evaluates these intangible assets for recoverability and updates amortization rates on an agreement by agreement basis for the RSPs and on an individual asset program basis for the CRPs. The assets are reviewed for recoverability periodically including whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Annually, the Company evaluates the remaining useful life of these assets to determine whether events and circumstances warrant a revision to the remaining periods of amortization. Management updates revenue projections, which includes comparing actual experience against projected revenue and industry projections. The potential exists that actual revenues will not meet expectations due to a change in market conditions including, for example, the replacement of older engines with new, more fuel-efficient engines or the Company's ability to maintain market share within the Aftermarket business. A shortfall in future revenues may indicate a triggering event requiring a write down or further evaluation of the recoverability of the assets or require the Company to accelerate amortization expense prospectively dependent on the level of the shortfall. Management considered the impacts of the COVID-19 pandemic on the broader aerospace end markets during its evaluation of these intangible assets in 2021. The Company has not identified any impairment of these assets, although changes in projected RSP and CRP revenue has impacted amortization rates that will be applied in remaining periods.

Other Intangible Assets: Other intangible assets consist primarily of the Aerospace Aftermarket programs, as discussed above, customer relationships, tradenames, patents and proprietary technology. These intangible assets, with the exception of certain tradenames, have finite lives and are amortized over the periods in which they provide benefit. The Company assesses the impairment of long-lived assets, including identifiable intangible assets subject to amortization, whenever significant events or significant changes in circumstances indicate the carrying value may not be recoverable. Tradenames with indefinite lives are

BARNES GROUP INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

subject to impairment testing in accordance with accounting standards governing such on an annual basis, in the second quarter, or more frequently if an event or change in circumstances indicates that the fair value of the asset has been reduced below its carrying value. Based on the assessments performed during 2021, there were no impairments of other intangible assets. See Note 6.

Derivatives: Accounting standards related to the accounting for derivative instruments and hedging activities require that all derivative instruments be recorded on the balance sheet at fair value. Foreign currency contracts may qualify as fair value hedges of unrecognized firm commitments, cash flow hedges of recognized assets and liabilities or anticipated transactions, or a hedge of a net investment. Changes in the fair market value of derivatives that qualify as fair value hedges or cash flow hedges are recorded directly to earnings or accumulated other non-owner changes to equity, depending on the designation. Amounts recorded to accumulated other non-owner changes to equity are reclassified to earnings in a manner that matches the earnings impact of the hedged transaction. Any ineffective portion, or amounts related to contracts that are not designated as hedges, are recorded directly to earnings. The Company's policy for classifying cash flows from derivatives is to report the cash flows consistent with the underlying hedged item. See Note 10.

Foreign currency: Assets and liabilities are translated at year-end rates of exchange; revenues and expenses are translated at average rates of exchange. The resulting translation gains or losses are reflected in accumulated other non-owner changes to equity within stockholders' equity. Net foreign currency transaction losses of $572, $1,518 and $6,485 in 2021, 2020 and 2019, respectively, were recorded within other expense (income), net in the Consolidated Statements of Income.

Research and Development: Costs are incurred in connection with efforts aimed at discovering and implementing new knowledge that is critical to developing new products, processes or services, significantly improving existing products or services, and developing new applications for existing products and services. Research and development expenses for the creation of new and improved products, processes and services were $22,928, $16,949 and $15,666, for the years 2021, 2020 and 2019, respectively, and are included in selling and administrative expense.

Pension and Other Postretirement Benefits: The Company accounts for its defined benefit pension plans and other postretirement plans by recognizing the overfunded or underfunded status of the plans, calculated as the difference between plan assets and the projected benefit obligation related to each plan, as an asset or liability on the Consolidated Balance Sheets. Benefit costs associated with the plans primarily include current service costs, interest costs and the amortization of actuarial losses, partially offset by expected returns on plan assets, which are determined based upon actuarial valuations. Settlement and curtailment losses (gains) may also impact benefit costs. The Company regularly reviews actuarial assumptions, including discount rates and the expected return on plan assets, which are updated at the measurement date, December 31st. The impact of differences between actual results and the assumptions are generally accumulated within Other Comprehensive Income and amortized over future periods, which will affect benefit costs recognized in such periods. The Company bifurcates the components of net periodic benefit cost for pension and other postretirement plans. The service cost component of expense requires presentation with other employee compensation costs in operating income, whereas the other components of expense are reported separately outside of operating income. See Note 12.

Stock-Based Compensation: Stock-based employee compensation plans are accounted for based on their fair value on the grant date and the related cost is recognized in the Consolidated Statements of Income in accordance with accounting standards related to share-based payments. The fair values of stock options are estimated using the Black-Scholes option-pricing model based on certain assumptions. The fair values of service and performance based share awards are estimated based on the fair market value of the Company's stock price on the grant date. The fair values of market based performance share awards are estimated using the Monte Carlo valuation method. See Note 13.

Income Taxes: Deferred tax assets and liabilities are recognized for future tax effects attributable to temporary differences, operating loss carryforwards and tax credits. The measurement of deferred tax assets and liabilities is determined using tax rates from enacted tax law of the period in which the temporary differences, operating loss carryforwards and tax credits are expected to be realized. The effect of the change in income tax rates is recognized in the period of the enactment date. The guidance related to accounting for income taxes requires that deferred tax assets be reduced by a valuation allowance if, based on all available evidence, it is more likely than not that the deferred tax asset will not be realized. The Company is exposed to certain tax contingencies in the ordinary course of business and records those tax liabilities in accordance with the guidance for accounting for uncertain tax positions. The Company has elected to account for tax on Global Intangible Low- Taxed Income ("GILTI") as a period cost, when incurred. See Note 14.

Recent Accounting Standards

The Financial Accounting Standards Board ("FASB") establishes changes to accounting principles under U.S. GAAP through the use of Accounting Standards Updates ("ASUs") to the FASB's Accounting Standards Codification. The Company evaluates the applicability and potential impacts of recent ASUs on its Consolidated Financial Statements and related disclosures.

Recently Adopted Accounting Standards

In June 2016, the FASB amended its guidance related to credit losses on financial instruments. The amended guidance required the use of a methodology of estimation that reflects expected credit losses on certain types of financial instruments, including trade receivables, as a replacement to the current methodology, which estimates losses based on incurred credit losses. This expected credit loss methodology required that the Company consider a broader range of information when estimating credit losses on receivables. The amended guidance was effective for fiscal years, and interim periods within those years, beginning after December 15, 2019. The Company adopted this amended guidance and applicable FASB updates related to the guidance during the first quarter of 2020 and it did not have a material impact on the Company's Consolidated Financial Statements.

In August 2018, the FASB amended its guidance related to disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The amended requirements serve to remove, add and otherwise clarify certain existing disclosures. The amended guidance was effective for fiscal years ending after December 15, 2020. The guidance requires application on a retrospective basis to all periods presented. The Company has adopted this guidance within the Consolidated Financial Statements filed as of December 31, 2020 and it did not have a material impact. See Note 12.

In December 2019, the FASB amended its guidance related to income taxes. The amended guidance simplifies the accounting for income taxes, eliminating certain exceptions to the general income tax principles, in an effort to reduce the cost and complexity of application. The amended guidance is effective for annual periods beginning after December 15, 2020, and interim periods within those reporting periods. Early adoption is permitted in any interim or annual period. The guidance requires application on either a prospective, retrospective or modified retrospective basis, contingent on the income tax exception being applied. The Company has adopted this guidance, on a prospective basis, on January 1, 2021 and it did not have a material impact on the Company's Consolidated Financial Statements.

Recently Issued Accounting Standards

The United Kingdom's Financial Conduct Authority, which regulates the London Interbank Offered Rate (“LIBOR”), announced its intent to phase out the use of LIBOR by December 31, 2021. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, a steering committee comprised of large U.S. financial institutions, identified the Secured Overnight Financing Rate (“SOFR”) as its preferred benchmark alternative to U.S. dollar LIBOR. Published by the Federal Reserve Bank of New York, SOFR represents a measure of the cost of borrowing cash overnight, collateralized by U.S. Treasury securities, and is calculated based on directly observable U.S. Treasury-backed repurchase transactions. In March 2020, in response to this transition, the FASB issued guidance related to this rate reform, which provides optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships and other transactions that reference LIBOR or another reference rate expected to be discontinued by reference rate reform, and addresses operational issues likely to arise in modifying contracts to replace discontinued reference rates with new rates. In January 2021, the FASB issued further clarifying guidance regarding derivatives, as it relates to this transition. The guidance is effective through December 31, 2022. The Company’s Amended Credit Agreement (Note 8) and corresponding interest rate Swaps (Note 10) are tied to LIBOR, with each maturing in February 2026. In March 2021, the ICE Benchmark Association announced that it will extend the publication of overnight, 1, 3, 6 and 12 month LIBOR rates until June 30, 2023, while ceasing publication of all other LIBOR rates including 1 week and 2 month rates. See Note 8 as the Company's Credit Agreement was amended in October 2021 to address the replacement of LIBOR, defining certain applicable multi-currency borrowing rates that may be used as a replacement. The Company is continuing to monitor the potential impact of the replacement of LIBOR, but does not anticipate a material impact on our business, financial condition, results of operations or cash flows.

In October 2021, the FASB amended its guidance related to business combinations. The amended guidance requires entities to recognize and measure contract assets and contract liabilities acquired in business combinations on the acquisition date in accordance with Account Standard Codification 606, *Revenue from Contracts with Customers*. The new guidance is

BARNES GROUP INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

effective on a prospective basis for fiscal years beginning after December 15, 2022, with early adoption permitted. The Company is currently evaluating the amended guidance and will apply the guidance to future acquisitions.

2. Divestiture

On December 20, 2019, the Company entered into a Share Purchase and Transfer Agreement ("SPA") with the Kajo Neukirchen Group ("KNG") to sell the Seeger business, consisting of partnership interests and shares, respectively, of Seeger-Orbis GmbH & Co. OHG and Seeger-Orbis Mechanical Components (Tianjin) Co., Ltd. ("Seeger") for 42,500 Euros, subject to certain adjustments. Pursuant to the required accounting guidance, the Company allocated $15,000 of goodwill from the Engineered Components reporting unit to Seeger based on the estimated relative fair values of the business to be disposed of and the portion of the reporting unit that will be retained. The Company subsequently recorded an impairment charge of $5,600 related to the goodwill that was allocated to Seeger. The impairment charge was recorded within Selling and Administrative expenses on the Consolidated Statements of Income in the period ended December 31, 2019.

The Company completed the sale of the Seeger business to KNG effective February 1, 2020. Gross proceeds received were 38,964 Euros ($42,915) after consideration of post-closing adjustments, which were made during the fourth quarter of 2020, pursuant to the terms of the SPA. The Company yielded net cash proceeds of $36,062 after consideration of cash sold and transaction costs. Resulting tax charges of $4,211 were recognized in the first quarter of 2020 following the completion of the sale. Divestiture charges of $2,466 resulted from the completion of the sale and were recorded within Selling and Administrative expenses on the Consolidated Statement of Income for the year ended December 31, 2020.

The Company utilized the proceeds from the sale to reduce debt under the Amended Credit Agreement. Pursuant to the SPA, 6,000 Euros of the proceeds were placed in escrow and will be released through 2024, pending any potential settlement of claims. Cash related to a pending claim would remain in escrow until a final determination of the claim has been made. The Company has recorded the restricted cash in Prepaid Expenses and Other Current Assets and Other Assets (non-current) as of December 31, 2021.

3. Revenue

The Company is a global provider of highly engineered products, differentiated industrial technologies, and innovative solutions, serving a wide range of end markets and customers. Its specialized products and services are used in far-reaching applications in healthcare, automation, packaging, aerospace, mobility, and manufacturing. Revenue is recognized by the Company when control of the product or solution is transferred to the customer. Control is generally transferred when products are shipped or delivered to customers, title is transferred, the significant risks of ownership have transferred, the Company has rights to payment and the rewards of ownership pass to the customer. Customer acceptance may also be a factor in determining whether control of the product has transferred. Although revenue is generally transferred at a point in time, a certain portion of businesses with customized products or contracts in which the Company performs work on customer-owned assets requires the use of an over-time recognition model as certain contracts meet one or more of the established criteria pursuant to the accounting guidance. Also, service revenue is recognized as control transfers, which is concurrent with the services being performed.

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The following tables present the Company's revenue disaggregated by products and services, geographic regions and end markets, by segment:

	2021		
	Industrial	**Aerospace**	**Total Company**
Product and Services			
Engineered Components Products	$ 184,241	$ —	$ 184,241
Molding Solutions Products	458,681	—	458,681
Force & Motion Control Products	185,597	—	185,597
Automation Products	67,964	—	67,964
Aerospace Original Equipment Manufacturing Products	—	246,850	246,850
Aerospace Aftermarket Product and Services	—	115,513	115,513
	$ 896,483	$ 362,363	$ 1,258,846
Geographic Regions (A)			
Americas	$ 356,518	$ 271,241	$ 627,759
Europe	335,679	58,237	393,916
Asia	199,578	29,701	229,279
Rest of World	4,708	3,184	7,892
	$ 896,483	$ 362,363	$ 1,258,846
End Markets			
Aerospace OEM	$ 9,278	$ 246,850	$ 256,128
Aerospace Aftermarket	—	115,513	115,513
Medical, Personal Care & Packaging	219,672	—	219,672
Tool and Die	95,466	—	95,466
General Industrial	255,942	—	255,942
Auto Molding Solutions	150,125	—	150,125
Auto Production	98,036	—	98,036
Automation	67,964	—	67,964
	$ 896,483	$ 362,363	$ 1,258,846

(A) Sales by geographic market are based on the location to which the product is shipped and services are delivered.

BARNES GROUP INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	2020		
	Industrial	Aerospace	Total Company
Product and Services			
Engineered Components Products	$ 161,024	$ —	$ 161,024
Molding Solutions Products	400,806	—	400,806
Force & Motion Control Products	153,397	—	153,397
Automation Products	54,892	—	54,892
Aerospace Original Equipment Manufacturing Products	—	234,578	234,578
Aerospace Aftermarket Product and Services	—	119,694	119,694
	$ 770,119	$ 354,272	$ 1,124,391
Geographic Regions (A)			
Americas	$ 293,339	$ 257,370	$ 550,709
Europe	308,288	62,250	370,538
Asia	164,002	30,316	194,318
Rest of World	4,490	4,336	8,826
	$ 770,119	$ 354,272	$ 1,124,391
End Markets			
Aerospace OEM	$ 11,182	$ 234,577	$ 245,759
Aerospace Aftermarket	—	119,695	119,695
Medical, Personal Care & Packaging	213,725	—	213,725
Tool and Die	81,187	—	81,187
General Industrial	192,547	—	192,547
Auto Molding Solutions	125,337	—	125,337
Auto Production	91,249	—	91,249
Automation	54,892	—	54,892
	$ 770,119	$ 354,272	$ 1,124,391

(A) Sales by geographic market are based on the location to which the product is shipped and services are delivered.

BARNES GROUP INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	2019		
	Industrial	Aerospace	Total Company
Product and Services			
Engineered Components Products	$ 254,569	$ —	$ 254,569
Molding Solutions Products	442,564	—	442,564
Force & Motion Control Products	186,737	—	186,737
Automation Products	54,637	—	54,637
Aerospace Original Equipment Manufacturing Products	—	367,538	367,538
Aerospace Aftermarket Product and Services	—	185,073	185,073
	$ 938,507	$ 552,611	$ 1,491,118
Geographic Regions (A)			
Americas	$ 365,903	$ 397,580	$ 763,483
Europe	349,001	99,204	448,205
Asia	219,872	51,754	271,626
Rest of World	3,731	4,073	7,804
	$ 938,507	$ 552,611	$ 1,491,118
End Markets			
Aerospace OEM	$ 14,128	$ 367,538	$ 381,666
Aerospace Aftermarket	—	185,073	185,073
Medical, Personal Care & Packaging	222,963	—	222,963
Tool and Die	102,476	—	102,476
General Industrial	240,983	—	240,983
Auto Molding Solutions	144,122	—	144,122
Auto Production	159,197	—	159,197
Automation	54,638	—	54,638
	$ 938,507	$ 552,611	$ 1,491,118

(A) Sales by geographic market are based on the location to which the product is shipped and services are delivered.

Revenue from products and services transferred to customers at a point in time accounted for approximately 80 percent for the year ended December 31, 2021, approximately 85 percent of revenue for the year ended December 31, 2020 and approximately 90 percent of revenue for the year ended December 31, 2019. A majority of revenue within the Industrial segment and Aerospace OEM business, along with a portion of revenue within the Aerospace Aftermarket business, is recognized at a point in time, primarily when the product or solution is shipped to the customer.

Revenue from products and services transferred to customers over-time accounted for approximately 20 percent of revenue for the year ended December 31, 2021, approximately 15 percent of revenue for the year ended December 31, 2020 and approximately 10 percent of revenue for the year ended December 31, 2019. The Company recognizes revenue over-time in instances where a contract supports a continual transfer of control to the customer. Substantially all of our revenue in the Aerospace Aftermarket maintenance repair and overhaul business (within Aftermarket Products and Services) and a portion of the revenue for Engineered Components products, Molding Solutions products and Aerospace OEM products is recognized over-time. Within the Molding Solutions and Aerospace Aftermarket businesses, this continual transfer of control to the customer partially results from repair and refurbishment work performed on customer-controlled assets. With other contracts, this continual transfer of control to the customer is supported by clauses in the contract, or governing commercial law of the relevant jurisdiction, where we deliver products that do not have an alternative use and require an enforceable right to payment of costs incurred (plus a reasonable profit) or the Company has a contractual right to complete any work in process and receive full contract price.

BARNES GROUP INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Performance Obligations. A performance obligation represents a promise within a contract to provide a distinct good or service to the customer. The Company accounts for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectibility of consideration is probable. Transaction price reflects the amount of consideration to which the Company expects to be entitled in exchange for transferred goods or services. A contract's transaction price is allocated to each distinct performance obligation and revenue is recognized as the performance obligation is satisfied.

The majority of our revenues are from contracts that are less than one year, however certain Aerospace OEM and Industrial Molding Solutions business contracts extend beyond one year. In the Industrial segment, customers are typically OEMs or suppliers to OEMs and, in some businesses, distributors. In the Aerospace segment, customers include commercial airlines, OEMs and other aircraft and defense-related parts and service providers.

To determine the proper revenue recognition method for contracts, the Company uses judgment to evaluate whether two or more contracts should be combined and accounted for as one single contract and whether the combined or single contract should be accounted for as more than one performance obligation. Contracts within the Aerospace OEM and Industrial Engineered Components businesses typically have contracts that are combined as the customer may issue multiple purchase orders at or near the same point in time under the terms of a long term agreement.

Revenue is recognized in an over-time model 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 utilizes the cost-to-cost measure of progress for over time contracts as we believe this measure best depicts the transfer of control to the customer, which occurs as we incur costs on contracts.

Contract Estimates. Due to the nature of the work performed in completing certain performance obligations, the estimation of both total revenue and cost at completion includes a number of variables and requires significant judgment, as described further below.

Estimating total contract revenue may require judgment as certain contracts contain pricing discount structures, rebates, early payment discounts, or other provisions that can impact transaction price. The Company generally estimates variable consideration utilizing the expected value methodology as multiple inputs are considered and weighed, such as customer history, customer forecast communications, economic outlooks, and industry data. In certain circumstances where a particular outcome is probable, we utilize the most likely amount to which we expect to be entitled. The Company includes estimated amounts 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.

Estimating the total expected costs related to contracts also requires significant judgment. The Aerospace OEM business as well as a portion of our Molding Solutions Products business has an Estimate at Completion process in which management reviews the progress and execution of our performance obligations for significant contracts with revenue recognized under an over-time model. As part of this process, management reviews information including, but not limited to, performance under the contract, progress towards completion, identified risks and opportunities, sourcing determinations and related changes in estimates of costs to be incurred. These considerations include management's judgment about the ability and cost to achieve technical requirements and other contract requirements. Management makes assumptions and estimates regarding labor efficiency, 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 our subcontractors and overhead cost rates, among other variables.

The Company generally utilizes the portfolio approach to estimate the amount of revenue to recognize for certain other contracts which require over-time revenue recognition. Such contracts are grouped together either by revenue stream, customer or product. Each portfolio of contracts is grouped together based on having similar characteristics. The portfolio approach is utilized only when the result of the accounting is not expected to be materially different than if applied to individual contracts.

Adjustments to net sales, cost of sales and the related impact to operating income are recognized as necessary in the period they become known. Revenue recognized from performance obligations satisfied in previous periods was not material in 2021, 2020 or 2019.

Contract Balances. The timing of revenue recognition, invoicing and cash collections affect accounts receivable, unbilled receivables (contract assets) and customer advances and deposits (contract liabilities) on the Consolidated Balance Sheets.

BARNES GROUP INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Unbilled Receivables (Contract Assets) - Pursuant to the over-time revenue recognition model, revenue may be recognized prior to the customer being invoiced. An unbilled receivable is recorded to reflect revenue that is recognized when 1) the cost-to-cost method is applied and 2) such revenue exceeds the amount invoiced to the customer. Unbilled receivables are included within prepaid expenses and other current assets on the Consolidated Balance Sheets as of December 31, 2021 and 2020.

Customer Advances and Deposits (Contract Liabilities) - The Company may receive a customer advance or deposit, or have an unconditional right to receive a customer advance, prior to revenue being recognized. Certain contracts within the Molding Solutions business, for example, may require such advances. Since the performance obligations related to such advances may not have been satisfied, a contract liability is established. An offsetting asset of equal amount is recorded as an account receivable until the advance is collected. Advances and deposits are included within Accrued Liabilities on the Consolidated Balance Sheets until the respective revenue is recognized. Advance payments are not considered a significant financing component as they are generally received less than one year before the customer solution is completed. These assets and liabilities are reported on the Consolidated Balance Sheets on an individual contract basis at the end of each reporting period.

Net contract assets (liabilities) consisted of the following:

	December 31, 2021	December 31, 2020	$ Change	% Change
Unbilled receivables (contract assets)	$ 33,522	$ 33,009	$ 513	2 %
Contract liabilities	(25,374)	(39,865)	14,491	(36)%
Net contract assets (liabilities)	$ 8,148	$ (6,856)	$ 15,004	NM

NM - Not Meaningful

Contract liabilities balances at December 31, 2021 and December 31, 2020 include $9,364 and $12,750, respectively, of customer advances for which the Company has an unconditional right to collect payment. Accounts receivable, as presented on the Consolidated Balance Sheet, includes corresponding balances at December 31, 2021 and December 31, 2020, respectively.

Changes in the net contract assets (liabilities) balance during the year ended December 31, 2021 were impacted by a $14,491 decrease in contract liabilities, driven primarily by revenue recognized in the current period, partially offset by new customer advances and deposits. Adding to this net contract asset (liability) increase was a $513 increase in contract assets, driven primarily by contract progress (i.e. unbilled receivable), offset by earlier contract progress being invoiced to the customer.

The Company recognized approximately 100% of the revenue related to the contract liability balance as of December 31, 2020 during the year ended December 31, 2021 and 100% of the revenue related to the contract liability balance as of December 31, 2019 during the year ended December 31, 2020, primarily representing revenue from the sale of molds and hot runner systems within the Molding Solutions business.

Contract Costs. The Company may incur costs to fulfill a contract. Costs are incurred to develop, design and manufacture tooling to produce a customer's customized product in conjunction with certain of its contracts, primarily in the Aerospace OEM business. For certain contracts, control related to this tooling remains with the Company. The tooling may be deemed recoverable over the life of the related customer contract (oftentimes a long-term agreement). The Company therefore capitalizes these tooling costs and amortizes them over the shorter of the tooling life or the duration of the long-term agreement. The Company may also incur costs related to the development of product designs (molds or hot runner systems) within its Molding Solutions business. Control of the design may be retained by the Company and deemed recoverable over the contract to build the systems or mold, therefore this design work cost is capitalized and amortized to cost of sales when the related revenue is recognized. Amortization related to these capitalized costs to fulfill a contract were $13,446, $12,847, and $14,078 in the years ended December 31, 2021, 2020 and 2019, respectively.

Capitalized costs, net of amortization, to fulfill a contract balances were as follows:

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	December 31, 2021	December 31, 2020
Tooling	$ 3,800	$ 4,976
Design costs	3,252	2,871
	$ 7,052	$ 7,847

Remaining Performance Obligations. The Company has elected to disclose remaining performance obligations only for contracts with an original duration of greater than one year. Such remaining performance obligations represent the transaction price of firm orders for which work has not been performed and, for Aerospace, excludes projections of components and assemblies that Aerospace OEM customers anticipate purchasing in the future under existing programs, which represent orders that are beyond lead time and do not represent performance obligations pursuant to the accounting guidance. As of December 31, 2021, the aggregate amount of the transaction price allocated to remaining performance obligations was $177,304. The Company expects to recognize revenue on approximately 70% of the remaining performance obligations over the next 12 months, with the remainder being recognized within 24 months. As of December 31, 2020, the aggregate amount of the transaction price allocated to remaining performance obligations was $168,426.

4. Inventories

Inventories at December 31 consisted of:

	2021	2020
Finished goods	**$ 88,954**	$ 79,833
Work-in-process	**65,468**	76,542
Raw materials and supplies	**85,233**	81,633
	$ 239,655	$ 238,008

5. Property, Plant and Equipment

Property, plant and equipment, net, at December 31 consisted of:

	2021	2020
Land	**$ 18,476**	$ 19,182
Buildings	**187,012**	194,936
Machinery and equipment	**699,407**	696,260
	904,895	910,378
Less accumulated depreciation	**(563,433)**	(539,431)
	$ 341,462	$ 370,947

Depreciation expense was $47,600, $46,590 and $47,552 during 2021, 2020 and 2019, respectively.

6. Goodwill and Other Intangible Assets

Goodwill: The following table sets forth the change in the carrying amount of goodwill for each reportable segment and the Company:

	Industrial	Aerospace	Total Company
January 1, 2020	$ 902,236	$ 30,786	$ 933,022
Foreign currency translation	78,558	—	78,558
December 31, 2020	980,794	30,786	1,011,580
Foreign currency translation	**(56,210)**	**—**	**(56,210)**
December 31, 2021	**$ 924,584**	**$ 30,786**	**$ 955,370**

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Of the $955,370 of goodwill at December 31, 2021, $43,860 represents the original tax deductible basis.

Other Intangible Assets: Other intangible assets at December 31 consisted of:

		2021		2020	
	Range of Life-Years	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Amortized intangible assets:					
Revenue Sharing Programs	Up to 30	**$ 299,500**	**$ (151,961)**	$ 299,500	$ (143,209)
Component Repair Programs	Up to 30	**111,839**	**(35,632)**	111,839	(30,869)
Customer relationships	10-16	**337,189**	**(137,856)**	338,366	(118,752)
Patents and technology	4-11	**123,433**	**(86,002)**	123,433	(77,311)
Trademarks/trade names	10-30	**10,949**	**(10,587)**	10,949	(10,377)
Other	Up to 10	**7,450**	**(2,072)**	10,746	(4,580)
		890,360	**(424,110)**	894,833	(385,098)
Unamortized intangible asset:					
Trade names		**55,670**	—	55,670	—
Foreign currency translation		**(21,674)**	**—**	(1,273)	—
Other intangible assets		**$ 924,356**	**$ (424,110)**	$ 949,230	$ (385,098)

The Company has entered into a number of Aftermarket RSP and CRP agreements each of which is with our customer, General Electric ("GE"). See Note 1 for a further discussion of these programs. As of December 31, 2021, the Company has made all required payments under the RSP and CRP agreements.

Amortization of intangible assets for the years ended December 31, 2021, 2020 and 2019 was $43,485, $41,066 and $51,502, respectively. Estimated amortization of intangible assets for future periods is as follows: 2022 - $43,000; 2023 - $45,000; 2024 - $44,000; 2025 - $43,000 and 2026 - $43,000.

7. Accrued Liabilities

Accrued liabilities at December 31 consisted of:

	2021	2020
Payroll and other compensation	**$ 49,872**	$ 26,834
Contract liabilities (Note 3)	**25,374**	39,865
Pension and other postretirement benefits	**6,043**	6,318
Accrued income taxes	**37,908**	31,883
Lease liability	**11,125**	11,707
Business reorganizations (Note 9)	**1,222**	13,151
Other	**44,039**	48,802
	$ 175,583	$ 178,560

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8. Debt and Commitments

Long-term debt and notes and overdrafts payable at December 31 consisted of:

	2021		2020	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Amended Credit Agreement	**$ 495,262**	**$ 516,380**	$ 593,622	$ 601,936
3.97% Senior Notes	**100,000**	**105,541**	100,000	109,151
Borrowings under lines of credit and overdrafts	**224**	**224**	2,115	2,115
Finance leases	**6,505**	**6,827**	8,268	8,650
Other	**1,676**	**1,676**	254	257
	603,667	**630,648**	704,259	722,109
Less current maturities	**(3,735)**		(4,391)	
Long-term debt	**$ 599,932**		$ 699,868	

The Company's long-term debt portfolio consists of fixed-rate and variable-rate instruments and is managed to reduce the overall cost of borrowing and to mitigate fluctuations in interest rates. Among other things, interest rate fluctuations impact the market value of the Company's fixed-rate debt.

In October 2014, the Company entered into a Note Purchase Agreement ("Note Purchase Agreement"), among the Company and New York Life Insurance Company, New York Life Insurance and Annuity Corporation and New York Life Insurance and Annuity Corporation Institutionally Owned Life Insurance Separate Account, as purchasers, for the issuance of $100,000 aggregate principal amount of 3.97% Senior Notes due October 17, 2024 (the "3.97% Senior Notes"). The 3.97% Senior Notes are senior unsecured obligations of the Company and pay interest semi-annually on April 17 and October 17 of each year at an annual rate of 3.97%. The 3.97% Senior Notes will mature on October 17, 2024 unless earlier prepaid in accordance with their terms. Subject to certain conditions, the Company may, at its option, prepay all or any part of the 3.97% Senior Notes in an amount equal to 100% of the principal amount of the 3.97% Senior Notes so prepaid, plus any accrued and unpaid interest to the date of prepayment, plus the Make-Whole Amount, as defined in the Note Purchase Agreement, with respect to such principal amount being prepaid. The fair value of the 3.97% Senior Notes was determined using the U.S. Treasury yield and a long-term credit spread for similar types of borrowings, which represent Level 2 observable inputs.

On October 8, 2020, the Company entered into the sixth amendment to its fifth amended and restated revolving credit agreement with Bank of America (the "Sixth Amendment") and the first amendment to the Note Purchase Agreement with New York Life (the "First NPA Amendment" and, collectively with the Sixth Amendment, the "Amendments"). The Sixth Amendment maintained the borrowing availability of $1,000,000 along with access to request an additional $200,000 through an accordion feature. The Sixth Amendment and the First NPA Amendment provided for an increase in the Company's maximum ratio of Consolidated Senior Debt, as defined, to Consolidated EBITDA, as defined, from 3.25 times (or, if a certain permitted acquisition above $150,000 is consummated, 3.50 times) to 3.75 times in each case at the end of the four fiscal quarters, beginning with December 31, 2020, and regardless of whether a permitted acquisition, as defined, is consummated, providing additional financing flexibility and access to liquidity. Additionally, the Sixth Amendment requires the Company to maintain a maximum ratio of Consolidated Total Debt, as defined, to Consolidated EBITDA, of not more than 3.75 times in each case, at the end of the four fiscal quarters, beginning with December 31, 2020, and regardless of whether a permitted acquisition is consummated. Furthermore, the First NPA Amendment provides for (i) adjustments to the ratio of Consolidated Total Debt to Consolidated EBITDA, as defined, to conform to a more restrictive total leverage ratio that may be required under the Sixth Amendment, (ii) an increase in the amount of allowable add-back for restructuring charges when calculating Consolidated EBITDA from $15,000 to $25,000 and (iii) a required fee payment equal to 0.50% per annum times the daily outstanding principal amount of the note during each of the four fiscal quarters, following the quarter ended December 31, 2020, if the Company's Senior Leverage Ratio, as defined, exceeds 3.25 times. In October 2020, the Company paid fees and expenses of $1,384 in conjunction with executing the Amendments. Such fees have been deferred within Other Assets on the accompanying Consolidated Balance Sheet and are being amortized into interest expense on the Consolidated Statements of Income.

On February 10, 2021, the Company and certain of its subsidiaries entered into the sixth amended and restated senior unsecured revolving credit agreement (the "Amended Credit Agreement") and retained Bank of America, N.A. as the Administrative Agent for the lenders. The Amended Credit Agreement maintains the $1,000,000 of availability under the

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BARNES GROUP INC.
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facility, while increasing the available borrowings under the accordion feature from $200,000 to $250,000 (aggregate availability of $1,250,000) and extends the maturity date through February 2026. The Amended Credit Agreement also adjusts the interest rate to either the Eurocurrency rate, as defined in the Amended Credit Agreement, plus a margin of 1.175% to 1.775% or the base rate, as defined in the Amended Credit Agreement, plus a margin of 0.175% to 0.775%, depending on the Company's leverage ratio at the time of the borrowing. Multi-currency borrowings, pursuant to the Amended Credit Agreement, bear interest at their respective interbank offered rate (i.e. Euribor) or 0.00% (higher of the two rates) plus a margin of between 1.175% and 1.775%. As with the earlier facility, the Company's borrowing capacity is limited by various debt covenants in the Amended Credit Agreement, as described further below. The Amended Credit Agreement required the Company to maintain a Senior Debt Ratio of not more than 3.75 times at the end of each fiscal quarter ending on or before September 30, 2021, after which the ratio reverted to 3.25 times (or, if a permitted acquisition above $150,000 is consummated, 3.50 times at the end of each of the first four fiscal quarters ending after the consummation of any such acquisition). In addition, the Amended Credit Agreement requires the Company to maintain a Total Debt Ratio of not more than 3.75 for each fiscal quarter (or, if a permitted acquisition above $150,000 is consummated, 4.25 times at the end of each of the first four fiscal quarters ending after the consummation of any such acquisition). A ratio of Consolidated EBITDA to Consolidated Cash Interest Expense, as defined, of not less than 4.25, is required at the end of each fiscal quarter. The Company paid fees and expenses of $4,306 in conjunction with executing the Amended Credit Agreement. Such fees have been deferred within Other Assets on the Consolidated Balance Sheets and are being amortized into interest expense on the Consolidated Statements of Income through their maturity. Cash used to pay these fees has been recorded through other financing activities on the Consolidated Statements of Cash Flows. The Company further amended the Amended Credit Agreement on October 11, 2021, defining certain applicable multi-currency borrowing rates that may be used as replacement rates for LIBOR, which is expected to be discontinued by reference rate reform. See Note 1.

Borrowings and availability under the Amended Credit Agreement were $495,262 and $504,738, respectively, at December 31, 2021 and borrowings and availability under the Sixth Amendment were $593,622 and $406,378, respectively, at December 31, 2020, subject to covenants in the Company's revolving debt agreements. At December 31, 2021, additional borrowings of $325,629 of Total Debt (including $201,723 of Senior Debt) would have been allowed under the financial covenants. The average interest rate on these borrowings was 1.48% and 1.42% on December 31, 2021 and 2020, respectively. Borrowings included Euro-denominated borrowings of 318,450 Euros ($360,262) at December 31, 2021 and 344,450 Euros ($423,622) at December 31, 2020. The fair value of the borrowings is based on observable Level 2 inputs. The borrowings were valued using discounted cash flows based upon the Company's estimated interest costs for similar types of borrowings.

At December 31, 2021, the Company was in compliance with all applicable covenants. The Company anticipates continued compliance in each of the next four quarters while continuing to monitor its future compliance based on current and future economic conditions. The Company's most restrictive financial covenant is the Senior Debt Ratio, which required the Company to maintain a ratio of Consolidated Senior Debt to Consolidated EBITDA of not more than 3.25 times at December 31, 2021. The actual ratio at December 31, 2021 was 2.44 times, as defined.

In addition, the Company has approximately $72,000 in uncommitted short-term bank credit lines ("Credit Lines") and overdraft facilities. The Credit Lines are accessed locally and are available primarily within the U.S., Europe and Asia. The Credit Lines are subject to the applicable borrowing rates within each respective country and vary between jurisdictions (i.e. LIBOR, Euribor, etc.). Under the Credit Lines, the Company had no borrowings at December 31, 2021 while $2,100 was borrowed at December 31, 2020 at an average interest rate of 1.10%. The Company had also borrowed $224 and $15 under the overdraft facilities at December 31, 2021 and 2020, respectively. Repayments under the Credit Lines are due within one month after being borrowed. Repayments of the overdrafts are generally due within two days after being borrowed. The carrying amounts of the Credit Lines and overdrafts approximate fair value due to the short maturities of these financial instruments.

The Company also has several finance leases under which $6,505 and $8,268 was outstanding at December 31, 2021 and December 31, 2020, respectively. The fair value of the finance leases are based on observable Level 2 inputs. These instruments were valued using discounted cash flows based upon the Company's estimated interest costs for similar types of borrowings.

Other debt includes bank acceptances and other foreign bank borrowings. Bank acceptances represent financial instruments accepted by certain China-based vendors in lieu of cash paid on payables, generally range from three to six months in maturity and are guaranteed by banks. The Company had $1,676 of bank acceptances outstanding at December 31, 2021. There were no bank acceptances outstanding at December 31, 2020. The carrying amounts of the bank acceptances approximate fair value due to the short maturities of these financial instruments. The Company had other foreign bank borrowings of $254 outstanding at December 31, 2020. There were no other foreign bank borrowings outstanding at December 31, 2021. The fair value of the other foreign bank borrowings outstanding at December 31, 2020 was based on observable Level 2 inputs. These

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instruments were valued using discounted cash flows based upon the Company's estimated interest costs for similar types of borrowings.

Long-term debt and notes payable as of December 31, 2021 are payable as follows: $3,735 in 2022, $1,633 in 2023, $101,943 in 2024, $737 in 2025, $495,619 in 2026 and $0 thereafter. The amount payable under the Amended Credit Agreement at December 31, 2021 is included in 2026 based on the maturity date of the Amended Credit Agreement.

In addition, the Company had undrawn letters of credit totaling $8,417 at December 31, 2021.

Interest paid was $15,206, $15,088 and $20,248 in 2021, 2020 and 2019, respectively. Interest capitalized was $282, $348 and $498 in 2021, 2020 and 2019, respectively, and is being depreciated over the lives of the related fixed assets.

9. Business Reorganizations

In June 2020, the Company announced restructuring and workforce reduction actions ("Actions") which were implemented across its businesses and functions in response to the macroeconomic disruption in global industrial and aerospace end-markets arising from COVID-19. During 2020, a resulting pre-tax charge of $19,116 was recorded primarily related to employee severance and termination benefits. The Actions were substantially complete as of December 31, 2020 and reduced the Company's global workforce by approximately 8%. A corresponding liability of $1,222, per below, remained and was included within accrued liabilities as of December 31, 2021. The Company does not expect any additional costs related to the Actions to be significant. The employee termination costs are recorded primarily within Selling and Administrative Expenses in the accompanying Consolidated Statements of Income. Of the aggregate charges recorded, $2,251 was reflected within the results of the Aerospace segment, $15,907 was reflected within the results of the Industrial segment and $958 of pension curtailment and settlement losses were included in Other expense (income), net.

The following table sets forth the change in the liability related to these actions:

January 1, 2020	$ —
Employee severance and other termination benefits	17,413
Payments	(4,262)
December 31, 2020	13,151
Employee severance and other termination benefits	(2,224)
Payments	(9,705)
December 31, 2021	$ 1,222

In 2021, the Company initiated additional restructuring actions ("Restructurings") at a number of locations. The Restructurings included a transfer of manufacturing capabilities to leverage existing capacity which is expected to reduce labor and infrastructure costs. The Restructurings resulted in pre-tax charges of $2,869, primarily related to employee severance and termination benefits, and have been recorded within Selling and Administrative Expenses in the accompanying Consolidated Statements of Income. The Company expects to incur additional charges of approximately $1,700 related to these Restructurings through 2022.

10. Derivatives

The Company has manufacturing, service and sales facilities around the world and thus makes investments and conducts business transactions denominated in various currencies. The Company is also exposed to fluctuations in interest rates and commodity price changes. These financial exposures are monitored and managed by the Company as an integral part of its risk management program.

Derivative financial instruments have been used by the Company to hedge its exposure to fluctuations in interest rates. On April 28, 2017, the Company entered into an interest rate swap agreement (the "2017 Swap") with one bank which converted the interest on the first $100,000 of the Company's one-month LIBOR-based borrowings from a variable rate plus the borrowing spread to a fixed rate of 1.92% plus the borrowing spread. The 2017 Swap expired on January 31, 2022. On March 24, 2021, the Company entered into a

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new interest rate swap agreement (the "2021 Swap") with this same bank that commenced on January 31, 2022 and that converts the interest on the first $100,000 of the Company's one-month LIBOR-based borrowings from a variable rate plus the borrowing spread to a fixed rate of 1.17% plus the borrowing spread. The 2021 Swap expires on January 30, 2026. These interest rate swap agreements (collectively, the "Swaps") remained in place at December 31, 2021 and are accounted for as cash flow hedges.

The Company also uses derivative financial instruments to hedge its exposures to fluctuations in foreign currency exchange rates. The Company has various contracts outstanding which primarily hedge recognized assets or liabilities and anticipated transactions in various currencies including the Euro, British pound sterling, U.S. dollar, Canadian dollar, Japanese yen, Singapore dollar, Korean won, Swedish kroner, Chinese renminbi, Mexican peso, Hong Kong dollar and Swiss franc. Certain foreign currency derivative instruments are treated as cash flow hedges of forecasted transactions. All foreign exchange contracts are due within two years.

The Company does not use derivatives for speculative or trading purposes or to manage commodity exposures.

The Company records the derivatives at fair value on the Consolidated Balance Sheets within Prepaid Expenses and Other Current Assets, Other Assets, Accrued Liabilities or Other Liabilities depending on their fair value and remaining contractual period. Changes in the fair market value of derivatives accounted for as cash flow hedges are recorded to accumulated other comprehensive income (loss) and reclassified to earnings in a manner that matches the earnings impact of the hedged transaction. Reclassifications to earnings for the Swaps are recorded through interest expense and reclassifications to earnings for foreign exchange contracts are recorded through net sales. Changes in the fair market value of the foreign exchange contracts that are not designated hedging instruments are recorded directly to earnings through Other expense (income), net.

The fair values of derivatives were not material to the Company's Consolidated Balance Sheets as of December 31, 2021 or December 31, 2020. See Note 11. The activity related to the derivatives that have been designated hedging instruments was not material to the Company's Consolidated Financial Statements for the periods ended December 31, 2021, 2020, or 2019. The Company recognized (losses) and gains of $(2,494), $5,631 and $(8,250) related to the foreign exchange contracts that are not accounted for as hedging instruments within other expense (income), net, in the Consolidated Statements of Income for the periods ended December 31, 2021, 2020, and 2019, respectively. During 2021 and 2020, such gains (losses) were substantially offset by net losses (gains) recorded on the underlying hedged asset or liability (the "underlying"). During 2019, approximately half of the loss recognized was offset by a net gain recorded on the underlying. Offsetting net gains or losses on the underlying are also recorded within Other expense (income), net.

The Company's policy for classifying cash flows from derivatives is to report the cash flows consistent with the underlying hedged item. Other financing cash flows during the years ended December 31, 2021, 2020 and 2019, as presented on the Consolidated Statements of Cash Flows, include $766, $(5,587) and $7,538, respectively, of net cash payments (proceeds) related to the settlement of foreign currency hedges related to intercompany financing.

11. Fair Value Measurements

The provisions of the accounting standard for fair value define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This standard classifies the inputs used to measure fair value into the following hierarchy:

Level 1	Unadjusted quoted prices in active markets for identical assets or liabilities.
Level 2	Unadjusted quoted prices in active markets for similar assets or liabilities, or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.
Level 3	Unobservable inputs for the asset or liability.

The following table provides the assets and liabilities reported at fair value and measured on a recurring basis as of December 31, 2021 and 2020:

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BARNES GROUP INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

		Fair Value Measurements Using		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2021				
Asset derivatives	**$ 375**	**$ —**	**$ 375**	**$ —**
Liability derivatives	**(107)**	**—**	**(107)**	**—**
Bank acceptances	**13,240**	**—**	**13,240**	**—**
Rabbi trust assets	**3,001**	**3,001**	**—**	**—**
	$ 16,509	**$ 3,001**	**$ 13,508**	**$ —**
December 31, 2020				
Asset derivatives	$ 1,642	$ —	$ 1,642	$ —
Liability derivatives	(1,988)	—	(1,988)	—
Bank acceptances	13,267	—	13,267	—
Rabbi trust assets	3,233	3,233	—	—
	$ 16,154	$ 3,233	$ 12,921	$ —

The derivative contracts are valued using observable current market information as of the reporting date such as the prevailing LIBOR-based interest rates and foreign currency spot and forward rates. Bank acceptances represent financial instruments accepted from certain China-based customers in lieu of cash paid on receivables, have maturities of one year or less and are guaranteed by banks. The carrying amounts of the bank acceptances, which are included within prepaid expenses and other current assets, approximate fair value due to their short maturities. The fair values of rabbi trust assets are based on quoted market prices from various financial exchanges. For disclosures of the fair values of the Company's pension plan assets, see Note 12.

12. Pension and Other Postretirement Benefits

The accounting standards related to employers' accounting for defined benefit pension and other postretirement plans requires the Company to recognize the funded status of its defined benefit postretirement plans as assets or liabilities in the accompanying consolidated balance sheets and to recognize changes in the funded status of the plans in comprehensive income.

The Company has various defined contribution plans, the largest of which is its Retirement Savings Plan. Most U.S. salaried and non-union hourly employees are eligible to participate in this plan. See Note 17 for further discussion of the Retirement Savings Plan. The Company also maintains various other defined contribution plans which cover certain other employees. Company contributions under certain of these plans are based on the performance of the business units and employee compensation. Contribution expense under these other defined contribution plans was $5,475, $5,301 and $6,874 in 2021, 2020 and 2019, respectively.

Defined benefit pension plans in the U.S. cover a majority of the Company's U.S. employees at the Engineered Components and Force & Motion Control businesses of Industrial, certain former U.S. employees, including retirees, and a portion of employees at the Company's Corporate Office. Employees at certain international businesses within Industrial are also covered by defined benefit pension plans. Plan benefits for salaried and non-union hourly employees are based on years of service and average salary. Plans covering union hourly employees provide benefits based on years of service. The Company funds U.S. pension costs in accordance with the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). Non-U.S. defined benefit pension plans cover certain employees of certain international locations in Europe and Canada.

The Company provides other medical, dental and life insurance postretirement benefits for certain of its retired employees in the U.S. and Canada. It is the Company's practice to fund these benefits as incurred.

BARNES GROUP INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The accompanying balance sheets reflect the funded status of the Company's defined benefit pension plans at December 31, 2021 and 2020. Reconciliations of the obligations and funded status of the plans follow:

	2021			2020		
	U.S.	Non-U.S.	Total	U.S.	Non-U.S.	Total
Benefit obligation, January 1	$ 461,296	$ 96,508	$ 557,804	$ 430,625	$ 87,031	$ 517,656
Service cost	4,378	2,169	6,547	4,134	2,135	6,269
Interest cost	11,963	786	12,749	14,015	1,069	15,084
Amendments	862	—	862	—	1,014	1,014
Actuarial (gain) loss	(10,734)	(3,747)	(14,481)	37,709	2,812	40,521
Benefits paid	(25,009)	(4,499)	(29,508)	(25,049)	(3,422)	(28,471)
Transfers in	—	2,468	2,468	—	767	767
Plan curtailments	—	(603)	(603)	(138)	—	(138)
Plan settlements	—	(2,464)	(2,464)	—	(2,165)	(2,165)
Participant contributions	—	1,171	1,171	—	1,127	1,127
Foreign exchange rate changes	—	(2,329)	(2,329)	—	6,140	6,140
Benefit obligation, December 31	442,756	89,460	532,216	461,296	96,508	557,804
Fair value of plan assets, January 1	413,898	88,880	502,778	380,242	82,265	462,507
Actual return on plan assets	30,880	2,214	33,094	55,813	3,849	59,662
Company contributions	2,794	1,403	4,197	2,892	1,545	4,437
Participant contributions	—	1,171	1,171	—	1,127	1,127
Benefits paid	(25,009)	(4,499)	(29,508)	(25,049)	(3,422)	(28,471)
Plan settlements	—	(2,464)	(2,464)	—	(2,165)	(2,165)
Transfers in	—	2,468	2,468	—	767	767
Foreign exchange rate changes	—	(1,807)	(1,807)	—	4,914	4,914
Fair value of plan assets, December 31	422,563	87,366	509,929	413,898	88,880	502,778
Underfunded status, December 31	$ (20,193)	$ (2,094)	$ (22,287)	$ (47,398)	$ (7,628)	$ (55,026)

Benefit obligations decreased in 2021 primarily due to actuarial gains, resulting largely from increases in the discount rate, and the payment of benefits to plan participants, partially offset by interest costs. Benefit obligations increased in 2020 primarily due to actuarial losses, resulting largely from declines in discount rates, and interest costs, partially offset by the payment of benefits to plan participants.

Projected benefit obligations related to pension plans with benefit obligations in excess of plan assets follow:

	2021			2020		
	U.S.	Non-U.S.	Total	U.S.	Non-U.S.	Total
Projected benefit obligation	$ 43,184	$ 49,272	$ 92,456	$ 352,062	$ 52,481	$ 404,543
Fair value of plan assets	5,592	34,463	40,055	298,966	34,947	333,913

Information related to pension plans with accumulated benefit obligations in excess of plan assets follows:

	2021			2020		
	U.S.	Non-U.S.	Total	U.S.	Non-U.S.	Total
Accumulated benefit obligation	$ 43,108	$ 49,131	$ 92,239	$ 340,158	$ 52,357	$ 392,515
Fair value of plan assets	5,592	34,463	40,055	298,966	34,947	333,913

The accumulated benefit obligation for all defined benefit pension plans was $520,356 and $545,918 at December 31, 2021 and 2020, respectively.

BARNES GROUP INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Amounts related to pensions recognized in the accompanying balance sheets consist of:

	2021			2020		
	U.S.	Non-U.S.	Total	U.S.	Non-U.S.	Total
Other assets	**$ 17,399**	**$ 12,715**	**$ 30,114**	$ 5,698	$ 9,906	$ 15,604
Accrued liabilities	**3,160**	**—**	**3,160**	3,204	—	3,204
Accrued retirement benefits	**34,432**	**14,809**	**49,241**	49,892	17,534	67,426
Accumulated other non-owner changes to equity, net	**(96,425)**	**(13,684)**	**(110,109)**	(118,951)	(19,132)	(138,083)

Amounts related to pensions recognized in accumulated other non-owner changes to equity, net of tax, at December 31, 2021 and 2020, respectively, consist of:

	2021			2020		
	U.S.	Non-U.S.	Total	U.S.	Non-U.S.	Total
Net actuarial loss	**$ (94,496)**	**$ (13,095)**	**$ (107,591)**	$ (117,409)	$ (18,687)	$ (136,096)
Prior service costs	**(1,929)**	**(589)**	**(2,518)**	(1,542)	(445)	(1,987)
	$ (96,425)	**$ (13,684)**	**$ (110,109)**	$ (118,951)	$ (19,132)	$ (138,083)

The accompanying balance sheets reflect the underfunded status of the Company's other postretirement benefit plans at December 31, 2021 and 2020. Reconciliations of the obligations and underfunded status of the plans follow:

	2021	2020
Benefit obligation, January 1	**$ 33,104**	$ 33,239
Service cost	**103**	81
Interest cost	**819**	1,041
Actuarial (gain) loss	**(2,115)**	950
Benefits paid	**(2,690)**	(3,203)
Participant contributions	**589**	960
Foreign exchange rate changes	**29**	36
Benefit obligation, December 31	**29,839**	33,104
Fair value of plan assets, January 1	**—**	—
Company contributions	**2,101**	2,243
Participant contributions	**589**	960
Benefits paid	**(2,690)**	(3,203)
Fair value of plan assets, December 31	**—**	—
Underfunded status, December 31	**$ 29,839**	$ 33,104

Benefit obligations decreased in 2021 primarily due to increases in actuarial gains, resulting largely from increases in the discount rate, and by the payment of benefits to plan participants. Benefit obligations remained flat in 2020 as benefit payments offset an increase in actuarial losses, driven by declines in the discount rate, and interest cost.

Amounts related to other postretirement benefits recognized in the accompanying balance sheets consist of:

	2021	2020
Accrued liabilities	**$ 2,883**	$ 3,114
Accrued retirement benefits	**26,956**	29,990
Accumulated other non-owner changes to equity, net	**(2,198)**	(4,036)

BARNES GROUP INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Amounts related to other postretirement benefits recognized in accumulated other non-owner changes to equity, net of tax, at December 31, 2021 and 2020 consist of:

	2021	2020
Net actuarial loss	**$ (2,141)**	$ (3,979)
Prior service loss	**(57)**	(57)
	$ (2,198)	$ (4,036)

The sources of changes in accumulated other non-owner changes to equity, net, during 2021 were:

	Pension	Other Postretirement Benefits
Prior service cost	**$ (657)**	**$ —**
Net gain	**15,679**	**1,620**
Amortization of prior service costs	**136**	**22**
Amortization of actuarial loss	**12,431**	**198**
Foreign exchange rate changes	**385**	**(2)**
	$ 27,974	**$ 1,838**

Weighted-average assumptions used to determine benefit obligations as of December 31, are:

	2021	2020
U.S. plans:		
Discount rate	**2.95 %**	2.65 %
Increase in compensation	**3.03 %**	2.56 %
Non-U.S. plans:		
Discount rate	**1.17 %**	0.83 %
Increase in compensation	**2.77 %**	2.75 %
Interest crediting rate	**1.34 %**	1.34 %

The investment strategy of the plans is to generate a consistent total investment return sufficient to pay present and future plan benefits to retirees, while minimizing the long-term cost to the Company. Target allocations for asset categories are used to earn a reasonable rate of return, provide required liquidity and minimize the risk of large losses. Targets may be adjusted, as necessary, to reflect trends and developments within the overall investment environment. The weighted-average target investment allocations by asset category were as follows during 2021: 65% in equity securities and 35% in fixed income securities, including cash.

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BARNES GROUP INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

		Fair Value Measurements Using		
Asset Category	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2021				
Cash and short-term investments	**$ 4,195**	**$ 4,195**	**$ —**	$ —
Equity securities:				
U.S. large-cap	**49,079**	**—**	**49,079**	—
U.S. mid-cap	**19,469**	**19,469**	**—**	—
U.S. small-cap	**18,795**	**18,795**	**—**	—
International equities	**136,557**	**—**	**136,557**	—
Global equity	**60,393**	**60,393**	**—**	—
Fixed income securities:				
U.S. bond funds	**143,035**	**—**	**143,035**	—
International bonds	**75,515**	**—**	**75,515**	—
Other	**2,891**	**—**	**—**	**2,891**
	$ 509,929	**$ 102,852**	**$ 404,186**	**$ 2,891**
December 31, 2020				
Cash and short-term investments	3,678	3,678	—	—
Equity securities:				
U.S. large-cap	44,693	—	44,693	—
U.S. mid-cap	20,346	20,346	—	—
U.S. small-cap	19,422	19,422	—	—
International equities	153,315	—	153,315	—
Global equity	55,552	55,552	—	—
Fixed income securities:				
U.S. bond funds	125,309	—	125,309	—
International bonds	77,221	—	77,221	—
Other	3,242	—	—	3,242
	$ 502,778	$ 98,998	$ 400,538	$ 3,242

The fair values of the Level 1 assets are based on quoted market prices from various financial exchanges. The fair values of the Level 2 assets are based primarily on quoted prices in active markets for similar assets or liabilities. The Level 2 assets are comprised primarily of commingled equity funds and fixed income securities. Commingled equity funds are valued at their net asset values based on quoted market prices of the underlying assets. Fixed income securities are valued using a market approach which considers observable market data for the underlying asset or securities. The Level 3 assets relate to a defined benefit plan within the Molding Solutions business. These pension assets are fully insured and have been estimated based on accrued pension rights and actuarial rates. These pension assets are limited to fulfilling the Company's pension obligations.

The Company expects to contribute approximately $4,617 to the pension plans in 2022. No contributions to the U.S. Qualified pension plans, specifically, are required, and the Company does not currently plan to make any discretionary contributions to such plans in 2022.

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BARNES GROUP INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following are the estimated future net benefit payments, which include future service, over the next 10 years:

	Pensions	Other Postretirement Benefits
2022	**$ 29,285**	**$ 2,883**
2023	**29,499**	**2,676**
2024	**29,790**	**2,493**
2025	**29,556**	**2,339**
2026	**29,288**	**2,167**
Years 2027-2031	**148,523**	**9,144**
Total	**$ 295,941**	**$ 21,702**

Pension and other postretirement benefit costs consist of the following:

	Pensions			Other Postretirement Benefits		
	2021	2020	2019	2021	2020	2019
Service cost	**$ 6,547**	$ 6,269	$ 5,425	**$ 103**	$ 81	$ 70
Interest cost	**12,749**	15,084	18,239	**819**	1,041	1,345
Expected return on plan assets	**(27,858)**	(29,698)	(29,425)	**—**	—	—
Amortization of prior service cost	**332**	359	404	**29**	27	25
Recognized losses	**16,006**	13,626	8,889	**258**	35	13
Curtailment (gain)/loss	**(133)**	484	—	**—**	—	—
Settlement loss	**205**	549	340	**—**	—	—
Net periodic benefit cost	**$ 7,848**	$ 6,673	$ 3,872	**$ 1,209**	$ 1,184	$ 1,453

The curtailment loss of $484 and a majority of the settlement loss of $549 in 2020 relate to the restructuring and workforce reduction actions that were taken during the period. See Note 9.

The components of net periodic benefit cost other than service cost are included in Other Expense (Income) on the Consolidated Statements of Income.

Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31 are:

	2021	2020	2019
U.S. plans:			
Discount rate	**2.65 %**	3.40 %	4.40 %
Long-term rate of return	**7.25 %**	7.75 %	7.75 %
Increase in compensation	**2.56 %**	2.56 %	2.56 %
Non-U.S. plans:			
Discount rate	**0.83 %**	1.28 %	2.07 %
Long-term rate of return	**1.96 %**	3.02 %	3.90 %
Increase in compensation	**2.75 %**	2.75 %	2.72 %
Interest crediting rate	**1.34 %**	1.34 %	1.03 %

The expected long-term rate of return is based on consideration of projected rates of return and the historical rates of return of published indices that reflect the plans' target asset allocation.

The Company's accumulated postretirement benefit obligations, exclusive of pensions, take into account certain cost-sharing provisions. The annual rate of increase in the cost of covered benefits (i.e., health care cost trend rate) is assumed to be 6.56% and 5.70% at December 31, 2021 and 2020, respectively, decreasing gradually to a rate of 4.00% by December 31, 2046.

BARNES GROUP INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Company actively contributes to a Swedish pension plan that supplements the Swedish social insurance system. The pension plan guarantees employees a pension based on a percentage of their salary and represents a multi-employer pension plan, however the pension plan was not significant in any year presented. This pension plan is not underfunded.

Contributions related to the individually insignificant multi-employer plans, as disclosure is required pursuant to the applicable accounting standards, are as follows:

	Contributions by the Company		
Pension Fund:	**2021**	**2020**	**2019**
Swedish Pension Plan	**835**	$ 783	$ 754
Total Contributions	**$ 835**	$ 783	$ 754

13. Stock-Based Compensation

The Company measures the cost of all share-based payments, including stock options, at fair value on the grant date and recognizes this cost in the results of operations, net of expected forfeitures. The fair values of stock options are estimated on the grant date using the Black-Scholes option-pricing model based on certain assumptions. The fair values of service and performance based stock awards are estimated based on the fair market value of the Company's stock price on the grant date. The fair value of market based performance share awards are estimated on the grant date using the Monte Carlo valuation method.

Refer to Note 17 for a description of the Company's stock-based compensation plans and their general terms. As of December 31, 2021, incentives have been awarded in the form of performance share awards and restricted stock unit awards (collectively, "Rights") and stock options. The Company has elected to use the straight-line method to recognize compensation costs. Stock options and awards typically vest over a period ranging from six months to five years. The maximum term of stock option awards is 10 years. Upon exercise of a stock option or upon vesting of Rights, shares may be issued from treasury shares held by the Company or from authorized shares.

During 2021, 2020 and 2019, the Company recognized $11,470, $10,300, and $13,306, respectively, of stock-based compensation cost and $2,263, $2,198, and $2,805, respectively, of related tax benefits in the accompanying consolidated statements of income. Additionally, the Company recognized excess tax (expense) benefits in the tax provision of $(523), $(579) and $1,952 in 2021, 2020 and 2019, respectively. The Company has realized all available tax benefits related to deductions from excess stock awards exercised or Rights vested. At December 31, 2021, the Company had $17,910 of unrecognized compensation costs related to unvested awards which are expected to be recognized over a weighted average period of 1.73 years.

The following table summarizes information about the Company's stock option awards during 2021:

	Number of Shares	Weighted-Average Exercise Price
Outstanding, January 1, 2021	**645,605**	**$ 49.29**
Granted	**154,314**	**52.73**
Exercised	**(33,305)**	**32.53**
Forfeited	**—**	**—**
Outstanding, December 31, 2021	**766,614**	**50.71**

BARNES GROUP INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table summarizes information about stock options outstanding at December 31, 2021:

Range of Exercise Prices	Options Outstanding: Number of Shares	Options Outstanding: Average Remaining Life (Years)	Options Outstanding: Average Exercise Price	Options Exercisable: Number of Shares	Options Exercisable: Average Exercise Price
$24.24 to $36.31	**176,200**	**3.61**	**$ 33.11**	**176,200**	**$ 33.11**
$37.13 to $47.04	**124,423**	**4.78**	**45.52**	**120,808**	**45.77**
$51.55 to $59.28	**263,823**	**7.83**	**55.43**	**104,249**	**59.24**
$59.46 to $66.10	**202,168**	**7.33**	**63.09**	**106,989**	**62.43**

The Company received cash proceeds from the exercise of stock options of $1,083, $1,596 and $5,029 in 2021, 2020 and 2019, respectively. The total intrinsic value (the amount by which the stock price exceeds the exercise price of the option on the date of exercise) of the stock options exercised during 2021, 2020 and 2019 was $439, $781 and $5,324, respectively.

The weighted-average grant date fair value of stock options granted in 2021, 2020 and 2019 was $17.30, $14.69 and $14.04, respectively. The fair value of each stock option grant on the date of grant was estimated using the Black-Scholes option-pricing model based on the following weighted average assumptions:

	2021	2020	2019
Risk-free interest rate	**0.55 %**	1.45 %	2.43 %
Expected life (years)	**5.5**	5.5	5.5
Expected volatility	**40.0 %**	26.0 %	25.0 %
Expected dividend yield	**1.23 %**	1.25 %	1.43 %

The risk-free interest rate is based on the term structure of interest rates at the time of the option grant. The expected life represents an estimate of the period of time that options are expected to remain outstanding. Assumptions of expected volatility of the Company's common stock and expected dividend yield are estimates of future volatility and dividend yields based on historical trends.

The following table summarizes information about stock options outstanding that are expected to vest and stock options outstanding that are exercisable at December 31, 2021:

Options Outstanding, Expected to Vest				Options Outstanding, Exercisable			
Shares	Weighted-Average Exercise Price	Aggregate Intrinsic Value	Weighted-Average Remaining Term (Years)	Shares	Weighted-Average Exercise Price	Aggregate Intrinsic Value	Weighted-Average Remaining Term (Years)
754,648	$ 50.71	$ 2,516	6.24	508,246	$ 47.65	$ 2,522	5.04

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The following table summarizes information about the Company's Rights during 2021:

	Service Based Rights			Service and Performance Based Rights			Service and Market Based Rights		
	Number of Units		Weighted-Average Grant Date Fair Value	Number of Units		Weighted-Average Grant Date Fair Value	Number of Units		Weighted-Average Grant Date Fair Value
Outstanding, January 1, 2021	227,425	$	52.59	148,426	$	61.71	74,213	$	100.47
Granted	162,698		49.34	71,265		54.42	35,648		84.86
Forfeited	(14,258)		56.53	(2,063)		47.23	(1,030)		94.55
Additional Earned	—		—	(36,048)		59.28	(14,550)		88.98
Issued	(116,758)		47.23	(7,383)		59.28	(7,166)		88.98
Outstanding, December 31, 2021	259,107			174,197			87,115		

The Company granted 162,698 restricted stock unit awards and 106,913 performance share awards in 2021. All of the restricted stock unit awards vest upon meeting certain service conditions. "Additional Earned" reflects performance share awards earned above target that have been issued. The performance share awards are part of the long-term Performance Share Award Program (the "Awards Program"), which is designed to assess the long-term Company performance relative to the performance of companies included in the Russell 2000 Index or to pre-established goals. The performance goals are independent of each other and based on equally weighted metrics. For awards granted in 2021, 2020 and 2019, the metrics included the Company's total shareholder return ("TSR"), operating income before depreciation and amortization growth ("EBITDA growth") and return on invested capital ("ROIC"). The TSR and EBITDA growth metrics are designed to assess the long-term Company performance relative to the performance of companies included in the Russell 2000 Index over a three-year period. ROIC is designed to assess the Company's performance compared to pre-established goals over a three-year performance period. The participants can earn from zero to 250% of the target award and the award includes a forfeitable right to dividend equivalents, which are not included in the aggregate target award numbers. Compensation expense for the awards is recognized over the three-year service period based upon the value determined under the intrinsic value method for EBITDA growth and ROIC portions of the award and the Monte Carlo simulation valuation model for the TSR portion of the award since it contains a market condition. The assumptions used to determine the weighted-average fair values of the market based portion of the 2021 awards include a 0.55% risk-free interest rate and a 50.2% expected volatility rate.

Compensation expense for the TSR portion of the awards is fixed at the date of grant and will not be adjusted in future periods based upon the achievement of the TSR performance goal. Compensation expense for the EBITDA growth and the ROIC portions of the awards is recorded each period based upon a probability assessment of achieving the goals with a final adjustment at the end of the service period based upon the actual achievement of those performance goals.

14. Income Taxes

The components of Income from continuing operations before income taxes and Income taxes follow:

	2021	2020	2019
Income from continuing operations before income taxes:			
U.S.	**$ (28,832)**	$ (21,538)	$ 2,424
International	**156,649**	123,033	204,420
Income from continuing operations before income taxes	**$ 127,817**	$ 101,495	$ 206,844
Income tax provision:			
Current:			
U.S. – federal	**$ 4,733**	$ 3,697	$ 2,068
U.S. – state	**1,009**	(92)	(1,873)
International	**38,609**	41,506	60,866
	44,351	45,111	61,061
Deferred:			
U.S. – federal	**$ (6,800)**	$ 1,914	$ (1,356)
U.S. – state	**(1,051)**	222	344
International	**(8,556)**	(9,127)	(11,555)
	(16,407)	(6,991)	(12,567)
Income taxes	**$ 27,944**	$ 38,120	$ 48,494

The Company has recognized a deferred tax liability for foreign withholding taxes of $185 on $3,501 of undistributed earnings of its international subsidiaries, earned before 2017. All remaining earnings are considered indefinitely reinvested as defined per the indefinite reversal criterion within the accounting guidance for income taxes. If the earnings were distributed in the form of dividends, the Company would not be subject to U.S. Tax but could be subject to foreign income and withholding taxes. Determination of the amount of this unrecognized deferred income tax liability is not practicable. The Company repatriated dividends of $68,262 and $85,000, as noted above, to the U.S. from accumulated foreign earnings in 2021 and 2020, respectively. On December 31, 2021, the Company's unremitted foreign earnings were approximately $1,712,000.

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Deferred income tax assets and liabilities at December 31 consist of the tax effects of temporary differences related to the following:

	2021	2020
Deferred tax assets:		
Pension	**$ 8,803**	$ 15,403
Tax loss carryforwards	**11,067**	9,521
Inventory valuation	**10,660**	10,642
Other postretirement/postemployment costs	**7,741**	7,735
Accrued compensation	**9,775**	8,085
Goodwill	**14,960**	4,006
Lease obligation	**9,790**	9,846
Other	**16,609**	12,302
Valuation allowance	**(3,869)**	(3,757)
Total deferred tax assets	**85,536**	73,784
Deferred tax liabilities:		
Depreciation and amortization	**(94,286)**	(109,391)
Goodwill	**(9,909)**	(9,850)
Swedish tax incentive	**(8,531)**	(9,170)
Right of use liability	**(9,826)**	(9,758)
Other	**(7,712)**	(5,191)
Total deferred tax liabilities	**(130,264)**	(143,360)
Net deferred tax liabilities	**$ (44,728)**	$ (69,576)

Amounts related to deferred taxes in the balance sheets as of December 31, 2021 and 2020 are presented as follows:

	2021	2020
Non-current deferred tax assets	**$ 21,976**	$ 22,092
Non-current deferred tax liabilities	**(66,704)**	(91,668)
Net deferred tax liabilities	**$ (44,728)**	$ (69,576)

The standards related to accounting for income taxes require that deferred tax assets be reduced by a valuation allowance if, based on all available evidence, it is more likely than not that the deferred tax asset will not be realized. Available evidence includes the reversal of existing taxable temporary differences, future taxable income exclusive of temporary differences, taxable income in carryback years and tax planning strategies.

In the second quarter of 2021, the Italian tax authorities released tax guidance related to the application of tax basis realignment rules for intangible property ("Realignment") which provides Italian taxpayers with the opportunity to step up the basis of goodwill and intangibles to their fair market value and amortize the step up over 18 years for tax purposes in exchange for paying a 3% tax on the step up, payable over a three years period. The Company opted to elect the Realignment in June 2021 and accordingly recorded a tax payable of $3,008 and a long-term tax payable of $6,016. The Company made its first required installment payment of $3,008 during the third quarter of 2021, reducing the long-term tax payable accordingly. The Company also recorded a deferred tax asset of $83,921 related to the Realignment. Accounting guidance requires that when a deferred tax asset is realigned for tax purposes, a corresponding revaluation reserve also be recorded. Under Italian tax rules, any dividends paid out of this revaluation reserve are subject to tax at a 24% rate. Accordingly, the Company recorded a deferred tax liability of $72,190 related to the potential 24% tax due on any dividends, paid out of the revaluation reserve. The deferred tax asset and liability balances have been presented on a net basis on the Consolidated Balance Sheets. The Company also recorded a one-time $2,707 benefit to the provision related to this election and related accounting. In December 2021 the Italian government increased the amortization period to 50 years; however the change has no impact on the accounting for the transaction as reported above.

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The realization of these assets is dependent in part on the amount and timing of future taxable income in the jurisdictions where deferred tax assets reside. As of December 31, 2021, the Company has gross tax loss carryforwards of $35,965; $3,619 of which relates to U.S tax loss carryforwards which have carryforward periods up to 20 years for federal purposes and ranging from one to 20 years for state purposes; $3,778 of which relates to international tax loss carryforwards with carryforward periods ranging from one to twenty years; and $28,568 of which relates to international tax loss carryforwards with unlimited carryforward periods. In addition, the Company has tax credit carryforwards of $417 with remaining carryforward periods ranging from one to five years. Currently the Company has a valuation allowance of $3,503 and $366 related to loss carryforwards and credit carryforwards, respectively, as it believes it is more likely than not that future income will not be earned to timely utilize certain net operating losses or credit carryforwards which have expiration dates. As the ultimate realization of the remaining net deferred tax assets is dependent upon future taxable income, if such future taxable income is not earned and it becomes necessary to recognize a valuation allowance, it could result in a material increase in the Company's tax expense which could have a material adverse effect on the Company's financial condition and results of operations.

Management is required to assess whether its valuation allowance analysis is affected by various components of tax law including future GILTI inclusions, changes to the deductibility of executive compensation and interest expense and changes to the NOL and FTC rules. The Company has determined that a valuation allowance of $638 is appropriate relating to deferred taxes recognized for stock compensation granted to executives which the Company believes will not be deductible in future years.

A reconciliation of the U.S. federal statutory income tax rate to the consolidated effective income tax rate from continuing operations follows:

	2021	2020	2019
U.S. federal statutory income tax rate	**21.0 %**	21.0 %	21.0 %
State taxes (net of federal benefit)	**—**	—	0.1
Foreign operations taxed at different rates	**0.1**	5.6	2.0
Foreign losses without tax benefit	**1.9**	3.0	2.0
Foreign tax rate change	**0.4**	—	—
Italian goodwill & intangible realignment	**(2.1)**	—	—
GILTI	**2.3**	3.0	0.6
Tax holidays	**(2.5)**	(1.0)	(1.3)
Stock awards excess tax expense/(benefit)	**0.4**	0.6	(0.9)
Audit settlements including MAP application	**(1.5)**	0.2	0.3
Adjustment to prior years tax return	**1.0**	—	—
Tax on Seeger transaction	**—**	4.9	—
Benefit for change in valuation allowances	**—**	(0.5)	(0.3)
Other	**0.9**	0.8	(0.1)
Consolidated effective income tax rate	**21.9 %**	37.6 %	23.4 %

In 2019 and 2017, the Company recorded additional income taxes resulting from audits at certain subsidiaries in Germany. The Company filed applications with the Internal Revenue Service ("IRS") under the Mutual Aid Process ("MAP") to allow for offsetting positions within the US tax filings for the Germany-related adjustments. In 2021 the MAP applications were approved by the IRS. The Company recognized a tax benefit of $1,967 in 2021 to reflect the tax benefit realized as a result of the IRS approval.

Payment of the Transition Tax assessed is required over an eight-year period. The short-term portion of the Transition Tax payable, $6,949, has been included within Accrued Liabilities on the Consolidated Balance Sheet as of December 31, 2021. The long-term portion of the assessment, $52,114, is included as a long-term tax liability on the Consolidated Balance Sheet and is payable as follows: $6,949 in 2022; $13,029 in 2023; $17,371 in 2024 and $21,714 in 2025.

The Aerospace and Industrial segments have a number of multi-year tax holidays in Singapore, China and Malaysia. Tax benefits of $3,219 ($0.06 per diluted share), $1,065 ($0.02 per diluted share) and $2,718 ($0.05 per diluted share) were realized in 2021, 2020 and 2019, respectively. These holidays are subject to the Company meeting certain commitments in the

BARNES GROUP INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

respective jurisdictions. Aerospace was granted an income tax holiday for operations recently established in Malaysia. This holiday commenced effective November 2020 and remains effective for a period of ten years. The China tax holiday expired at the end of 2020 and a new holiday was granted in December 2021. The holiday is effective for three years beginning with the 2021 tax year. The Singapore tax holiday is scheduled to expire in December 2022.

Income taxes paid globally, net of refunds, were $58,324, $60,427, and $59,003 in 2021, 2020 and 2019, respectively.

As of December 31, 2021, 2020 and 2019, the total amount of unrecognized tax benefits recorded in the consolidated balance sheet was $8,671, $9,156 and $8,919, respectively, which, if recognized, would have reduced the effective tax rate in prior years, with the exception of amounts related to acquisitions. A reconciliation of the unrecognized tax benefits for 2021, 2020 and 2019 follows:

	2021	2020	2019
Balance at January 1	**$ 9,156**	$ 8,919	$ 11,594
Increase (decrease) in unrecognized tax benefits due to:			
Tax positions taken during prior periods	**—**	550	11
Tax positions taken during the current period	**637**	649	1,114
Settlements	**(70)**	—	(1,351)
Lapse of the applicable statute of limitations	**(1,218)**	(900)	(2,344)
Foreign currency translation	**166**	(62)	(105)
Balance at December 31	**$ 8,671**	$ 9,156	$ 8,919

The Company recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense. The Company recognized interest and penalties as a component of income taxes of $(93), $(196), and $(206) in the years 2021, 2020 and 2019, respectively. The liability for unrecognized tax benefits includes gross accrued interest and penalties of $3,582, $3,675 and $3,906 at December 31, 2021, 2020 and 2019, respectively.

The Company or its subsidiaries file income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. In the normal course of business, the Company is subject to examination by various taxing authorities, including the IRS in the U.S. and the taxing authorities in other major jurisdictions including China, Germany, Singapore, Sweden and Switzerland. With a few exceptions, tax years remaining open to examination in significant foreign jurisdictions include tax years 2016 and forward and for the U.S. include tax years 2016 and forward. The Company is undergoing a tax audit by the IRS for the 2016, 2017 and 2018 tax year. The Company is under German tax audits for the FOBOHA business group in 2017 through 2018 and the Seeger business group for the years 2015 through 2017. Pursuant to the sale and purchase agreement, the Company agreed to certain indemnifications for taxes assessed for audit periods related to the Seeger business. Refer to Note 2.

15. Common Stock

There were no shares of common stock issued from treasury in 2021, 2020 or 2019.

In 2021, 2020 and 2019, the Company acquired 100,000 shares, 396,000 shares and 900,000 shares, respectively, of the Company's common stock at a cost of $5,229, $15,550 and $50,347, respectively. These amounts exclude shares reacquired to pay for the related income tax upon issuance of shares in accordance with the terms of the Company's stockholder-approved equity compensation plans and the equity rights granted under those plans ("Reacquired Shares"). These Reacquired Shares were placed in treasury.

In 2021, 2020 and 2019, 172,261 shares, 298,565 shares and 505,623 shares of common stock, respectively, were issued from authorized shares for the exercise of stock options, various other incentive awards and purchases by the Company's Employee Stock Purchase Plan.

16. Preferred Stock

At December 31, 2021 and 2020, the Company had 3,000,000 shares of preferred stock authorized, none of which were outstanding.

17. Stock Plans

Most U.S. salaried and non-union hourly employees are eligible to participate in the Company's 401(k) plan (the "Retirement Savings Plan"). The Retirement Savings Plan provides for the investment of employer and employee contributions in various investment alternatives including the Company's common stock, at the employee's direction. The Company contributes an amount equal to 50% of employee contributions up to 6% of eligible compensation. The Company expenses all contributions made to the Retirement Savings Plan. Effective January 1, 2013, the Retirement Savings Plan was amended to provide certain salaried employees hired on or after January 1, 2013 with an additional annual retirement contribution of 4% of eligible earnings. The Company recognized expense of $3,970, $3,679 and $4,149 in 2021, 2020 and 2019, respectively. As of December 31, 2021, the Retirement Savings Plan held 713,442 shares of the Company's common stock.

The Company has an Employee Stock Purchase Plan ("ESPP") under which eligible employees may elect to have up to the lesser of $25 or 10% of base compensation deducted from their payroll checks for the purchase of the Company's common stock at 95% of the average market value on the date of purchase. The maximum number of shares which may be purchased under the ESPP is 4,550,000. The number of shares purchased under the ESPP was 7,667, 10,041 and 8,834 in 2021, 2020 and 2019, respectively. The Company received cash proceeds from the purchase of these shares of $344, $393 and $463 in 2021, 2020 and 2019, respectively. As of December 31, 2021, 243,121 additional shares may be purchased.

The 2014 Barnes Group Stock and Incentive Award Plan (the "2014 Plan") was approved on May 9, 2014 by the Company's stockholders. The 2014 Plan permits the issuance of incentive awards, stock option grants and stock appreciation rights to eligible participants to purchase up to 6,913,978 shares of common stock. The amount includes shares available for purchase under earlier stock and incentive plans which were merged into the 2014 Plan. The 2014 Plan allows for stock options and stock appreciation rights to be issued at a ratio of 1:1 and other types of incentive awards at a ratio of 2.84:1 from the shares available for future grants. As of December 31, 2021, there were 2,488,316 shares available for future grants under the 2014 Plan, inclusive of Shares Reacquired and shares made available through 2021 forfeitures. As of December 31, 2021, there were 1,218,470 shares of common stock outstanding to be issued upon the exercise of stock options and the vesting of Rights.

Rights under the 2014 Plan entitle the holder to receive, without payment, one share of the Company's common stock after the expiration of the vesting period. Certain of these Rights are also subject to the satisfaction of established performance goals. Additionally, holders of certain Rights are credited with dividend equivalents, which are converted into additional Rights, and holders of certain restricted stock units are paid dividend equivalents in cash when dividends are paid to other stockholders. All Rights have a vesting period of up to five years.

Under the Non-Employee Director Deferred Stock Plan, as amended, each non-employee director who joined the Board of Directors prior to December 15, 2005 was granted the right to receive 12,000 shares of the Company's common stock upon retirement. In 2021, 2020 and 2019, $19, $21 and $22, respectively, of dividend equivalents were paid in cash related to these shares. There was no compensation cost related to this plan in 2021, 2020 or 2019. There are 28,800 shares reserved for issuance under this plan.

Total maximum shares reserved for issuance under all stock plans aggregated 3,978,707 at December 31, 2021.

18. Weighted Average Shares Outstanding

Net income per common share is computed in accordance with accounting standards related to earnings per share. Basic earnings per share is calculated using the weighted-average number of common shares outstanding during the year. Share-based payment awards that entitle their holders to receive nonforfeitable dividends before vesting should be considered participating securities and, as such, should be included in the calculation of basic earnings per share. The Company's restricted stock unit awards which contain nonforfeitable rights to dividends are considered participating securities. Diluted earnings per share reflects the assumed exercise and conversion of all dilutive securities. Shares held by the Retirement Savings Plan are considered outstanding for both basic and diluted earnings per share. There are no adjustments to net income for purposes of computing income available to common stockholders for the years ended December 31, 2021, 2020 or 2019. A reconciliation of

BARNES GROUP INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

the weighted-average number of common shares outstanding used in the calculation of basic and diluted earnings per share follows:

	Weighted-Average Common Shares Outstanding		
	2021	**2020**	**2019**
Basic	**50,926,374**	50,880,846	51,213,518
Dilutive effect of:			
Stock options	**74,798**	66,738	176,984
Performance share awards	**77,891**	150,002	242,667
Diluted	**51,079,063**	51,097,586	51,633,169

The calculation of weighted-average diluted shares outstanding excludes all anti-dilutive shares. During 2021, 2020 and 2019 the Company excluded 533,177, 484,835 and 280,254 stock awards, respectively, from the calculation of diluted weighted-average shares outstanding as the stock awards were considered anti-dilutive.

19. Leases

The Company maintains leases of certain manufacturing, distribution and assembly facilities, office space, land, machinery and equipment. Leases generally have remaining terms of one year to five years. Leases with an initial term of twelve months or less are not recorded on the Consolidated Balance Sheets. The Company recognizes lease expense for minimum lease payments on a straight line basis over the term of the lease. Certain leases include options to renew or terminate. Renewal options are exercisable per the discretion of the Company and vary based on the nature of each lease, with renewal periods generally ranging from one year to five years. The term of the lease includes renewal periods only if the Company is reasonably certain that it will exercise the renewal option. When determining if a renewal option is reasonably certain of being exercised, the Company considers several factors, including but not limited to, the cost of moving to another location, the cost of disruption to operations, whether the purpose or location of the leased asset is unique and the contractual terms associated with extending the lease.

Certain leases provide the option to purchase the leased property and are therefore evaluated for finance lease consideration. Right-of-use ("ROU") assets and lease liabilities related to finance leases were not material as of December 31, 2021 and 2020. ROU assets arising from finance leases are included in property, plant and equipment, net, and the corresponding liabilities are included in Long Term Debt - Current and Long-Term Debt on the Consolidated Balance Sheet. The depreciable life of leased assets are limited by the expected term of the lease, unless there is a transfer of title or purchase option and the Company believes it is reasonably certain of exercise.

Lease agreements generally do not contain any material residual value guarantees or materially restrictive covenants and the Company does not sublease to any third parties. The Company does not have any material leases that have been signed but not commenced.

Contracts are evaluated at inception to determine whether they contain a lease, where the Company obtains the right to control an identified asset. The following table sets forth the classification of ROU assets and lease liabilities on the Consolidated Balance Sheets:

Operating Leases	**Classification**	**December 31, 2021**	**December 31, 2020**
Leased Assets			
ROU assets	Other assets	$ 29,393	$ 27,539
Lease Liabilities			
Current lease liability	Accrued liabilities	11,125	11,707
Long-term lease liability	Other liabilities	18,018	16,304
		$ 29,143	$ 28,011

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BARNES GROUP INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Operating lease ROU assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. New operating lease ROU assets represent the lease liability, plus any lease payments made at or before the commencement date, less any lease incentives received. The Company's real estate leases, which are comprised primarily of manufacturing, distribution and assembly facilities, represent a majority of the lease liability. A significant portion of lease payments are fixed, although an immaterial portion of payments are variable in nature. Variable lease payments vary based on changes in facts and circumstances related to the use of the ROU and are recorded as incurred. The Company utilizes its incremental borrowing rate by lease term to calculate the present value of our future lease payments if an implicit rate is not specified. The discount rate is risk adjusted on a secured basis and is the rate at which the Company would be charged to borrow the amount equal to the lease payments over a similar term.

The Company has lease agreements with lease and non-lease components, which are accounted for as a single lease component. The Company applies a portfolio approach to effectively account for the operating lease ROU assets and liabilities.

Operating lease costs for the twelve months ended December 31, 2021, 2020 and 2019 were $17,687, $17,379 and $17,838, respectively, and were included within Cost of Sales and Selling and Administrative expenses. Operating lease costs include short-term and variable leases costs, which were not material during the period.

Future minimum lease payments under non-cancellable leases as of December 31, 2021 were as follows:

	Operating Leases
2022	$ 11,696
2023	7,842
2024	4,262
2025	1,981
2026	791
After 2026	6,497
Total lease payments	$ 33,069
Less: Interest	3,926
Present value of lease payments	$ 29,143

	December 31,		
Lease Term and Discount Rate	**2021**	**2020**	**2019**
Weighted-average remaining lease term (years)			
Operating leases	5.8	5.8	6.0
Weighted-average discount rates			
Operating leases	3.01 %	3.52 %	3.90 %

	Year Ended December 31,		
Other Information	**2021**	**2020**	**2019**
Cash paid for amounts included in the measurement of lease liabilities			
Operating cash flows from operating leases	$ 14,586	$ 13,907	$ 13,546
Leased assets obtained in exchange for new operating lease liabilities	$ 15,287	$ 8,012	$ 11,823

20. Changes in Accumulated Other Comprehensive Income by Component

The following tables set forth the changes in accumulated other comprehensive income by component for the years ended December 31, 2021 and December 31, 2020:

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BARNES GROUP INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	Gains and Losses on Cash Flow Hedges	Pension and Other Postretirement Benefit Items	Foreign Currency Items	Total
January 1, 2021	**$ (757)**	**$ (142,119)**	**$ 20,561**	**$ (122,315)**
Other comprehensive income (loss) before reclassifications to consolidated statements of income	**73**	**17,025**	**(60,252)**	**(43,154)**
Amounts reclassified from accumulated other comprehensive income to the consolidated statements of income	**844**	**12,787**	**—**	**13,631**
Net current-period other comprehensive income (loss)	**917**	**29,812**	**(60,252)**	**(29,523)**
December 31, 2021	**$ 160**	**$ (112,307)**	**$ (39,691)**	**$ (151,838)**

	Gains and Losses on Cash Flow Hedges	Pension and Other Postretirement Benefit Items	Foreign Currency Items	Total
January 1, 2020	$ (115)	$ (144,047)	$ (66,333)	$ (210,495)
Other comprehensive (loss) income before reclassifications to consolidated statements of income	(1,674)	(9,673)	86,894	75,547
Amounts reclassified from accumulated other comprehensive income to the consolidated statements of income	1,032	11,601	—	12,633
Net current-period other comprehensive (loss) income	(642)	1,928	86,894	88,180
December 31, 2020	$ (757)	$ (142,119)	$ 20,561	$ (122,315)

BARNES GROUP INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table sets forth the reclassifications out of accumulated other comprehensive income by component for the years ended December 31, 2021 and December 31, 2020:

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income		Affected Line Item in the Consolidated Statements of Income
	2021	2020	
Gains and losses on cash flow hedges			
Interest rate contracts	**$ (1,846)**	$ (1,321)	Interest expense
Foreign exchange contracts	**716**	(11)	Net sales
	(1,130)	(1,332)	Total before tax
	286	300	Tax benefit
	(844)	(1,032)	Net of tax
Pension and other postretirement benefit items			
Amortization of prior-service costs	**$ (361)**	$ (386)	(A)
Amortization of actuarial losses	**(16,264)**	(13,661)	(A)
Curtailment gain (loss)	**133**	(484)	(A)
Settlement loss	**(205)**	(549)	(A)
	(16,697)	(15,080)	Total before tax
	3,910	3,479	Tax benefit
	(12,787)	(11,601)	Net of tax
Total reclassifications in the period	**$ (13,631)**	$ (12,633)	

(A) These accumulated other comprehensive income components are included within the computation of net periodic Pension and Other Postretirement Benefits cost. See Note 12.

21. Information on Business Segments

The Company is organized based upon the nature of its products and services and reports under two global business segments: Industrial and Aerospace. Segment information is consistent with how management reviews the businesses, makes investing and resource allocation decisions and assesses operating performance. The Company has not aggregated operating segments for purposes of identifying these two reportable segments.

Industrial is a global provider of highly-engineered, high-quality precision components, products and systems for critical applications serving a diverse customer base in end-markets such as mobility, industrial equipment, automation, personal care, packaging, electronics, and medical devices. Focused on innovative custom solutions, Industrial participates in the design phase of components and assemblies whereby customers receive the benefits of application and systems engineering, new product development, testing and evaluation, and the manufacturing of final products. Products are sold primarily through its direct sales force and global distribution channels. Industrial's Molding Solutions business designs and manufactures customized hot runner systems, advanced mold cavity sensors and process control systems, and precision high cavitation mold assemblies - collectively, the enabling technologies for many complex injection molding applications. The Force & Motion Control business provides innovative cost effective force and motion control solutions for a wide range of sheet metal forming and other industrial markets. The Automation business designs and develops robotic grippers, advanced end-of-arm tooling systems, sensors and other automation components for intelligent robotic handling solutions and industrial automation applications. Industrial's Engineered Components business manufactures and supplies precision mechanical products used in mobility and industrial applications, including mechanical springs, and high-precision punched and fine-blanked components.

Industrial competes with a broad base of large and small companies engaged in the manufacture and sale of engineered products, precision molds, hot runner systems, robotic handling solutions and precision components. Industrial competes on the basis of quality, service, reliability of supply, engineering and technical capability, geographic reach, product breadth, innovation, design, timeliness and price. Industrial has a global presence in multiple countries, with manufacturing, distribution

and assembly operations in the United States, China, Germany, Italy, Sweden and Switzerland, among others. Industrial also has sales and service operations in the United States, China/Hong Kong, Germany, Italy and Switzerland, among others.

Aerospace is a global manufacturer of complex fabricated and precision machined components and assemblies for turbine engines, nacelles and structures for both commercial and defense-related aircraft. The Aerospace Aftermarket business provides aircraft engine component MRO services, including services performed under our Component Repair Programs ("CRPs"), for many of the world's major turbine engine manufacturers, commercial airlines and the defense market. The Aerospace aftermarket activities also include the manufacture and delivery of aerospace aftermarket spare parts, including revenue sharing programs ("RSPs") under which the Company receives an exclusive right to supply designated aftermarket parts over the life of specific aircraft engine programs.

Aerospace's OEM business offers a comprehensive range of in-house manufacturing solutions and capabilities, including components and assemblies. The applications for these components primarily include engines, airframes and nacelles. Aerospace OEM competes with a large number of fabrication and machining companies. Our competitive advantage is based mainly on value derived from quality, concurrent engineering and technical capability, product breadth, solutions-providing new product introduction, timeliness, service, price and intellectual property. Aerospace's fabrication and machining operations, with facilities in Arizona, Connecticut, Michigan, Ohio, Utah and Singapore, produce critical engine, nacelle and airframe components through technologically advanced manufacturing processes.

The Aerospace Aftermarket business supplements jet engine OEMs' maintenance, repair and overhaul capabilities, and competes with the service centers of major commercial airlines and other independent service companies for the repair and overhaul of turbine engine components. The manufacture and supply of aerospace aftermarket spare parts, including those related to the RSPs, are dependent upon the reliable and timely delivery of high-quality components. Aerospace's Aftermarket facilities, located in Connecticut, Ohio and Singapore, specialize in the repair and refurbishment of highly engineered components and assemblies such as cases, rotating life limited parts, rotating air seals, turbine shrouds, vanes and honeycomb air seals. Aerospace Aftermarket's facility in Malaysia is focused on the supply of spare parts.

The Company evaluates the performance of its reportable segments based on the operating profit of the respective businesses, which includes net sales, cost of sales, selling and administrative expenses and certain components of other expense (income), net, as well as the allocation of corporate overhead expenses.

Sales between the business segments and between the geographic areas in which the businesses operate are accounted for on the same basis as sales to unaffiliated customers. Additionally, revenues are attributed to countries based on the location of facilities.

BARNES GROUP INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table (in millions) sets forth summarized financial information by reportable business segment:

		Industrial	Aerospace	Other	Total Company
Sales					
	2021	**$ 896.5**	**$ 362.4**	**$ —**	**$ 1,258.8**
	2020	770.1	354.3	—	1,124.4
	2019	938.5	552.6	—	1,491.1
Operating profit					
	2021	**$ 97.7**	**$ 52.3**	**$ —**	**$ 150.0**
	2020	66.6	56.8	—	123.4
	2019	114.0	122.5	—	236.4
Assets					
	2021	**$ 1,827.9**	**$ 583.0**	**$ 165.9**	**$ 2,576.8**
	2020	1,908.4	623.5	144.3	2,676.2
	2019	1,879.3	704.3	154.8	2,738.3
Depreciation and amortization					
	2021	**$ 57.5**	**$ 32.8**	**$ 0.9**	**$ 91.1**
	2020	57.7	29.0	0.9	87.7
	2019	62.4	35.9	0.8	99.1
Capital expenditures					
	2021	**$ 21.3**	**$ 12.7**	**$ 0.2**	**$ 34.1**
	2020	19.4	20.8	0.5	40.7
	2019	25.3	26.0	2.0	53.3

Notes:
One customer, General Electric, accounted for 16%, 17% and 21% of the Company's total revenues in 2021, 2020 and 2019, respectively.
"Other" assets include corporate-controlled assets, the majority of which are cash and cash equivalents and deferred tax assets.

A reconciliation of the total reportable segments' operating profit to income before income taxes follows (in millions):

	2021	2020	2019
Operating profit	**$ 150.0**	**$ 123.4**	$ 236.4
Interest expense	**16.2**	15.9	20.6
Other expense (income), net	**6.0**	5.9	9.0
Income before income taxes	**$ 127.8**	**$ 101.5**	**$ 206.8**

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The following table (in millions) summarizes total net sales and long-lived assets of the Company by geographic area:

		Domestic	International	Other	Total Company
Sales					
	2021	**$ 516.4**	**$ 829.4**	**$ (87.0)**	**$ 1,258.8**
	2020	483.8	714.0	(73.4)	1,124.4
	2019	630.0	949.4	(88.4)	1,491.1
Long-lived assets					
	2021	**$ 380.7**	**$ 1,493.9**	**$ —**	**$ 1,874.6**
	2020	383.2	1,628.6	—	2,011.8
	2019	372.2	1,580.5	—	1,952.7

Notes: Germany, with sales of $243.1 million, $223.3 million and $302.0 million in 2021, 2020 and 2019, respectively, and Singapore, with sales of $136.8 million, $129.8 million and $225.7 million in 2021, 2020 and 2019, respectively, represent the only international countries with revenues in excess of 10% of the Company's total revenues in those years. “Other” revenues represent the elimination of inter-company sales between geographic locations, of which approximately 78%, 67% and 68% were sales from international locations to domestic locations in 2021, 2020 and 2019, respectively.

Germany, with long-lived assets of $428.9 million, $481.5 million and $480.3 million as of December 31, 2021, 2020 and 2019, respectively, Singapore, with long-lived assets of $201.6 million, $214.8 million and $226.5 million as of December 31, 2021, 2020 and 2019, respectively and Italy, with long-lived assets of $398.2 million, $443.1 million and $402.1 million as of December 31, 2021, 2020 and 2019, respectively, represent the international countries with long-lived assets that exceeded 10% of the Company's total long-lived assets in those years.

22. Commitments and Contingencies

Product Warranties

The Company provides product warranties in connection with the sale of certain products. From time to time, the Company is subject to customer claims with respect to product warranties. The Company accrues its estimated exposure for warranty claims at the time of sale based upon the length of the warranty period, historical experience and other related information known to the Company. Liabilities related to product warranties and extended warranties were not material as of December 31, 2021 or 2020.

In July 2021, a customer asserted breach of contract and contractual warranty claims regarding a part manufactured by the Company. While the Company disputes the asserted claims, the Company and the customer are in discussions seeking to resolve the matter. No litigation or other proceeding has been initiated. While it is currently not possible to determine the ultimate outcome of this matter, the Company intends to vigorously defend its position and believes that the ultimate resolution will not have a material adverse effect on the Company’s consolidated financial position or liquidity, but could be material to the consolidated results of operations of any one period.

Litigation

The Company is subject to litigation from time to time in the ordinary course of business and various other suits, proceedings and claims are pending involving the Company and its subsidiaries. The Company records a loss contingency liability when a loss is considered probable and the amount can be reasonably estimated. While it is not possible to determine the ultimate disposition of each of these proceedings and whether they will be resolved consistent with the Company's beliefs, the Company expects that the outcome of such proceedings, individually or in the aggregate, will not have a material adverse effect on financial condition or results of operations.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Barnes Group Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Barnes Group Inc. and its subsidiaries (the "Company") as of December 31, 2021 and 2020, and the related consolidated statements of income, of comprehensive income, of changes in stockholders' 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(c) (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.

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Critical Audit Matters

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.

Quantitative Goodwill Impairment Assessment

As described in Notes 1 and 6 to the consolidated financial statements, the Company's consolidated goodwill balance was $955 million as of December 31, 2021. Goodwill is subject to impairment testing on an annual basis, in the second quarter, or more frequently if an event or change in circumstances indicates that the fair value of a reporting unit has been reduced below its carrying value. As disclosed by management, the option to first assess qualitative factors to determine whether it is necessary to perform the Step 1 quantitative goodwill impairment test is utilized. If management determines that the Step 1 quantitative impairment test is required, management estimates the fair value of the reporting unit primarily using the income approach, which reflects management's cash flow projections. Inherent in management's development of cash flow projections are assumptions and estimates, including those related to future earnings, growth rates, and the weighted average cost of capital.

The principal considerations for our determination that performing procedures relating to the quantitative goodwill impairment assessment is a critical audit matter are (i) the significant judgment by management when developing the fair value measurement of any reporting units where a quantitative test was performed, (ii) a high degree of auditor judgment, subjectivity, and effort in performing procedures and evaluating management's significant assumptions related to future earnings, growth rates, and the weighted average cost of capital, and (iii) the audit effort involved the use of professionals with specialized skill and knowledge.

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 management's quantitative goodwill impairment assessment, including controls over the valuation of any reporting units for which a quantitative test was performed. These procedures also included, among others, testing management's process for developing the fair value estimates; evaluating the appropriateness of the income approach; testing the completeness and accuracy of underlying data used in the estimates; and evaluating the significant assumptions used by management, related to future earnings, growth rates, and the weighted average cost of capital. Evaluating management's assumptions related to future earnings and growth rates involved evaluating whether the assumptions used by management were reasonable considering (i) the current and past performance of the reporting units, (ii) the consistency with external market and industry data, and (iii) whether these assumptions were consistent with evidence obtained in other areas of the audit. Professionals with specialized skill and knowledge were used to assist in the evaluation of the Company's income approach and reasonableness of the weighted average cost of capital.

/s/ PricewaterhouseCoopers LLP
Hartford, Connecticut
February 22, 2022

We have served as the Company's auditor since 1994.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

Management, including the Company's President and Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based upon, and as of the date of, that evaluation, the President and Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective, in all material respects, and designed to provide reasonable assurance that the information required to be disclosed in the reports the Company files and submits under the Securities Exchange Act of 1934 (the "Exchange Act"), as amended, is (i) recorded, processed, summarized and reported as and when required and (ii) is accumulated and communicated to the Company's management, including our President and Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of management, including the President and Chief Executive Officer and Chief Financial Officer, the Company conducted an assessment of the effectiveness of its internal control over financial reporting based on the framework in the "Internal Control - Integrated Framework 2013" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the assessment under this framework, management concluded that the Company's internal control over financial reporting was effective, in all material respects, as of December 31, 2021.

PricewaterhouseCoopers LLP, the independent registered public accounting firm that audited the financial statements included in this Annual Report, has issued an attestation report on the Company's internal control over financial reporting as of December 31, 2021, which appears within Item 8 of this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting

There has been no change to our internal control over financial reporting during the Company's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not Applicable.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information with respect to our directors, corporate governance and other information required by this Item 10 may be found in the "Governance" and "Stock Ownership" sections of our definitive proxy statement to be delivered to stockholders in connection with the Annual Meeting of Stockholders to be held on May 6, 2022 (the "Proxy Statement"). Such information is incorporated herein by reference.

EXECUTIVE OFFICERS

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

Name	Position	Age as of December 31, 2021
Patrick J. Dempsey	President and Chief Executive Officer	57
Michael A. Beck	Senior Vice President, Barnes Group Inc., and President, Barnes Aerospace	61
Dawn N. Edwards	Senior Vice President, Human Resources	53
Lukas Hovorka	Senior Vice President, Corporate Development	49
Patrick T. Hurley	Senior Vice President & Chief Technology Officer	49
Stephen G. Moule	Senior Vice President, Barnes Group Inc., and President, Barnes Industrial	49
James C. Pelletier	Senior Vice President, General Counsel and Secretary	44
Julie K. Streich	Senior Vice President, Finance and Chief Financial Officer	51

Each officer holds office until his or her successor is appointed and qualified or otherwise as provided in the Company's Amended and Restated By-Laws. No family relationships exist among the executive officers of the Company. Except for Messrs. Hurley and Moule and Ms. Streich, each of the Company's executive officers has been employed by the Company or its subsidiaries in an executive or managerial capacity for at least the past five years. There are no arrangements or understandings with any other person under which any executive officer was selected as an officer.

Mr. Dempsey was appointed President and Chief Executive Officer effective March 1, 2013. From February 2012 until such appointment, he served as Senior Vice President and Chief Operating Officer. From October 2008 until February 2012, he served as Vice President, Barnes Group Inc. and President, Logistics and Manufacturing Services. Prior to that, he held a series of roles of increasing responsibility since joining the Company in October 2000. In October 2007, he was appointed Vice President, Barnes Group Inc. and President, Barnes Distribution. In November 2004, he was promoted to Vice President, Barnes Group Inc. and President, Barnes Aerospace. Mr. Dempsey is currently a director of Nucor Corporation, having been appointed as of December 1, 2016.

Mr. Beck was appointed Senior Vice President, Barnes Group Inc. and President, Barnes Aerospace effective March 1, 2016. Mr. Beck came to Barnes Group with over 27 years of global aerospace experience. Prior to joining Barnes Group, Mr. Beck was the Senior Vice President & General Manager, Fuel and Motion Control, a $1B division of Eaton's Aerospace Group. Prior to this, he was the Chief Executive Officer of GKN's Aerospace Engine Systems business, where he led the due diligence, business synergies and integration of a significant acquisition. Prior to that, he was the President and Chief Executive Officer of GKN's global Propulsion Systems and Special Products business. Earlier in his career, Mr. Beck was the Chief Operating Officer and Site Executive for GKN's St. Louis, Missouri business. As previously disclosed on November 5, 2021, Mr. Beck notified the Company that he has decided to retire, effective April 30, 2022, following an orderly transition period.

Ms. Edwards was appointed Senior Vice President, Human Resources effective August 2009. From December 2008 until August 2009, she served as Vice President of Human Resources - Global Operations. From September 1998 until December

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2008, Ms. Edwards served as Group Director, Human Resources for Barnes Aerospace, Associated Spring and Barnes Industrial. Ms. Edwards joined the Company in September 1998.

Mr. Hovorka was appointed Senior Vice President, Corporate Development effective March 1, 2021. He joined the Company in 2008 as Director, Corporate Development, and served as the Company's Vice President, Corporate Development prior to his current appointment. Prior to joining the Company, Mr. Hovorka held the position of Director/Vice President, Corporate Development with ITOCHU International Inc. and, before that, held roles with both Robertson Stephens and Goldman Sachs.

Mr. Hurley was appointed Senior Vice President & Chief Technology Officer effective February 7, 2019. From 2014 until joining the Company, Mr. Hurley was General Manager, Asia Pacific & Chief R&D Officer with A123 Systems, LLC. From 2011 to 2014, he held a series of roles with increasing responsibility with Johnson Controls, including Director, Global Core Components; Director, R&D; and Senior Manager, Strategic Technology Planning. From 2006 to 2011, Mr. Hurley held roles with Air Products, including the positions of Senior Principal Research Scientist / Technology Lead and Senior Research Scientist.

Mr. Moule was appointed Senior Vice President, Barnes Group Inc. and President, Barnes Industrial effective December 1, 2019. Before joining the Company, Mr. Moule was President, Americas at Gilbarco Veeder-Root (GVR), a $1.1B operating unit within the Fortive Corporation. Mr. Moule joined GVR in 2007 and held various positions of increasing responsibility including President, North America, as well as Managing Director, United Kingdom; Managing Director, Europe; President Europe & CIS; and President, Europe, Middle East & Africa, all based in London, England.

Mr. Pelletier was appointed Senior Vice President, General Counsel and Secretary effective April 1, 2020. He joined the Company in April 2015, and served as Deputy General Counsel of the Company and Segment General Counsel, Barnes Aerospace. Prior to joining the Company, Mr. Pelletier held the position of Associate Counsel with Pratt & Whitney, a United Technologies Company from 2009.

Ms. Streich was appointed Senior Vice President, Finance and Chief Financial Officer effective May 3, 2021. Prior to joining the Company, Ms. Streich served in various roles at Centrica PLC from 2012 through 2020. Ms. Streich served as Centrica PLC’s Senior Vice President, Head of Finance Operations from 2019 to 2020, as Vice President, Group Head of Global Planning and Analytics from 2017 to 2019, and as Chief Financial Officer of its Direct Energy Home business from 2016 to 2017. Prior to joining Centrica in 2012, Ms. Streich held finance positions of increasing responsibility with Pentair Process Technologies, Irwin Financial Corporation, Eagle Materials, MeadWestvaco, and Menasha Corporation.

Items 11-14.

The information called for by Items 11-14 is incorporated by reference to the "Governance," "Stock Ownership," "Executive Compensation," "Director Compensation in 2021," "Securities Authorized for Issuance Under Equity Compensation Plans," "Related Person Transactions," and "Principal Accountant Fees and Services" sections in our Proxy Statement.

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PART IV

Item 15. Exhibits, Financial Statement Schedule

(a)(1) The following Financial Statements and Supplementary Data of the Company are set forth herein under Item 8 of this Annual Report:

(a)(2) See Financial Statement Schedule under Item 15(c).

(a)(3) See Item 15(b) below.

(b) The Exhibits required by Item 601 of Regulation S-K are filed within the Exhibit Index of this Annual Report, which is incorporated herein by reference.

(c) Financial Statement Schedule.

Item 16. Form 10-K Summary

None

Schedule II—Valuation and Qualifying Accounts
Years Ended December 31, 2021, 2020 and 2019
(In thousands)

Allowances for Credit Losses:		
Balance January 1, 2019	$	5,010
Provision charged to income		1,347
Doubtful accounts written off		(960)
Reclassified to assets held for sale (see Note 2)		(152)
Other adjustments(1)		(48)
Balance December 31, 2019		**5,197**
Provision charged to income		1,200
Doubtful accounts written off		(417)
Other adjustments(1)		368
Balance December 31, 2020		**6,348**
Provision charged to income		**(11)**
Doubtful accounts written off		**(562)**
Other adjustments(1)		**(150)**
Balance December 31, 2021	**$**	**5,625**

(1) These amounts are comprised primarily of foreign currency translation and other reclassifications.

Schedule II—Valuation and Qualifying Accounts
Years Ended December 31, 2021, 2020 and 2019
(In thousands)

Valuation Allowance on Deferred Tax Assets:	
Balance January 1, 2019	$ 4,366
Additions charged to income tax expense	953
Reductions charged to other comprehensive income	(7)
Reductions credited to income tax expense	(1,683)
Changes due to foreign currency translation	(37)
Balance December 31, 2019	3,592
Additions charged to income tax expense	743
Reductions charged to other comprehensive income	24
Reductions credited to income tax expense	(600)
Changes due to foreign currency translation	(2)
Balance December 31, 2020	**3,757**
Additions charged to income tax expense	**346**
Reductions charged to other comprehensive income	**(15)**
Reductions credited to income tax expense	**(241)**
Changes due to foreign currency translation	**22**
Balance December 31, 2021	**$ 3,869**

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 22, 2022

BARNES GROUP INC.

By /S/ PATRICK J. DEMPSEY
Patrick J. Dempsey
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below as of the above date by the following persons on behalf of the Company in the capacities indicated.

/S/ PATRICK J. DEMPSEY
Patrick J. Dempsey
President and Chief Executive Officer
(Principal Executive Officer), and Director

/S/ JULIE K. STREICH
Julie K. Streich
Senior Vice President, Finance
Chief Financial Officer
(Principal Financial Officer)

/S/ MARIAN ACKER
Marian Acker
Vice President, Controller
(Principal Accounting Officer)

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/S/ THOMAS O. BARNES
Thomas O. Barnes
Director

/S/ ELIJAH K. BARNES
Elijah K. Barnes
Director

/S/ JAKKI L. HAUSSLER
Jakki L. Haussler
Director

/S/ RICHARD J. HIPPLE
Richard J. Hipple
Director

/S/ THOMAS J. HOOK
Thomas J. Hook
Director

/S/ DAPHNE E. JONES
Daphne E. Jones
Director

/S/ MYLLE H. MANGUM
Mylle H. Mangum
Director

/S/ HANS-PETER MÄNNER
Hans-Peter Männer
Director

/S/ WILLIAM J. MORGAN
William J. Morgan
Director

/S/ ANTHONY V. NICOLOSI
Anthony V. Nicolosi
Director

/S/ JOANNA L. SOHOVICH
JoAnna L. Sohovich
Director

EXHIBIT INDEX

Barnes Group Inc.

Annual Report on Form 10-K
for the Year ended December 31, 2021

Exhibit No.	Description	Reference
2.1*	Sale and Purchase Agreement, dated as of September 19, 2018, between Barnes GTE S.r.l., the Company and AGIC Gripper (Netherlands) B.V., HDX S.À.R.L., Asia-Germany Industry 4.0 Promotion Cross-Border Fund I L.P., Xenon Private Equity V Limited Partnership and certain other sellers named therein.	Incorporated by reference to Exhibit 2.1 to Form 8-K filed by the Company on September 24, 2018.
3.1	Restated Certificate of Incorporation; Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock; Certificate of Change of Location of registered office and of registered agent, dated December 13, 2002; Certificate of Merger of domestic limited liability company into a domestic company, dated May 19, 2004; Certificate of Amendment of Restated Certificate of Incorporation, dated April 20, 2006; and Certificate of Amendment of Restated Certificate of Incorporation, dated as of May 3, 2013.	Incorporated by reference to Exhibit 3.1 to the Company's report on Form 10-Q (Commission file number 0001-04801) for the quarter ended June 30, 2013.
3.2	Amended and Restated By-Laws as of July 28, 2016.	Incorporated by reference to Exhibit 3.1 to Form 8-K (Commission file number 0001-04801) filed by the Company on July 29, 2016.
4.1	Description of Securities.	Incorporated by reference to Exhibit 4.1 to the Company's report on Form 10-K for the year ended December 31, 2019.
10.1	(i) Fifth Amended and Restated Senior Unsecured Revolving Credit Agreement, dated September 27, 2011.	Incorporated by reference to Exhibit 4.1 to the Company's report on Form 10-Q (Commission file number 0001-04801) for the quarter ended June 30, 2013.
	(ii) Amendment No. 2 and Joinder to Credit Agreement dated as of September 27, 2013 (amending Fifth Amended and Restated Senior Unsecured Revolving Credit Agreement, dated as of September 27, 2011).	Incorporated by reference to Exhibit 4.1 to the Company's report on Form 10-Q (Commission file number 0001-04801) for the quarter ended September 30, 2013.
	(iii) Amendment No. 3 to Credit Agreement dated as of October 15, 2014.	Incorporated by reference to Exhibit 10.1(iii) to the Company's report on Form 10-K (Commission file number 0001-04801) for the year ended December 31, 2014.
	(iv) Amendment No. 4 to Credit Agreement dated as of February 2, 2017.	Incorporated by reference to Exhibit 10.1 to the Company's report on Form 10-Q for the quarter ended March 31, 2017.
	(v) Amendment No. 5 to Credit Agreement dated as of October 19, 2018.	Incorporated by reference to Exhibit 10.1 to the Company's report on Form 10-Q for the quarter ended September 30, 2018.
	(vi) Amendment No. 6 to Credit Agreement dated as of October 8, 2020.	Incorporated by reference to Exhibit 10.2 to Form 8-K filed by the Company on October 13, 2020.
	(vii) Sixth Amended and Restated Senior Unsecured Revolving Credit Agreement, dated as of February 10, 2021.	Incorporated by reference to Exhibit 10.1 to Form 8-K filed by the Company on February 12, 2021.
	(viii) LIBOR Transition Amendment, dated as of October 11, 2021.	Incorporated by reference to Exhibit 10.1 to the Company's report on Form 10-Q for the quarter ended September 30, 2021.

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10.2	(i) Note Purchase Agreement, dated as of October 15, 2014, among the Company and New York Life Insurance Company, New York Life Insurance and Annuity Corporation and New York Life Insurance and Annuity Corporation Institutionally Owned Life Insurance Separate Account (BOLI 30C).	Incorporated by reference to Exhibit 10.1 to Form 8-K (Commission file number 0001-04801) filed by the Company on October 17, 2014.
	(ii) First Amendment to Note Purchase Agreement, dated as of October 8, 2020.	Incorporated by reference to Exhibit 10.1 to Form 8-K filed by the Company on October 13, 2020.
10.3**	(ii) Barnes Group Inc. Management Incentive Compensation Plan, amended December 28, 2018.	Incorporated by reference to Exhibit 10.3(ii) to the Company's report on Form 10-K for the year ended December 31, 2018.
10.4**	(i) Offer Letter between the Company and Patrick Dempsey, dated February 22, 2013.	Incorporated by reference to Exhibit 10.3 to the Company's report on Form 10-Q (Commission file number 0001-04801) for the quarter ended March 31, 2013.
	(ii) Amendment to Offer Letter to Patrick Dempsey, dated January 6, 2015.	Incorporated by reference to Exhibit 10.6(ii) to the Company's report on Form 10-K (Commission file number 0001-04801) for the year ended December 31, 2014.
	(iii) Employee Non-Disclosure, Non-Competition, Non-Solicitation and Non-Disparagement Agreement between the Company and Patrick J. Dempsey, dated February 27, 2013.	Incorporated by reference to Exhibit 10.4 to the Company's report on Form 10-Q (Commission file number 0001-04801) for the quarter ended March 31, 2013.
10.5**	Offer Letter to Julie K. Streich, dated April 20, 2021.	Incorporated by reference to Exhibit 10.1 to Form 8-K filed by the Company on April 30, 2021.
10.6**	Offer Letter to Michael A. Beck, dated January 28, 2016.	Incorporated by reference to Exhibit 10.1 to the Company's report on Form 10-Q (Commission file number 0001-04801) for the quarter ended March 31, 2016.
10.7**	Offer Letter to Lukas Hovorka, dated February 12, 2021.	Incorporated by reference to Exhibit 10.2 to the Company's report on Form 10-Q for the quarter ended March 31, 2021.
10.8**	Offer Letter to Patrick T. Hurley, dated January 4, 2019.	Incorporated by reference to Exhibit 10.39 to the Company's report on Form 10-K for the year ended December 31, 2018.
10.9**	Offer Letter to Stephen Moule, dated October 24, 2019.	Incorporated by reference to Exhibit 10.11 to the Company's report on Form 10-K for the year ended December 31, 2019.
10.10**	Offer Letter to James C. Pelletier, dated February 14, 2020.	Incorporated by reference to Exhibit 10.1 to the Company's report on Form 10-Q for the quarter ended March 31, 2020.
10.11**	(i) Form of Temporary Officer Base Salary Reduction Consent.	Incorporated by reference to Exhibit 10.1 to the Company's report on Form 10-Q for the quarter ended June 30, 2020.
	(ii) Form of Temporary Officer Base Salary Reduction Consent.	Incorporated by reference to Exhibit 10.3 to the Company's report on Form 10-Q for the quarter ended September 30, 2020.
10.12**	(i) Barnes Group Inc. Retirement Benefit Equalization Plan, as amended and restated effective January 1, 2013.	Incorporated by reference to Exhibit 10.9(i) to the Company's report on Form 10-K for the year ended December 31 2017.
	(ii) First Amendment to the Barnes Group Inc. Retirement Benefit Equalization Plan dated December 12, 2014.	Incorporated by reference to Exhibit 10.9(ii) to the Company's report on Form 10-K (Commission file number 0001-04801) for the year ended December 31, 2014.

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10.13**	(i) Barnes Group Inc. Supplemental Senior Officer Retirement Plan, as amended and restated effective January 1, 2009.	Incorporated by reference to Exhibit 10.3 to the Company's report on Form 10-K (Commission file number 0001-04801) for the year ended December 31, 2008.
	(ii) Amendment to the Barnes Group Inc. Supplemental Senior Officer Retirement Plan.	Incorporated by reference to Exhibit 10.3(ii) to the Company's report on Form 10-K (Commission file number 0001-04801) for the year ended December 31, 2009.
	(iii) Second Amendment to the Barnes Group Inc. Supplemental Senior Officer Retirement Plan dated December 12, 2014.	Incorporated by reference to Exhibit 10.10(iii) to the Company's report on Form 10-K (Commission file number 0001-04801) for the year ended December 31, 2014.
10.14**	(i) Amended and Restated Supplemental Executive Retirement Plan effective April 1, 2012.	Incorporated by reference to Exhibit 10.11(i) to the Company's report on Form 10-K (Commission file number 0001-04801) for the year ended December 31, 2016.
	(ii) Amendment 2013-1 to the Barnes Group Inc. Supplemental Executive Retirement Plan dated July 23, 2013.	Incorporated by reference to Exhibit 10.3 to the Company's report on Form 10-Q (Commission file number 0001-04801) for the quarter ended June 30, 2013.
	(iii) Amendment 2014-1 to the Barnes Group Inc. Supplemental Executive Retirement Plan dated December 12, 2014.	Incorporated by reference to Exhibit 10.11(iii) to the Company's report on Form 10-K (Commission file number 0001-04801) for the year ended December 31, 2014.
10.15**	Barnes Group Inc. Senior Executive Enhanced Life Insurance Program, as amended and restated effective April 1, 2011.	Incorporated by reference to Exhibit 10.12 to the Company's report on Form 10-K (Commission file number 0001-04801) for the year ended December 31, 2016.
10.16**	Barnes Group Inc. Enhanced Life Insurance Program, as amended and restated effective April 1, 2011.	Incorporated by reference to Exhibit 10.13 to the Company's report on Form 10-K (Commission file number 0001-04801) for the year ended December 31, 2016.
10.17**	Barnes Group Inc. Executive Group Term Life Insurance Program effective April 1, 2011.	Incorporated by reference to Exhibit 10.14 to the Company's report on Form 10-K (Commission file number 0001-04801) for the year ended December 31, 2016.
10.18**	Form of Barnes Group Inc. Executive Officer Severance Agreement, as amended March 31, 2010.	Incorporated by reference to Exhibit 10.15 to the Company's report on Form 10-K (Commission file number 0001-04801) for the year ended December 31, 2016.
10.19**	Form of Barnes Group Inc. Executive Officer Severance Agreement, effective February 19, 2014.	Incorporated by reference to Exhibit 10.1 to the Company's report on Form 10-Q (Commission file number 0001-04801) for the quarter ended March 31, 2014.
10.20**	Barnes Group Inc. Executive Separation Pay Plan, as amended and restated effective January 1, 2012.	Incorporated by reference to Exhibit 10.17 to the Company's report on Form 10-K (Commission file number 0001-04801) for the year ended December 31, 2016.
10.21**	Barnes Group Inc. Executive Separation Pay plan, as amended and restated effective March 7, 2019.	Incorporated by reference to Exhibit 10.2 to the Company's report on Form 10-Q for the quarter ended March 31, 2019.
10.22**	(i) Trust Agreement between the Company and Fidelity Management Trust Company (Barnes Group 2009 Deferred Compensation Plan) dated September 1, 2009.	Incorporated by reference to Exhibit 10.18(i) to the Company's report on Form 10-K (Commission file number 0001-04801) for the year ended December 31, 2016.

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	(ii) Amended and Restated Barnes Group 2009 Deferred Compensation Plan effective as of April 1, 2012.	Incorporated by reference to Exhibit 10.18(ii) to the Company's report on Form 10-K (Commission file number 0001-04801) for the year ended December 31, 2016.
	(iii) First Amendment to the Barnes Group 2009 Deferred Compensation Plan dated December 12, 2014.	Incorporated by reference to Exhibit 10.18(iii) to the Company's report on Form 10-K (Commission file number 0001-04801) for the year ended December 31, 2014.
10.23**	Barnes Group Inc. Non-Employee Director Deferred Stock Plan, as amended and restated December 31, 2008.	Incorporated by reference to Exhibit 10.19 to the Company's report on Form 10-K (Commission file number 0001-04801) for the year ended December 31, 2016.
10.24**	Barnes Group Inc. Directors' Deferred Compensation Plan, as amended and restated December 31, 2008.	Incorporated by reference to Exhibit 10.20 to the Company's report on Form 10-K (Commission file number 0001-04801) for the year ended December 31, 2016.
10.25**	Barnes Group Inc. Trust Agreement for Specified Plans.	Incorporated by reference to Exhibit 10.22 to the Company's report on Form 10-K (Commission file number 0001-04801) for the year ended December 31, 2016.
10.26**	Form of Incentive Compensation Reimbursement Agreement between the Company and certain Officers.	Incorporated by reference to Exhibit 10.23 to the Company's report on Form 10-K (Commission file number 0001-04801) for the year ended December 31, 2016.
10.27**	Form of Indemnification Agreement between the Company and its Officers and Directors.	Incorporated by reference to Exhibit 10.24 to the Company's report on Form 10-K (Commission file number 0001-04801) for the year ended December 31, 2016.
10.28**	(i) Barnes Group Inc. Stock and Incentive Award Plan, as amended March 15, 2010.	Incorporated by reference to Exhibit 10.25(ii) to the Company's report on Form 10-K (Commission file number 0001-04801) for the year ended December 31, 2016.
	(ii) Exercise of Authority Relating to the Stock and Incentive Award Plan, dated March 3, 2009.	Incorporated by reference to Exhibit 10.25(iii) to the Company's report on Form 10-K (Commission file number 0001-04801) for the year ended December 31, 2016.
	(iii) Amendment 2010-1 approved on December 9, 2010 to the Barnes Group Inc. Stock and Incentive Award Plan as amended March 15, 2010.	Incorporated by reference to Exhibit 10.25(iv) to the Company's report on Form 10-K (Commission file number 0001-04801) for the year ended December 31, 2016.
10.29**	2014 Barnes Group Inc. Stock and Incentive Award Plan.	Incorporated by reference to Annex A to the Company's definitive proxy statement (Commission file number 0001-04801) filed with the Securities and Exchange Commission on March 25, 2014.
10.30**	Form of Barnes Group Inc. Stock and Incentive Award Plan Restricted Stock Unit Summary of Grant and Restricted Stock	Incorporated by reference to Exhibit 10.30 to the Company's report on F

	Restricted Stock Unit Summary of Grant and Restricted Stock Unit Agreement for US Directors dated February 7, 2017 (for non-management directors).	Company's report on Form 10-K for the year ended December 31, 2019.
10.31**	Form of Barnes Group Inc. Stock and Incentive Award Plan Restricted Stock Unit Summary of Grant and Restricted Stock Unit Agreement for non-US Directors dated October 13, 2016 (for non-management directors).	Incorporated by reference to Exhibit 10.25 to the Company's report on Form 10-K for the year ended December 31, 2018.
10.32**	Form of Barnes Group Inc. Stock and Incentive Award Plan Stock Option Summary of Grant and Stock Option Agreement for Employees in Grade 21 and up dated as of February 8, 2011.	Incorporated by reference to Exhibit 10.3 to the Company's report on Form 10-Q (Commission file number 0001-04801) for the quarter ended March 31, 2011.

10.33**	Form of Barnes Group Inc. Stock and Incentive Award Plan Stock Option Summary of Grant and Stock Option Agreement for Employees in Grade 21 and up dated May 9, 2014.	Incorporated by reference to Exhibit 10.4 to the Company's report on Form 10-Q (Commission file number 0001-04801) for the quarter ended June 30, 2014.
10.34**	Form of Barnes Group Inc. Stock and Incentive Award Plan Stock Option Summary of Grant and Stock Option Agreement for Employees in Grade 21 and up dated February 9, 2016.	Incorporated by reference to Exhibit 10.33 to the Company's report on Form 10-K (Commission file number 0001-04801) for the year ended December 31, 2015.
10.35**	Form of Barnes Group Inc. Stock and Incentive Award Plan Restricted Stock Unit Summary of Grant for Employees and Restricted Stock Unit Agreement dated February 9, 2016.	Incorporated by reference to Exhibit 10.32 to the Company's report on Form 10-K for the year ended December 31, 2018.
10.36**	Form of Barnes Group Inc. Stock and Incentive Award Plan Performance Share Award Summary of Grant and Performance Share Award Agreement for Officers and Other Individuals as Designated by the Compensation and Management Development Committee dated as of February 8, 2018.	Incorporated by reference to Exhibit 10.41(ii) to the Company's report on Form 10-K for the year ended December 31, 2017.
10.37**	Form of Barnes Group Inc. Stock and Incentive Award Plan Performance Share Award Summary of Grant and Performance Share Award Agreement for Officers and Other Individuals as Designated by the Compensation and Management Development Committee dated as of February 13, 2019.	Incorporated by reference to Exhibit 10.35 to the Company's report on Form 10-K for the year ended December 31, 2018.
10.38**	Form of Barnes Group Inc. Stock and Incentive Award Plan Performance Share Award Summary of Grant and Performance Share Award Agreement for Officers and Other Individuals as Designated by the Compensation and Management Development Committee dated as of February 13, 2020.	Incorporated by reference to Exhibit 10.2 to the Company's report on Form 10-Q for the quarter ended March 31, 2020.
10.39**	Form of Barnes Group Inc. Stock and Incentive Award Plan Performance Share Award Summary of Grant and Performance Share Award Agreement for Officers and Other Individuals as Designated by the Compensation and Management Development Committee dated as of February 11, 2021.	Incorporated by reference to Exhibit 10.1 to the Company's report on Form 10-Q for the quarter ended March 31, 2021.
10.40**	Performance-Linked Bonus Plan for Selected Executive Officers approved by Shareholders on May 6, 2016.	Incorporated by reference to Exhibit 10.42 to the Company's report on Form 10-K (Commission file number 0001-04801) for the year ended December 31, 2016.
21	List of Subsidiaries.	Filed with this report.
23	Consent of Independent Registered Public Accounting Firm.	Filed with this report.
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed with this report.
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed with this report.
32	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Furnished with this report.
101.INS	XBRL Instance Document.	Filed with this report.
101.SCH	XBRL Taxonomy Extension Schema Document.	Filed with this report.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.	Filed with this report.

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101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.	Filed with this report.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.	Filed with this report.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.	Filed with this report.

* The Company hereby agrees to provide the Commission upon request copies of any omitted exhibits or schedules to this exhibit required by Item 601(b)(2) of Regulation S-K.

** Management contract or compensatory plan or arrangement.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2021

OR

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

For the transition period from to

Commission file number 1-4801

BARNES GROUP INC.
(Exact name of registrant as specified in its charter)

Delaware	**06-0247840**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

123 Main Street	
Bristol	
Connecticut	**06010**
(Address of Principal Executive Offices)	(Zip Code)

(860) 583-7070
Registrant's telephone number, including area code

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

Title of Each Class	Trading Symbol	Name of Each Exchange on Which Registered
Common Stock, par value $0.01 per share	B	New York Stock Exchange

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 check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§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, smaller reporting company, or an emerging growth company. See the 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 is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The registrant had outstanding 50,653,088 shares of common stock as of April 28, 2021.

Barnes Group Inc.
Index to Form 10-Q
For the Quarterly Period Ended March 31, 2021

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. See “FORWARD-LOOKING STATEMENTS” under Part I - Item 2 “Management's Discussion and Analysis of Financial Condition and Results of Operations” of this Quarterly Report on Form 10-Q.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

BARNES GROUP INC.
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands, except per share data)
(Unaudited)

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Net sales	$ 301,629	$ 330,671
Cost of sales	194,696	208,248
Selling and administrative expenses	74,553	73,110
	269,249	281,358
Operating income	32,380	49,313
Interest expense	3,942	4,324
Other expense (income), net	1,463	1,594
Income before income taxes	26,975	43,395
Income taxes	7,593	13,662
Net income	$ 19,382	$ 29,733
Per common share:		
Basic	$ 0.38	$ 0.58
Diluted	0.38	0.58
Weighted average common shares outstanding:		
Basic	50,933,666	51,061,132
Diluted	51,087,688	51,501,857

See accompanying notes.

BARNES GROUP INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)
(Unaudited)

	Three Months Ended March 31,	
	2021	**2020**
Net income	$ 19,382	$ 29,733
Other comprehensive loss, net of tax		
Unrealized loss on hedging activities, net of tax (1)	(652)	(2,337)
Foreign currency translation adjustments, net of tax (2)	(47,882)	(36,333)
Defined benefit pension and other postretirement benefits, net of tax (3)	3,632	4,481
Total other comprehensive loss, net of tax	(44,902)	(34,189)
Total comprehensive loss	$ (25,520)	$ (4,456)

(1) Net of tax of $(184) and $(823) for the three months ended March 31, 2021 and 2020, respectively.

(2) Net of tax of $0 and $(66) for the three months ended March 31, 2021 and 2020, respectively.

(3) Net of tax of $1,069 and $810 for the three months ended March 31, 2021 and 2020, respectively.

See accompanying notes.

BARNES GROUP INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share data)
(Unaudited)

	March 31, 2021	December 31, 2020
Assets		
Current assets		
Cash and cash equivalents	$ 84,900	$ 79,145
Accounts receivable, less allowances (2021 - $6,394; 2020 - $6,348)	252,548	251,460
Inventories	233,465	238,008
Prepaid expenses and other current assets	77,490	73,732
Total current assets	648,403	642,345
Deferred income taxes	21,653	22,092
Property, plant and equipment	896,096	910,378
Less accumulated depreciation	(539,824)	(539,431)
	356,272	370,947
Goodwill	971,851	1,011,580
Other intangible assets, net	541,148	564,132
Other assets	60,937	65,130
Total assets	$ 2,600,264	$ 2,676,226
Liabilities and Stockholders' Equity		
Current liabilities		
Notes and overdrafts payable	$ 7,507	$ 2,115
Accounts payable	118,756	112,428
Accrued liabilities	169,277	178,560
Long-term debt - current	2,051	2,276
Total current liabilities	297,591	295,379
Long-term debt	664,015	699,868
Accrued retirement benefits	94,066	98,171
Deferred income taxes	88,117	91,668
Long-term tax liability	59,063	59,063
Other liabilities	46,045	49,400
Commitments and contingencies (Note 16)		
Stockholders' equity		
Common stock - par value $0.01 per share Authorized: 150,000,000 shares Issued: at par value (2021 - 64,183,161 shares; 2020 - 64,171,321 shares)	642	642
Additional paid-in capital	503,937	501,531
Treasury stock, at cost (2021 - 13,531,343 shares; 2020 - 13,530,074 shares)	(517,060)	(516,992)
Retained earnings	1,531,065	1,519,811
Accumulated other non-owner changes to equity	(167,217)	(122,315)
Total stockholders' equity	1,351,367	1,382,677
Total liabilities and stockholders' equity	$ 2,600,264	$ 2,676,226

See accompanying notes.

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BARNES GROUP INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Operating activities:		
Net income	$ 19,382	$ 29,733
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	21,992	23,617
Gain on disposition of property, plant and equipment	(50)	(123)
Stock compensation expense	2,306	2,552
Seeger divestiture charges	—	6,620
Changes in assets and liabilities, net of the effects of divestitures:		
Accounts receivable	(7,590)	9,592
Inventories	78	(12,788)
Prepaid expenses and other current assets	(4,882)	(3,227)
Accounts payable	9,121	1,328
Accrued liabilities	(6,456)	(7,885)
Deferred income taxes	(101)	462
Long-term retirement benefits	(569)	(3,518)
Other	2,381	826
Net cash provided by operating activities	35,612	47,189
Investing activities:		
Proceeds from disposition of property, plant and equipment	83	185
Proceeds from the sale of businesses, net of cash sold	—	36,879
Capital expenditures	(7,855)	(11,912)
Other	3,758	—
Net cash (used) provided by investing activities	(4,014)	25,152
Financing activities:		
Net change in other borrowings	5,354	20,775
Payments on long-term debt	(30,933)	(108,521)
Proceeds from the issuance of long-term debt	15,000	75,000
Proceeds from the issuance of common stock	125	183
Common stock repurchases	—	(15,550)
Dividends paid	(8,104)	(8,133)
Withholding taxes paid on stock issuances	(68)	(84)
Other	(5,816)	(7,252)
Net cash used by financing activities	(24,442)	(43,582)
Effect of exchange rate changes on cash flows	(2,331)	(3,111)
Increase in cash, cash equivalents and restricted cash	4,825	25,648
Cash, cash equivalents and restricted cash at beginning of period	91,468	93,805
Cash, cash equivalents and restricted cash at end of period	96,293	119,453
Less: Restricted cash, included in Prepaid expenses and other current assets	(6,198)	—
Less: Restricted cash, included in Other assets	(5,195)	(6,626)
Cash and cash equivalents at end of period	$ 84,900	$ 112,827

See accompanying notes.

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BARNES GROUP INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All dollar amounts included in the notes are stated in thousands except per share data)
(Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated balance sheet and the related unaudited consolidated statements of income, comprehensive income and cash flows have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. The consolidated financial statements do not include all information and notes required by accounting principles generally accepted in the United States of America for complete financial statements. The balance sheet as of December 31, 2020 has been derived from the 2020 financial statements of Barnes Group Inc. (the "Company"). For additional information, please refer to the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020. In the opinion of management, all adjustments, including normal recurring accruals considered necessary for a fair statement of the results, have been included. Operating results for the three-month period ended March 31, 2021 are not necessarily indicative of the results that may be expected for the year ending December 31, 2021. Certain reclassifications have been made to prior year amounts to conform to current year presentation.

The COVID-19 pandemic ("COVID-19") has resulted in a disruption in business activities worldwide and has caused weakened economic conditions, both in the United States and abroad. COVID-19 has had, and may continue to have, a significant negative impact on the Company's ongoing operations and the end markets in which it serves. The Company has assessed the impacts that COVID-19 has had on its accounting estimates, assumptions and disclosures.

2. Divestiture

On December 20, 2019, the Company entered into a Share Purchase and Transfer Agreement ("SPA") with the Kajo Neukirchen Group ("KNG") to sell the Seeger business, consisting of partnership interests and shares, respectively, of Seeger-Orbis GmbH & Co. OHG and Seeger-Orbis Mechanical Components (Tianjin) Co., Ltd. ("Seeger") for 42,500 Euros, subject to certain adjustments. The Company completed the sale of the Seeger business to KNG effective February 1, 2020. Gross proceeds received were 38,964 Euros ($42,915) after consideration of post-closing adjustments, which were made during the fourth quarter of 2020, pursuant to the terms of the SPA. The Company yielded net cash proceeds of $36,062 after consideration of cash sold and transaction costs. Resulting tax charges of $4,211 were recognized in the first quarter of 2020 following the completion of the sale. Divestiture charges of $2,409 resulted from the completion of the sale and were recorded within Selling and Administrative expenses on the Consolidated Statements of Income in the quarter ended March 31, 2020.

The Company utilized the proceeds from the sale to reduce debt under the Amended Credit Agreement. Pursuant to the SPA, 6,000 Euros of the proceeds were placed in escrow and will be released through 2024, pending any potential settlement of claims. Cash related to a pending claim would remain in escrow until a final determination of the claim has been made. The Company has recorded the restricted cash in Prepaid Expenses and Other Current Assets and Other Assets (non-current) as of March 31, 2021.

3. Recent Accounting Standards

The Financial Accounting Standards Board ("FASB") establishes changes to accounting principles under U.S. GAAP through the use of Accounting Standards Updates ("ASUs") to the FASB's Accounting Standards Codification. The Company evaluates the applicability and potential impacts of recent ASUs on its Consolidated Financial Statements and related disclosures.

Recently Adopted Accounting Standards

In June 2016, the FASB amended its guidance related to credit losses on financial instruments. The amended guidance requires the use of a methodology of estimation that reflects expected credit losses on certain types of financial instruments, including trade receivables, as a replacement to the current methodology, which estimates losses based on incurred credit losses. This expected credit loss methodology requires that the Company consider a broader range of information when estimating credit losses on receivables. The amended guidance was effective for fiscal years, and interim periods within those years, beginning after December 15, 2019. The Company adopted this amended guidance and applicable FASB updates related to the guidance during the first quarter of 2020 and it did not have a material impact on the Company's Consolidated Financial Statements.

In December 2019, the FASB amended its guidance related to income taxes. The amended guidance simplifies the accounting for income taxes, eliminating certain exceptions to the general income tax principles, in an effort to reduce the cost and complexity of application. The amended guidance is effective for annual periods beginning after December 15, 2020, and interim periods within those reporting periods. Early adoption is permitted in any interim or annual period. The guidance requires application on either a prospective, retrospective or modified retrospective basis, contingent on the income tax exception being applied. The Company has adopted this guidance, on a prospective basis, on January 1, 2021 and it did not have a material impact on the Company's Consolidated Financial Statements.

Recently Issued Accounting Standards

The United Kingdom's Financial Conduct Authority, which regulates the London Interbank Offered Rate ("LIBOR"), announced its intent to phase out the use of LIBOR by the end of 2021. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, a steering committee comprised of large U.S. financial institutions, identified the Secured Overnight Financing Rate ("SOFR") as its preferred benchmark alternative to U.S. dollar LIBOR. Published by the Federal Reserve Bank of New York, SOFR represents a measure of the cost of borrowing cash overnight, collateralized by U.S. Treasury securities, and is calculated based on directly observable U.S. Treasury-backed repurchase transactions. In March 2020, in response to this transition, the FASB issued guidance related to this rate reform, which provides optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships and other transactions that reference LIBOR or another reference rate expected to be discontinued by reference rate reform, and addresses operational issues likely to arise in modifying contracts to replace discontinued reference rates with new rates. In January 2021, the FASB issued further clarifying guidance regarding derivatives, as it relates to this transition. The guidance is effective through December 31, 2022. The Company's Amended Credit Agreement (Note 9) and corresponding interest rate Swaps (Note 11) are tied to LIBOR, with each maturing in February 2026. The Company is continuing to monitor the potential impact of the replacement of LIBOR, but does not anticipate a material impact on our business, financial condition, results of operations or cash flows.

4. Revenue

The Company is a global provider of highly engineered products, differentiated industrial technologies, and innovative solutions, serving a wide range of end markets and customers. Its specialized products and services are used in far-reaching applications including aerospace, transportation, manufacturing, automation, healthcare and packaging.

Revenue is recognized by the Company when control of the product or solution is transferred to the customer. Control is generally transferred when products are shipped or delivered to customers, title is transferred, and the significant risks and rewards of ownership have transferred, and the Company has rights to payment and rewards of ownership pass to the customer. Customer acceptance may also be a factor in determining whether control of the product has transferred. Although revenue is generally transferred at a point in time, a certain portion of the Company's businesses with customized products or contracts in which the Company performs work on customer-owned assets requires the use of an over time recognition model as certain contracts meet one or more of the established criteria pursuant to the accounting guidance. Also, service revenue is recognized as control transfers, which is concurrent with the services being performed.

The following table presents the Company's revenue disaggregated by products and services, and geographic regions, by segment:

	Three Months Ended March 31, 2021			Three Months Ended March 31, 2020		
	Industrial	**Aerospace**	**Total Company**	**Industrial**	**Aerospace**	**Total Company**
Products and Services						
Engineered Components Products	$ 48,286	$ —	$ 48,286	$ 47,707	$ —	$ 47,707
Molding Solutions Products	108,547	—	108,547	97,406	—	97,406
Force & Motion Control Products	45,657	—	45,657	39,791	—	39,791
Automation Products	17,497	—	17,497	14,196	—	14,196
Aerospace Original Equipment Manufacturer Products	—	55,528	55,528	—	81,706	81,706
Aerospace Aftermarket Products and Services	—	26,114	26,114	—	49,865	49,865
	$ 219,987	$ 81,642	$ 301,629	$ 199,100	$ 131,571	$ 330,671
Geographic Regions (A)						
Americas	$ 82,895	$ 59,009	$ 141,904	$ 80,644	$ 92,578	$ 173,222
Europe	88,674	14,151	102,825	81,864	25,163	107,027
Asia	46,760	7,647	54,407	35,493	11,696	47,189
Rest of World	1,658	835	2,493	1,099	2,134	3,233
	$ 219,987	$ 81,642	$ 301,629	$ 199,100	$ 131,571	$ 330,671

(A) Sales by geographic region are based on the location to which the product is shipped.

Revenue from products and services transferred to customers at a point in time accounted for approximately 80 percent and 85 percent of total revenue for the three-month periods ended March 31, 2021 and 2020, respectively. A majority of revenue within the Industrial segment and Aerospace OEM business, along with a portion of revenue within the Aerospace Aftermarket business, is recognized at a point in time, primarily when the product or solution is shipped to the customer.

Revenue from products and services transferred to customers over-time accounted for approximately 20 percent and 15 percent of total revenue for the three-month periods ended March 31, 2021, and 2020, respectively. The Company recognizes revenue over-time in instances where a contract supports a continual transfer of control to the customer. Substantially all of our revenue in the Aerospace maintenance repair and overhaul business (within Aftermarket Products and Services) and a portion of the Engineered Components products, Molding Solutions products and Aerospace OEM products is recognized over-time. Within the Molding Solutions and Aerospace Aftermarket businesses, this continual transfer of control to the customer results from repair and refurbishment work performed on customer-controlled assets. With other contracts, this continual transfer of control to the customer is supported by clauses in the contract, or governing commercial law for the relevant jurisdiction, where we deliver products that do not have an alternative use and require an enforceable right to payment of costs incurred (plus a reasonable profit) or the Company has a contractual right to complete any work in process and receive full contract price.

The majority of our revenues are from contracts that are for less than one year, however certain Aerospace OEM and Molding Solutions business contracts extend beyond one year. In the Industrial segment, customers are typically OEMs or suppliers to OEMs and, in some businesses, distributors. In the Aerospace segment, customers include commercial airlines, OEMs and other aircraft and defense-related parts and service providers.

A performance obligation represents a promise within a contract to provide a distinct good or service to the customer. Revenue is recognized in an over-time model 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 utilizes the cost-to-cost measure of progress for over time contracts as we believe this measure best depicts the transfer of control to the customer, which occurs as we incur costs on contracts.

Adjustments to net sales, cost of sales and the related impact to operating income are recognized as necessary in the period they become known. Revenue recognized from performance obligations satisfied in previous periods was not material in both the three months ended March 31, 2021 and 2020.

Contract Balances. The timing of revenue recognition, invoicing and cash collections affect accounts receivable, unbilled receivables (contract assets) and customer advances and deposits (contract liabilities) on the Consolidated Balance Sheets.

Unbilled Receivables (Contract Assets) - Pursuant to the over-time revenue recognition model, revenue may be recognized prior to the customer being invoiced. An unbilled receivable is recorded to reflect revenue that is recognized when 1) the cost-to-cost method is applied and 2) such revenue exceeds the amount invoiced to the customer. Unbilled receivables are included within Prepaid Expenses and Other Current Assets on the Consolidated Balance Sheets as of March 31, 2021 and December 31, 2020.

Customer Advances and Deposits (Contract Liabilities) - The Company may receive a customer advance or deposit, or have an unconditional right to receive a customer advance, prior to revenue being recognized. Certain contracts within the Molding Solutions business, for example, may require such advances. Since the performance obligations related to such advances may not have been satisfied, a contract liability is established. An offsetting asset of equal amount is recorded as an account receivable until the advance is collected. Advances and deposits are included within Accrued Liabilities on the Consolidated Balance Sheets until the respective revenue is recognized. Advance payments are not considered a significant financing component as they are generally received less than one year before the customer solution is completed. These assets and liabilities are reported on the Consolidated Balance Sheets on an individual contract basis at the end of each reporting period.

Net contract asset (liabilities) consisted of the following:

	March 31, 2021	December 31, 2020	$ Change	% Change
Unbilled receivables (contract assets)	$ 35,796	$ 33,009	$ 2,787	8 %
Contract liabilities	(35,046)	(39,865)	4,819	(12)%
Net contract asset (liabilities)	$ 750	$ (6,856)	$ 7,606	NM

NM - Not Meaningful

Contract liabilities balances at March 31, 2021 and December 31, 2020 include $11,158 and $12,750, respectively, of customer advances for which the Company has an unconditional right to collect payment. Accounts receivable, as presented on the Consolidated Balance Sheet, include corresponding balances at March 31, 2021 and December 31, 2020, respectively.

Changes in the net contract asset during the three-month period ended March 31, 2021 included a $4,819 decrease in contract liabilities, driven primarily by revenue recognized in the current period, partially offset by new customer advances and deposits. Adding to this net contract asset increase was a $2,787 increase in contract assets, driven primarily by contract progress (i.e. unbilled receivable), partially offset by earlier contract progress being invoiced to the customer.

The Company recognized approximately 40% of the revenue related to the contract liability balance as of December 31, 2020 during the three months ended March 31, 2021, and approximately 40% of the revenue related to the contract liability balance as of December 31, 2019 during the three months ended March 31, 2020, primarily representing revenue from the sale of molds and hot runners within the Molding Solutions business.

Remaining Performance Obligations. The Company has elected to disclose remaining performance obligations only for contracts with an original duration of greater than one year. Such remaining performance obligations represent the transaction price of firm orders for which work has not yet been performed and, for Aerospace, excludes projections of components and assemblies that Aerospace OEM customers anticipate purchasing in the future under existing programs, which represent orders that are beyond lead time and do not represent performance obligations pursuant to accounting guidance. As of March 31, 2021, the aggregate amount of the transaction price allocated to remaining performance obligations was $178,459. The Company expects to recognize revenue on approximately 70% of the remaining performance obligations over the next 12 months, with the remainder being recognized within 24 months.

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5. Stockholders' Equity

A schedule of consolidated changes in equity for the three months ended March 31, 2021 is as follows (shares in thousands):

	Common Stock (Number of Shares)	Common Stock (Amount)	Additional Paid-In Capital	Treasury Stock (Number of Shares)	Treasury Stock (Amount)	Retained Earnings	Accumulated Other Non-Owner Changes to Equity	Total Stockholders' Equity
December 31, 2020	64,171	$ 642	$ 501,531	13,530	$ (516,992)	$ 1,519,811	$ (122,315)	$ 1,382,677
Comprehensive income	—	—	—	—	—	19,382	(44,902)	(25,520)
Dividends declared ($0.16 per share)	—	—	—	—	—	(8,104)	—	(8,104)
Employee stock plans	12	—	2,406	1	(68)	(24)	—	2,314
March 31, 2021	64,183	$ 642	$ 503,937	13,531	$ (517,060)	$ 1,531,065	$ (167,217)	$ 1,351,367

A schedule of consolidated changes in equity for the three months ended March 31, 2020 is as follows (shares in thousands):

	Common Stock (Number of Shares)	Common Stock (Amount)	Additional Paid-In Capital	Treasury Stock (Number of Shares)	Treasury Stock (Amount)	Retained Earnings	Accumulated Other Non-Owner Changes to Equity	Total Stockholders' Equity
December 31, 2019	63,873	$ 639	$ 489,282	13,051	$ (498,074)	$ 1,489,176	$ (210,495)	$ 1,270,528
Comprehensive income	—	—	—	—	—	29,733	(34,189)	(4,456)
Dividends declared ($0.16 per share)	—	—	—	—	—	(8,133)	—	(8,133)
Common stock repurchases	—	—	—	396	(15,550)	—	—	(15,550)
Employee stock plans	17	—	2,743	2	(84)	(88)	—	2,571
March 31, 2020	63,890	$ 639	$ 492,025	13,449	$ (513,708)	$ 1,510,688	$ (244,684)	$ 1,244,960

6. Net Income Per Common Share

For the purpose of computing diluted net income per common share, the weighted-average number of common shares outstanding is increased for the potential dilutive effects of stock-based incentive plans. For the purpose of computing diluted net income per common share, the weighted-average number of common shares outstanding was increased by 154,022 and 440,725 for the three-month periods ended March 31, 2021 and 2020, respectively.

The calculation of weighted-average diluted shares outstanding excludes all shares that would have been anti-dilutive. During the three-month periods ended March 31, 2021 and 2020, the Company excluded 522,117 and 325,670 stock awards, respectively, from the calculation of weighted-average diluted shares outstanding as the stock awards were considered anti-dilutive.

The Company granted 144,000 stock options, 104,029 restricted stock unit awards and 99,155 performance share awards ("PSAs") in February 2021 as part of its annual long-term incentive equity grant awards. All of the stock options and the restricted stock unit awards vest upon meeting certain service conditions. The restricted stock unit awards are included in basic weighted-average common shares outstanding as they contain nonforfeitable rights to dividend payments. The PSAs are part of the long-term Performance Share Award Program and are based on performance goals that are driven by a combination of independently measured metrics (depending on the grant year) with each metric being weighted equally. The metrics for awards granted in 2021 include the Company's total shareholder return ("TSR"), return on invested capital ("ROIC") and operating income before depreciation and amortization growth ("EBITDA growth"). The TSR and EBITDA growth metrics are designed to assess the long-term Company performance relative to the performance of companies included in the Russell 2000 Index over a three-year performance period. ROIC is designed to assess the Company's performance compared to pre-established Company targets over a three-year performance period. The participants can earn from zero to 250% of the target award and the award includes a forfeitable right to dividend equivalents, which are not included in the aggregate target award numbers. The fair value of the TSR is determined using a Monte Carlo valuation method as the award contains a market condition.

7. Inventories

The components of inventories consisted of:

	March 31, 2021		December 31, 2020	
Finished goods	$	78,023	$	79,833
Work-in-process		75,858		76,542
Raw material and supplies		79,584		81,633
	$	233,465	$	238,008

8. Goodwill and Other Intangible Assets

Goodwill:

The following table sets forth the change in the carrying amount of goodwill for each reportable segment and for the Company as of and for the period ended March 31, 2021:

	Industrial		Aerospace		Total Company	
December 31, 2020	$	980,794	$	30,786	$	1,011,580
Foreign currency translation		(39,729)		—		(39,729)
March 31, 2021	$	941,065	$	30,786	$	971,851

Other Intangible Assets:

Other intangible assets consisted of:

		March 31, 2021				December 31, 2020			
	Range of Life -Years	Gross Amount		Accumulated Amortization		Gross Amount		Accumulated Amortization	
Amortized intangible assets:									
Revenue Sharing Programs (RSPs)	Up to 30	$	299,500	$	(144,937)	$	299,500	$	(143,209)
Component Repair Programs (CRPs)	Up to 30		111,839		(31,918)		111,839		(30,869)
Customer relationships	10-16		338,366		(123,806)		338,366		(118,752)
Patents and technology	4-11		123,433		(79,623)		123,433		(77,311)
Trademarks/trade names	10-30		10,949		(10,431)		10,949		(10,377)
Other	Up to 15		10,746		(4,733)		10,746		(4,580)
			894,833		(395,448)		894,833		(385,098)
Unamortized intangible assets:									
Trade names			55,670		—		55,670		—
Foreign currency translation			(13,907)		—		(1,273)		—
Other intangible assets		$	936,596	$	(395,448)	$	949,230	$	(385,098)

Estimated amortization of intangible assets for future periods is as follows: 2021 (remainder) - $32,000; 2022 - $42,000; 2023- $44,000; 2024 - $44,000, 2025 - $44,000 and 2026- $43,000.

9. Debt

Long-term debt and notes and overdrafts payable at March 31, 2021 and December 31, 2020 consisted of:

	March 31, 2021		December 31, 2020	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Amended Credit Agreement	$ 558,526	$ 596,456	$ 593,622	$ 601,936
3.97% Senior Notes	100,000	109,282	100,000	109,151
Borrowings under lines of credit and overdrafts	7,507	7,507	2,115	2,115
Finance leases	7,343	8,508	8,268	8,650
Other foreign bank borrowings	197	199	254	257
	673,573	721,952	704,259	722,109
Less current maturities	(9,558)		(4,391)	
Long-term debt	$ 664,015		$ 699,868	

In October 2014, the Company entered into a Note Purchase Agreement ("Note Purchase Agreement"), among the Company and New York Life Insurance Company, New York Life Insurance and Annuity Corporation and New York Life Insurance and Annuity Corporation Institutionally Owned Life Insurance Separate Account, as purchasers, for the issuance of $100,000 aggregate principal amount of 3.97% Senior Notes due October 17, 2024 (the "3.97% Senior Notes"). The 3.97% Senior Notes are senior unsecured obligations of the Company and pay interest semi-annually on April 17 and October 17 of each year at an annual rate of 3.97%. The 3.97% Senior Notes will mature on October 17, 2024 unless earlier prepaid in accordance with their terms. Subject to certain conditions, the Company may, at its option, prepay all or any part of the 3.97% Senior Notes in an amount equal to 100% of the principal amount of the 3.97% Senior Notes so prepaid, plus any accrued and unpaid interest to the date of prepayment, plus the Make-Whole Amount, as defined in the Note Purchase Agreement, with respect to such principal amount being prepaid. The fair value of the 3.97% Senior Notes was determined using the U.S. Treasury yield and a long-term credit spread for similar types of borrowings, which represent Level 2 observable inputs.

On October 8, 2020, the Company entered into the sixth amendment to its fifth amended and restated revolving credit agreement with Bank of America (the "Sixth Amendment") and the first amendment to the Note Purchase Agreement with New York Life (the "First NPA Amendment"). The Sixth Amendment maintained the borrowing availability of $1,000,000 along with access to request $200,000 through an accordion feature. The Sixth Amendment and the First NPA Amendment provided for an increase in the Company's maximum ratio of Consolidated Senior Debt, as defined, to Consolidated EBITDA, as defined, from 3.25 times (or, if a certain permitted acquisition above $150,000 is consummated, 3.50 times) to 3.75 times in each case at the end of the four fiscal quarters, beginning with December 31, 2020, and regardless of whether a permitted acquisition, as defined, is consummated, providing additional financing flexibility and access to liquidity. Additionally, the Sixth Amendment requires the Company to maintain a maximum ratio of Consolidated Total Debt, as defined, to Consolidated EBITDA, of not more than 3.75 times in each case, at the end of the four fiscal quarters, beginning with December 31, 2020 and regardless of whether a permitted acquisition, as defined, is consummated. Furthermore, the First NPA Amendment provides for (i) adjustments to the ratio of Consolidated Total Debt, as defined, to Consolidated EBITDA, as defined, to conform to a more restrictive total leverage ratio that may be required under the Amended Credit Agreement, (ii) an increase in the amount of allowable add-back for restructuring charges when calculating Consolidated EBITDA from $15,000 to $25,000 and (iii) a required fee payment equal to 0.50% per annum times the daily outstanding principal amount of the note during each of the four fiscal quarters, following the quarter ended December 31, 2020, if the Company's Senior Leverage Ratio, as defined, exceeds 3.25 times. In October 2020, the Company paid fees and expenses of $1,384 in conjunction with executing the Amendments; such fees have been deferred within Other Assets on the accompanying Consolidated Balance Sheet and are being amortized on the Consolidated Statements of Income.

On February 10, 2021, the Company and certain of its subsidiaries entered into the sixth amended and restated senior unsecured revolving credit agreement (the "Amended Credit Agreement") and retained Bank of America, N.A. as the Administrative Agent for the lenders. The Amended Credit Agreement maintains the $1,000,000 of availability within the facility, while increasing the available borrowings under the accordion feature from $200,000 to $250,000 (aggregate availability of $1,250,000) and extends the maturity date through February 2026. The Amended Credit Agreement also adjusts the interest rate to either the Eurocurrency rate, as defined in the Amended Credit Agreement, plus a margin of 1.175% to 1.775% or the base rate, as defined in the Amended Agreement, plus a margin of 0.175% and 0.775%, depending on the Company's leverage ratio at the time of the borrowing. Multi-currency borrowings, pursuant to the Amended Credit Agreement, bear interest at their respective interbank offered rate (i.e. Euribor) or 0.00% (higher of the two rates) plus a margin of between 1.175% to 1.775%.

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As with the earlier facility, the Company's borrowing capacity is limited by various debt covenants in the Amended Credit Agreement, as described further below. The Amended Credit Agreement requires the Company to maintain a Senior Debt Ratio of not more than 3.75 times at the end of each fiscal quarter ending on or before September 30, 2021, after which the ratio will revert to 3.25 times (or, if a permitted acquisition above $150,000 is consummated, 3.50 times at the end of each of the first four fiscal quarters ending after the consummation of any such acquisition). In addition, the Amended Credit Agreement requires the Company to maintain a Total Debt Ratio of not more than 3.75 for each fiscal quarter (or, if a permitted acquisition above $150,000 is consummated, 4.25 times at the end of each of the first four fiscal quarters ending after the consummation of any such acquisition, however, such increase in the ratio will not be effective during any period prior to October 1, 2021). A ratio of Consolidated EBITDA to Consolidated Cash Interest Expense, as defined, of not less than 4.25, is required at the end of each fiscal quarter. The Company paid fees and expenses of $4,279 in the first quarter of 2021 in conjunction with executing the Amended Credit Agreement; such fees have been deferred within Other assets on the Consolidated Balance and will be amortized into interest expense on the Consolidated Statements of Income through its maturity. Cash used to pay these fees has been recorded through other financing activities on the Consolidated Statements of Cash Flows.

Borrowings and availability under the Amended Credit Agreement were $558,526 and $441,474, respectively, at March 31, 2021 and borrowings and availability under the Sixth Amendment were $593,622 and $406,378, respectively, at December 31, 2020, subject to covenants in the Company's revolving debt agreements. At March 31, 2021, additional borrowings of $142,716 of Total Debt (including $142,716 of Senior Debt) would have been allowed under the financial covenants. The average interest rate on these borrowings was 1.48% and 1.42% on March 31, 2021 and December 31, 2020, respectively. Borrowings included Euro-denominated borrowings of 331,450 Euros ($388,525) at March 31, 2021 and 344,450 Euros ($423,622) at December 31, 2020. The fair value of the borrowings is based on observable Level 2 inputs. The borrowings were valued using discounted cash flows based upon the Company's estimated interest costs for similar types of borrowings.

At March 31, 2021, the Company was in compliance with all applicable covenants. The Company currently anticipates that it will maintain compliance with all of its covenants in the next four quarters while continuing to monitor its future compliance based on current and future economic conditions. The Company's most restrictive financial covenant is the Senior Debt Ratio, which required the Company to maintain a ratio of Consolidated Senior Debt to Consolidated EBITDA of not more than 3.75 times at March 31, 2021. The actual ratio at March 31, 2021 was 3.09 times, as defined.

In addition, the Company has approximately $82,000 in uncommitted short-term bank credit lines ("Credit Lines") and overdraft facilities. The Credit Lines are accessed locally and are available primarily within the U.S., Europe and Asia. The Credit Lines are subject to the applicable borrowing rates within each respective country and vary between jurisdictions (i.e. LIBOR, Euribor, etc.). Under the Credit Lines, $7,500 was borrowed at March 31, 2021 at an average interest rate of 1.09% and $2,100 was borrowed at December 31, 2020 at an average interest rate of 1.10%. The Company had also borrowed $7 and $15 under the overdraft facilities at March 31, 2021 and December 31, 2020, respectively. Repayments under the Credit Lines are due within one month after being borrowed. Repayments of the overdrafts are generally due within two days after being borrowed. The carrying amounts of the Credit Lines and overdrafts approximate fair value due to the short maturities of these financial instruments.

The Company also has several finance leases under which $7,343 and $8,268 was outstanding at March 31, 2021 and December 31, 2020, respectively. The fair value of the finance leases are based on observable Level 2 inputs. These instruments were valued using discounted cash flows based upon the Company's estimated interest costs for similar types of borrowings.

At March 31, 2021 and December 31, 2020, the Company also had other foreign bank borrowings of $197 and $254, respectively. The fair value of the other foreign bank borrowings was based on observable Level 2 inputs. These instruments were valued using discounted cash flows based upon the Company's estimated interest costs for similar types of borrowings.

10. Derivatives

The Company has manufacturing and sales facilities around the world and thus makes investments and conducts business transactions denominated in various currencies. The Company is also exposed to fluctuations in interest rates and commodity price changes. These financial exposures are monitored and managed by the Company as an integral part of its risk management program.

Derivative financial instruments have been used by the Company to hedge its exposure to fluctuations in interest rates. On April 28, 2017, the Company entered into an interest rate swap agreement (the "2017 Swap") with one bank which converts the interest on the first $100,000 of the Company's one-month LIBOR-based borrowings from a variable rate plus the borrowing spread to a fixed rate of 1.92% plus the borrowing spread. The 2017 Swap expires on January 31, 2022. On March 24, 2021, the Company entered into a new interest rate swap agreement (the "2021 Swap") with this same bank that will commence on

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January 31, 2022 and will convert the interest on the first $100,000 of the Company's one-month LIBOR-based borrowings from a variable rate plus the borrowing spread to a fixed rate of 1.17% plus the borrowing spread. The 2021 Swap will expire on January 30, 2026. These interest rate swap agreements (the "Swaps") remained in place at March 31, 2021 and are accounted for as cash flow hedges.

The Company also uses derivative financial instruments to hedge its exposures to fluctuations in foreign currency exchange rates. The Company has various contracts outstanding which primarily hedge recognized assets or liabilities and anticipated transactions in various currencies including the Euro, British pound sterling, U.S. dollar, Canadian dollar, Japanese yen, Singapore dollar, Korean won, Swedish kroner, Chinese renminbi, Mexican peso, Hong Kong dollar and Swiss franc. Certain foreign currency derivative instruments are treated as cash flow hedges of forecasted transactions. All foreign exchange contracts are due within two years.

The Company does not use derivatives for speculative or trading purposes or to manage commodity exposures.

The Company records the derivatives at fair value on the Consolidated Balance Sheets within Prepaid Expenses and Other Current Assets, Other Assets, Accrued Liabilities or Other Liabilities depending on their fair value and remaining contractual period. Changes in the fair market value of derivatives accounted for as cash flow hedges are recorded to accumulated other comprehensive income (loss) and reclassified to earnings in a manner that matches the earnings impact of the hedged transaction. Reclassifications to earnings for the Swaps are recorded through interest expense and reclassifications to earnings for foreign exchange contracts are recorded through net sales. Changes in the fair market value of the foreign exchange contracts that are not designated hedging instruments are recorded directly to earnings through other expense (income), net.

The fair values of derivatives were not material to the Company's Consolidated Balance Sheets as of March 31, 2021 or December 31, 2020. The activity related to the derivatives that have been designated hedging instruments was not material to the Company's Consolidated Financial Statements for the periods ended March 31, 2021 or 2020. The Company recognized losses of $3,302 and $12,195 related to the foreign exchange contracts that are not accounted for as hedging instruments within other expense (income), net, in the Consolidated Statements of Income for the three-month periods ended March 31, 2021 and 2020, respectively. Such losses were substantially offset by net gains recorded on the underlying hedged asset or liability (the "underlying"). Offsetting net gains or losses on the underlying are also recorded within other expense (income), net.

The Company's policy for classifying cash flows from derivatives is to report the cash flows consistent with the underlying hedged item. Other financing cash flows during the three months ended March 31, 2021 and 2020, as presented on the Consolidated Statements of Cash Flows, include $1,567 and $7,212, respectively, of net cash payments related to the settlement of foreign currency hedges related to intercompany financing.

11. Fair Value Measurements

The provisions of the accounting standard for fair value define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This standard classifies the inputs used to measure fair value into the following hierarchy:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 Unadjusted quoted prices in active markets for similar assets or liabilities, or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

Level 3 Unobservable inputs for the asset or liability.

The following table provides the assets and liabilities reported at fair value and measured on a recurring basis:

Description	Total	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2021				
Asset derivatives	$ 441	$ —	$ 441	$ —
Liability derivatives	(3,091)	—	(3,091)	—
Bank acceptances	10,509	—	10,509	—
Rabbi trust assets	3,306	3,306	—	—
Total	$ 11,165	$ 3,306	$ 7,859	$ —
December 31, 2020				
Asset derivatives	$ 1,642	$ —	$ 1,642	$ —
Liability derivatives	(1,988)	—	(1,988)	—
Bank acceptances	13,267	—	13,267	—
Rabbi trust assets	3,233	3,233	—	—
Total	$ 16,154	$ 3,233	$ 12,921	$ —

The derivative contracts are valued using observable current market information as of the reporting date such as the prevailing LIBOR-based interest rates and foreign currency spot and forward rates. Bank acceptances represent financial instruments accepted from certain China-based customers in lieu of cash paid on receivables, generally range from three to six months in maturity and are guaranteed by banks. The carrying amounts of the bank acceptances, which are included within prepaid expenses and other current assets, approximate fair value due to their short maturities. The fair values of rabbi trust assets are based on quoted market prices from various financial exchanges.

12. Pension and Other Postretirement Benefits

Pension and other postretirement benefits expenses consisted of the following:

	Three Months Ended March 31,	
Pensions	**2021**	**2020**
Service cost	$ 1,741	$ 1,649
Interest cost	3,172	3,817
Expected return on plan assets	(6,972)	(7,393)
Amortization of prior service cost	85	80
Amortization of actuarial losses	3,926	3,339
Net periodic benefit cost	$ 1,952	$ 1,492

	Three Months Ended March 31,	
Other Postretirement Benefits	**2021**	**2020**
Service cost	$ 25	$ 22
Interest cost	206	264
Amortization of prior service cost	7	7
Amortization of actuarial losses	70	23
Net periodic benefit cost	$ 308	$ 316

The service cost component of net periodic benefit cost is included within cost of sales and selling and administrative expenses. The components of net periodic benefit cost other than the service cost component are included in Other Income (Expense) on the Consolidated Statements of Income.

13. Income Taxes

The Company's effective tax rate for the first quarter of 2021 was 28.1% compared with 31.5% in the first quarter of 2020 and 37.6% for the full year 2020. The decrease in the first quarter of 2021 effective tax rate from the full year 2020 rate is primarily due to an increase in projected earnings in jurisdictions with lower tax rates, a reduction in tax reserves due to statute of limitations expiration and the absence of tax expense related to the completed sale of the Seeger business in the first quarter of 2020. The tax rate benefits were partially offset by additional expense related to the global intangible low-tax income tax.

The Aerospace and Industrial segments have a number of multi-year tax holidays in Singapore and China. The tax holiday in China expired at the end of 2020. The Company has re-applied for approval of a potential three-year holiday in China which could reduce the tax rate. The Company anticipates notification of a decision on its application for the holiday in the latter half of 2021. These holidays are subject to the Company meeting certain commitments in the respective jurisdictions. Aerospace was granted an income tax holiday for operations recently established in Malaysia. This holiday commenced effective November 2020 and remains effective for a period of ten years from inception.

14. Changes in Accumulated Other Comprehensive Income (Loss) by Component

The following tables set forth the changes in accumulated other comprehensive income (loss), net of tax, by component for the three-month periods ended March 31, 2021 and 2020:

	Gains and Losses on Cash Flow Hedges	Pension and Other Postretirement Benefit Items	Foreign Currency Items	Total
December 31, 2020	$ (757)	$ (142,119)	$ 20,561	$ (122,315)
Other comprehensive (loss) income before reclassifications	(888)	498	(47,882)	(48,272)
Amounts reclassified from accumulated other comprehensive income to the consolidated statements of income	236	3,134	—	3,370
Net current-period other comprehensive (loss) income	(652)	3,632	(47,882)	(44,902)
March 31, 2021	$ (1,409)	$ (138,487)	$ (27,321)	$ (167,217)

	Gains and Losses on Cash Flow Hedges	Pension and Other Postretirement Benefit Items	Foreign Currency Items	Total
December 31, 2019	$ (115)	$ (144,047)	$ (66,333)	$ (210,495)
Other comprehensive (loss) income before reclassifications	(2,879)	1,842	(36,333)	(37,370)
Amounts reclassified from accumulated other comprehensive income to the consolidated statements of income	542	2,639	—	3,181
Net current-period other comprehensive (loss) income	(2,337)	4,481	(36,333)	(34,189)
March 31, 2020	$ (2,452)	$ (139,566)	$ (102,666)	$ (244,684)

The following table sets forth the reclassifications out of accumulated other comprehensive income (loss) by component for the three-month periods ended March 31, 2021 and 2020:

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)		Affected Line Item in the Consolidated Statements of Income
	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020	
Gains and losses on cash flow hedges			
Interest rate contracts	$ (449)	$ (61)	Interest expense
Foreign exchange contracts	128	(523)	Net sales
	(321)	(584)	Total before tax
	85	42	Tax benefit
	(236)	(542)	Net of tax
Pension and other postretirement benefit items			
Amortization of prior service costs	$ (92)	$ (87)	(A)
Amortization of actuarial losses	(3,996)	(3,362)	(A)
	(4,088)	(3,449)	Total before tax
	954	810	Tax benefit
	(3,134)	(2,639)	Net of tax
Total reclassifications in the period	$ (3,370)	$ (3,181)	

(A) These accumulated other comprehensive income (loss) components are included within the computation of net periodic Pension and Other Postretirement Benefits cost. See Note 12.

15. Information on Business Segments

The Company is organized based upon the nature of its products and services and reports under two global business segments: Industrial and Aerospace. Segment information is consistent with how management reviews the businesses, makes investing and resource allocation decisions and assesses operating performance. The Company has not aggregated operating segments for purposes of identifying these two reportable segments.

Industrial is a global provider of highly-engineered, high-quality precision components, products and systems for critical applications serving a diverse customer base in end-markets such as transportation, industrial equipment, automation, personal care, packaging, electronics, and medical devices. Focused on innovative custom solutions, Industrial participates in the design phase of components and assemblies whereby customers receive the benefits of application and systems engineering, new product development, testing and evaluation, and the manufacturing of final products. Products are sold primarily through its direct sales force and global distribution channels. Industrial's Molding Solutions business designs and manufactures customized hot runner systems, advanced mold cavity sensors and process control systems, and precision high cavitation mold assemblies - collectively, the enabling technologies for many complex injection molding applications. The Force & Motion Control business provides innovative cost effective force and motion control solutions for a wide range of metal forming and other industrial markets. The Automation business designs and develops pneumatic robotic grippers, advanced end-of-arm tooling systems, sensors and other automation components for intelligent robotic handling solutions and industrial automation applications. Industrial's Engineered Components business manufactures and supplies precision mechanical products used in transportation and industrial applications, including mechanical springs, and high-precision punched and fine-blanked components.

Aerospace is a global manufacturer of complex fabricated and precision machined components and assemblies for turbine engines, nacelles and structures for both commercial and defense-related aircraft. The Aerospace Aftermarket business provides aircraft engine component maintenance, repair and overhaul ("MRO") services, including services performed under our Component Repair Programs (“CRPs”), for many of the world’s major turbine engine manufacturers, commercial airlines and the defense market. The Aerospace Aftermarket business also manufactures and supplies aerospace aftermarket spare parts, including through revenue sharing programs (“RSPs”) under which the Company receives an exclusive right to supply designated aftermarket parts over the life of specific aircraft engine programs.

The following tables set forth information about the Company's operations by its two reportable segments:

	Three Months Ended March 31,	
	2021	2020
Net sales		
Industrial	$ 219,992	$ 199,100
Aerospace	81,642	131,571
Intersegment sales	(5)	—
Total net sales	$ 301,629	$ 330,671
Operating profit		
Industrial	$ 21,295	$ 17,924
Aerospace	11,085	31,389
Total operating profit	32,380	49,313
Interest expense	3,942	4,324
Other expense (income), net	1,463	1,594
Income before income taxes	$ 26,975	$ 43,395

	March 31, 2021	December 31, 2020
Assets		
Industrial	$ 1,841,248	$ 1,908,389
Aerospace	614,029	623,547
Other [(A)]	144,987	144,290
Total assets	$ 2,600,264	$ 2,676,226

(A) "Other" assets include corporate-controlled assets, the majority of which are cash and cash equivalents and deferred tax assets.

16. Commitments and Contingencies

Product Warranties

The Company provides product warranties in connection with the sale of certain products. From time to time, the Company is subject to customer claims with respect to product warranties. The Company accrues its estimated exposure for warranty claims at the time of sale based upon the length of the warranty period, historical experience and other related information known to the Company. Liabilities related to product warranties and extended warranties were not material as of March 31, 2021 and December 31, 2020.

Litigation

The Company is subject to litigation from time to time in the ordinary course of business and various other suits, proceedings and claims are pending involving the Company and its subsidiaries. The Company records a loss contingency liability when a loss is considered probable and the amount can be reasonably estimated. While it is not possible to determine the ultimate disposition of each of these proceedings and whether they will be resolved consistent with the Company's beliefs, the Company expects that the outcome of such proceedings, individually or in the aggregate, will not have a material adverse effect on financial condition or results of operations.

17. Business Reorganization

In June 2020, the Company announced restructuring and workforce reduction actions ("Actions") to be implemented across its businesses and functions in response to the macroeconomic disruption in global industrial and aerospace end markets arising from COVID-19. During 2020, a resulting pre-tax charge of $19,116 was recorded ($18,158 through operating profit), primarily related to employee severance and termination benefits (recorded largely during the second quarter of 2020). These actions were substantially complete as of December 31, 2020 and reduced the Company's global workforce by approximately

8%. A corresponding liability of $6,715, per below, was included within accrued liabilities as of March 31, 2021. The Company does not expect any additional costs related to the Actions to be significant.

The following table sets forth the change in the liability related to these actions:

December 31, 2020	$	13,151
Payments		(6,436)
March 31, 2021	$	6,715

With respect to the unaudited consolidated financial information of Barnes Group Inc. for the three month period ended March 31, 2021 and 2020, PricewaterhouseCoopers LLP reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate report dated April 30, 2021 appearing herein, states that they did not audit and they do not express an opinion on that unaudited consolidated financial information. Accordingly, the degree of reliance on their report should be restricted in light of the limited nature of the review procedures applied. PricewaterhouseCoopers LLP is not subject to the liability provisions of Section 11 of the Securities Act of 1933, as amended, for their report on the unaudited consolidated financial information because that report is not a "report" or a "part" of the registration statement prepared or certified by PricewaterhouseCoopers LLP within the meaning of Sections 7 and 11 of the Securities Act of 1933, as amended.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Barnes Group Inc.

Results of Review of Interim Financial Information

We have reviewed the accompanying consolidated balance sheet of Barnes Group Inc. and its subsidiaries (the “Company”) as of March 31, 2021, and the related consolidated statements of income, of comprehensive income, and of cash flows for the three-month periods ended March 31, 2021 and 2020, including the related notes (collectively referred to as the “interim financial information”). Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim financial information for it to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of December 31, 2020, and the related consolidated statements of income, of comprehensive income, of changes in stockholders’ equity, and of cash flows for the year then ended (not presented herein), and in our report dated February 22, 2021, which included a paragraph describing a change in the manner of accounting for leases in the 2019 financial statements, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet information as of December 31, 2020, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Basis for Review Results

This interim financial information is the responsibility of the Company’s management. 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 review in accordance with the standards of the PCAOB. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the PCAOB, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

/s/ PricewaterhouseCoopers LLP

Hartford, Connecticut
April 30, 2021

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

Please refer to the Overview in the Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Annual Report on Form 10-K for the year ended December 31, 2020. The Annual Report on Form 10-K and other documents related to the Company are located on the Company's website: www.bginc.com.

First Quarter Highlights

The Company reported net sales of $301.6 million in the first quarter of 2021, a decrease of $29.0 million or 8.8%, from the first quarter of 2020. Organic sales decreased by $34.3 million, or 10.4%, including a decrease of $49.9 million, or 37.9% at Aerospace, partially offset by an increase of $15.6 million, or 7.8%, at Industrial. On a sequential basis relative to the fourth quarter of 2020, sales increased 4.1%. The year-over-year decrease at Aerospace is driven largely by a volume decline resulting from the impacts of the COVID-19 pandemic (see below). Industrial end markets continued to recover during the first quarter of 2021, benefiting sales volumes accordingly, although lingering signs of COVID-19 remain. The Company completed the sale of its Seeger business on February 1, 2020, reducing sales by $5.0 million during the first quarter of 2021 relative to the prior year period. The weakening of the U.S. dollar against foreign currencies increased net sales within the Industrial segment by approximately $10.3 million. Operating margins decreased from 14.9% in the 2020 period to 10.7% in the current period, largely a result of the profit impact of lower sales volumes, partially offset by productivity and cost initiatives including workforce reductions, as well as reductions in overtime and discretionary spending initiatives.

Impact of COVID-19

The COVID-19 pandemic has resulted in a disruption in business activities worldwide and caused weakened economic conditions, both in the United States and abroad. Beginning during the first quarter of 2020, COVID-19 had a significant impact on order rates within Industrial and, on a more targeted basis, Aerospace end-markets. Financial conditions worsened during the second quarter of 2020. End markets and order activity have since improved within both segments. Industrial sales volumes and order rates strengthened during the first quarter of 2021, while the Aerospace Aftermarket businesses, although sequentially higher, remain impacted given lower passenger traffic and the removal of aircraft from service. Management anticipates continued sales pressure within the Aerospace Original Equipment Manufacturing ("OEM") business as certain aircraft programs have been and continue to be delayed. COVID-19 may continue to have further negative impacts on the Company's operations, customers and supply chain despite preventative measures taken.

The Company currently maintains sufficient liquidity and remained in compliance with all debt covenants as of March 31, 2021, and anticipates continued compliance in each of the next four quarters. The Company does not currently anticipate requiring any additional debt facilities. Given the current environment, the Company continues to closely monitor its cash generation, usage and preservation including the management of working capital to generate cash. To better align costs with the current business environment, the Company has taken several actions in earlier periods, which include restructuring and workforce reductions (the "Actions"). Resulting pre-tax charges of $18.2 million were recorded through operating profit in 2020 (primarily during the second quarter of 2020). See Note 17. Certain other cost savings initiatives (including those resulting from the Actions) remain in place, allowing the Company to partially offset the operating profit impacts of lower sales volumes during the current period.

RESULTS OF OPERATIONS

Net Sales

	Three Months Ended March 31,			
(in millions)	2021	2020	Change	
Industrial	$ 220.0	$ 199.1	$ 20.9	10.5 %
Aerospace	81.6	131.6	(49.9)	(37.9)%
Total	$ 301.6	$ 330.7	$ (29.0)	(8.8)%

The Company reported net sales of $301.6 million in the first quarter of 2021, a decrease of $29.0 million or 8.8%, from the first quarter of 2020. Organic sales decreased by $34.3 million, or 10.4%, including a decrease of $49.9 million at Aerospace, partially offset by an increase of $15.6 million at Industrial. Sales at Industrial and Aerospace reflected sequential improvements of approximately 5% and 2%, respectively, in the first quarter of 2021, as compared with the fourth quarter of 2020. The year-over-year decrease at Aerospace was driven by declines in sales within both the OEM and Aftermarket businesses, resulting primarily from a global slowdown in aerospace markets, and more specifically a resultant decline in aircraft utilization and the removal of aircraft from service by certain airlines. From an Industrial standpoint, end markets improved on both a year-over-year and sequential basis, with sales and order improvements in each of the businesses. Medical end markets in which the Company participates remain strong from a year-over-year orders standpoint, although sales have declined relative to the comparative 2020 period. General industrial markets demonstrated significant strength in the current quarter, with both sales and order improvement on a year-over-year and sequential basis. Auto production rates continued to improve during the 2021 period, although pressures resulting from semiconductor shortages continue to impact near-term automotive production. The Automation business experienced organic sales growth during the current period given further expansion into end markets. The Company completed the sale of its Seeger business on February 1, 2020, reducing sales by $5.0 million during the first quarter of 2021 relative to the prior year period. The weakening of the U.S. dollar against foreign currencies increased net sales within the Industrial segment by approximately $10.3 million.

Expenses and Operating Income

	Three Months Ended March 31,			
(in millions)	2021	2020	Change	
Cost of sales	$ 194.7	$ 208.2	$ (13.6)	(6.5)%
% sales	64.5 %	63.0 %		
Gross profit [(1)]	$ 106.9	$ 122.4	$ (15.5)	(12.7)%
% sales	35.5 %	37.0 %		
Selling and administrative expenses	$ 74.6	$ 73.1	$ 1.4	2.0 %
% sales	24.7 %	22.1 %		
Operating income	$ 32.4	$ 49.3	$ (16.9)	(34.3)%
% sales	10.7 %	14.9 %		

(1) Sales less cost of sales.

Cost of sales in the first quarter of 2021 decreased 6.5% from the 2020 period and gross profit margin decreased from 37.0% in the 2020 period to 35.5% in the 2021 period. Gross margins declined at Aerospace, and to a lesser extent, at Industrial. At Industrial, gross profit increased primarily as a result of the profit contribution of increased sales volumes, combined with cost savings initiatives discussed above, including workforce reductions. Within Aerospace, lower volumes within the maintenance repair and overhaul and spare parts businesses, in particular, contributed to declines in both gross profit and gross margin during the first quarter of 2021. Selling and administrative expenses in the first quarter of 2021 increased 2.0% from the 2020 period due primarily to an increase in employee related costs, including incentive compensation at Industrial. Partially offsetting this increase were the cost benefits of productivity and cost initiatives that included workforce reductions and discretionary spending initiatives. As well, the first quarter of 2020 included $2.4 million of divestiture charges related to the completion of the Seeger sale. As a percentage of sales, selling and administrative costs increased from 22.1% in the first quarter of 2020 to 24.7% in the 2021 period. Operating income in the first quarter of 2021 decreased by 34.3% to $32.4 million compared with the first quarter of 2020 and operating income margin decreased from 14.9% to 10.7%, primarily driven by the items above.

Interest expense
Interest expense decreased by $0.4 million in the first quarter of 2021 as compared with the prior year period, primarily a result of decreased average borrowings, partially offset by a higher interest rate.

Other expense (income), net
Other expense (income), net in the first quarter of 2021 was $1.5 million compared to $1.6 million in the first quarter of 2020.

Income Taxes
The Company's effective tax rate for the first quarter of 2021 was 28.1% compared with 31.5% in the first quarter of 2020 and 37.6% for the full year 2020. The decrease in the first quarter of 2021 effective tax rate from the full year 2020 rate is primarily due to an increase in projected earnings in jurisdictions with lower tax rates, a reduction in tax reserves due to statute of limitations expiration and the absence of tax expense related to the completion sale of the Seeger business in the first quarter of 2020. The tax rate benefits were partially offset by additional expense related to the global intangible low-tax income tax.

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The Aerospace and Industrial segments have a number of multi-year tax holidays in Singapore and China. The tax holiday in China expired at the end of 2020. The Company has re-applied for approval of a potential three-year holiday in China which could reduce the tax rate. The Company anticipates notification of a decision on its application for the holiday in the latter half of 2021. These holidays are subject to the Company meeting certain commitments in the respective jurisdictions. Aerospace was granted an income tax holiday for operations recently established in Malaysia. This holiday commenced effective November 2020 and remains effective for a period of ten years from inception.

Income and Income per Share

	Three Months Ended March 31,			
(in millions, except per share)	2021	2020	Change	
Net income	$ 19.4	$ 29.7	$ (10.4)	(34.8)%
Net income per common share:				
Basic	$ 0.38	$ 0.58	$ (0.20)	(34.5)%
Diluted	0.38	0.58	(0.20)	(34.5)%
Weighted average common shares outstanding:				
Basic	50.9	51.1	(0.1)	(0.2)%
Diluted	51.1	51.5	(0.4)	(0.8)%

Basic and diluted net income per common share decreased for the three-month period as compared to 2020 due to a decrease in net income year over year. Basic weighted average common shares outstanding decreased due to the repurchase of 396,000 shares during 2020 as part of the Company's publicly announced Repurchase Program. The impact of the repurchased shares was partially offset by the issuance of additional shares for employee stock plans. Diluted weighted average common shares outstanding decreased due to the decrease in basic weighted average common shares outstanding as well as a decrease in the dilutive effect of potentially issuable shares.

Financial Performance by Business Segment

Industrial

	Three Months Ended March 31,			
(in millions)	2021	2020	Change	
Sales	$ 220.0	$ 199.1	$ 20.9	10.5 %
Operating profit	21.3	17.9	3.4	18.8 %
Operating margin	9.7 %	9.0 %		

Sales at Industrial were $220.0 million in the first quarter of 2021, a $20.9 million, or 10.5% increase from the first quarter of 2020. Organic sales increased by $15.6 million, or 7.8%, during the 2021 period, driven by improved volumes across the businesses. On a sequential basis, Industrial sales increased by approximately 5% in the first quarter of 2021 relative to the fourth quarter of 2020, providing indications of a continued recovery within our end markets. Industrial end markets improved, although certain effects of COVID-19 lingered. Strong volumes and order rates continued within our medical markets, consistent with this market trend throughout the pandemic. Auto production rates continued to improve during the 2021 period, though were slightly tempered by semiconductor shortages that continue to impact near-term automotive production. The release of certain orders related to automotive model changes, earlier deferred by customers due to economic uncertainty, provided benefit to Industrial during the first quarter of 2021. The Automation business saw organic sales growth during the current period, continuing signs of strength beginning during the third quarter of 2020. Orders within the personal care and packaging markets began to improve during the back end of 2020, with strength within personal care orders continuing into 2021, reflecting the release of some previously deferred projects. The Company completed the sale of its Seeger business in February 2020, reducing sales by $5.0 million during the first quarter of 2021 relative to the prior year period. Foreign currency increased sales by approximately $10.3 million as the U.S. dollar weakened against foreign currencies.

The operating profit in the first quarter of 2021 at Industrial was $21.3 million, an increase of $3.4 million from first quarter operating profit of $17.9 million in 2020. Operating profit benefited from the profit contribution of increased organic sales

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volumes and the continued benefits of cost initiatives that were taken in earlier periods, including workforce reductions and discretionary spending initiatives. These benefits were partially offset by an increase in employee related costs, including incentive compensation, and investments into innovation. Operating margin increased from 9.0% in the 2020 period to 9.7% in the 2021 period, driven primarily by the items described above.

Outlook: In Industrial, management remains focused on generating organic sales growth through the introduction of new products and services and by leveraging the benefits of its diversified products and global industrial end-markets, however our end markets continue to recover from the impacts of COVID-19 and related supply chain constraints. Markets within our key regions of China, Europe and North America have begun to show signs of recovery as order rates have improved further during the first quarter of 2021, however some level of uncertainty remains within certain of our end-markets. General industrial end markets have recently shown significant improvement and a continuation is anticipated as the broader economy recovers. For overall industrial end-markets, the manufacturing Purchasing Managers' Index ("PMI") are above 50 in all regions. PMI within the United States and Europe have continued to improve during 2021, with slight deterioration in China since the end of the year. All regions remain above 50, with particular strength in the U.S. and certain regions within Europe (above 60). Global forecasted production for light vehicles has also remained strong within the Europe, China and North America markets, a positive sign for our businesses. Production, however, has recently come under pressure due to semiconductor shortages that are expected to impact near-term automotive builds, tempering overall strength within the transportation markets during the first quarter of 2021. Management also continues to track closely the impact of pricing changes and lead times on raw materials. Within our Molding Solutions business, global medical markets remain healthy and are expected to remain favorable given the recent demands of COVID-19, an aging population and expanded medical applications. The automotive hot runner and tool and die markets continue to improve following the release of projects with automotive original equipment manufacturers related to model launches, including new electric vehicles. Orders within the packaging market have improved on a year-over-year basis, however proposed environmental regulations affecting product and packaging composition and disposability may impact future sales within these end markets. Automation end-markets continue to trend positively with increased order activity as we enter 2021 and we look to expand further into adjacent end-markets. Overall industrial end-markets may be impacted by uncertainty related to current and potential future tariffs. As noted above, our sales were positively impacted by $10.3 million from fluctuations in foreign currencies. To the extent that the U.S. dollar fluctuates relative to other foreign currencies, our sales may be impacted relative to the prior year periods. The relative impact on operating profit is not expected to be as significant as the impact on sales as most of our businesses have expenses primarily denominated in local currencies, where their revenues reside, however operating margins may be impacted. Management is focused on sales growth through innovation, acquisition and expanding geographic reach. Strategic investments in new technologies, manufacturing processes and product development are expected to provide benefits over the long term and management continues to evaluate such opportunities.

The Company is focused on the proactive management of costs to mitigate any residual impacts of COVID-19 on operating profit. Management also remains focused on strategic investments and new product and process introductions, as well as driving productivity by leveraging the Barnes Enterprise System ("BES"). Cost saving initiatives taken include the workforce reductions described above, in addition to discretionary spending initiatives. The Company continues to manage its cost structure to align with the intake of orders and sales given some level of remaining uncertainty within certain end-markets as we progress through 2021. Management will continue to explore opportunities for additional cost savings, while working closely with vendors and customers as it relates to the timing of deliveries and pricing initiatives. It is anticipated that operating profit will continue to be impacted by changes in sales volume noted above, mix and pricing, freight costs and the levels of short-term investments made within each of the Industrial businesses. Operating profit may also be impacted by enactment of or changes in tariffs, trade agreements and trade policies that may affect the cost, lead times and/or availability of goods, including but not limited to, aluminum and steel. Costs associated with new product and process introductions, restructuring and other cost initiatives, strategic investments and the integration of acquisitions may negatively impact operating profit.

Aerospace

	Three Months Ended March 31,			
(in millions)	**2021**	**2020**	**Change**	
Sales	$ 81.6	$ 131.6	$ (49.9)	(37.9)%
Operating profit	11.1	31.4	(20.3)	(64.7)%
Operating margin	13.6 %	23.9 %		

The Aerospace segment reported sales of $81.6 million in the first quarter of 2021, a 37.9% decrease from the first quarter of 2020. Sales declined within both the Aerospace OEM and Aftermarket businesses relative to the 2020 period. On a sequential basis, however,

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Aerospace sales improved modestly by approximately 2% in the first quarter of 2021 relative to the fourth quarter of 2020. The sales mix within the businesses varied on a sequential basis, as OEM sales remained flat and Aftermarket sales improved by approximately 10% relative to the fourth quarter of 2020. The year-over-year decline in OEM sales was driven by COVID-19, which continued to impact the broader aerospace industry as the Company entered 2021. OEM sales, more specifically, continued to experience the impact of earlier reductions in engine and airframe build schedules, in addition to higher levels of inventory within the supply chain. The order schedules of our OEM customers began to stabilize during the first quarter of 2021. Sales within the Aftermarket Maintenance Repair and Overhaul ("MRO") and spare parts businesses also declined during the first quarter of 2021 on a year-over-year basis as airline traffic and aircraft utilization severely declined relative to the first quarter of 2020 given the removal of aircraft from service by airlines. Sequentially, however, the MRO business showed signs of a gradual recovery during the first quarter of 2021 as the distribution of vaccines increased, certain domestic health and travel restrictions were lifted and passenger traffic improved. Sales within the segment are largely denominated in U.S. dollars and therefore were not significantly impacted by changes in foreign currency.

Operating profit at Aerospace in the first quarter of 2021 decreased 64.7% from the first quarter of 2020 to $11.1 million. The operating profit decrease resulted from the profit impact of lower volumes within each of the businesses, as discussed above, partially offset by productivity and cost savings initiatives including reductions in workforce, reduced overtime and discretionary spending initiatives. Government incentives in certain non-U.S. regions also benefited operating margins. Operating margin decreased from 23.9% in the 2020 period to 13.6% in the 2021 period primarily as a result of lower demand across the businesses.

Outlook: Sales in the Aerospace OEM business are based on the general state of the aerospace market driven by the worldwide economy and are supported by its order backlog through participation in certain strategic commercial and defense-related engine and airframe programs. OEM sales and orders grew modestly in 2021 relative to the second half of 2020 and management anticipates gradual order improvement in the latter half of 2021 as customer schedules continue to normalize, albeit at lower levels. The Company expects, however, that the OEM business will continue to see lingering softness in demand for its manufactured components as aircraft production rates at Boeing and Airbus have been reduced. The duration and depth of the aerospace market disruptions remain uncertain at this time, however a recovery to pre-pandemic levels is expected to take several years. Aerospace management continues to work with customers to evaluate engine and airframe build schedules, giving management the ability to react timely to such changes. Management is also working closely with suppliers to align raw material schedules with production requirements. Management remains focused on executing long-term agreements while expanding our share of production on key programs. Backlog at OEM was $600.2 million at March 31, 2021, an increase of 4.9% since December 31, 2020, at which time backlog was $572.0 million. The recent trend of improved OEM orders would support a continued increase in OEM backlog as we enter 2021, as noted above, however backlog may also decline as Aerospace customers adjust orders based on their changing aircraft production schedules. Approximately 45% of OEM backlog is currently scheduled to ship in the next 12 months. If COVID-19 continues to have a material impact on the aviation industry, including our more significant OEM customers, it will continue to materially affect our Aerospace business and results of operations. The Aerospace OEM business may also be impacted by changes in the content levels on certain platforms, changes in customer sourcing decisions, adjustments to customer inventory levels, commodity availability and pricing, vendor sourcing capacity and the use of alternate materials. Additional impacts may include the redesign of parts, quantity of parts per engine, cost schedules agreed to under contract with the engine and airframe manufacturers, as well as the pursuit and duration of new programs.

COVID-19 continues to impact our Aerospace Aftermarket businesses. Significantly reduced aircraft utilization, increased levels of aircraft removed from service, and reduced airline profitability are expected to continue to negatively impact our business in the mid-term. The Aftermarket business has, however, showed signs of a gradual recovery during the first quarter as domestic passenger traffic improved, the distribution of vaccines increased and certain domestic health and travel restrictions were lifted. Sales in the Aerospace Aftermarket business may continue to be impacted by inventory management and changes in customer sourcing, deferred or limited maintenance activity during engine shop visits and the use of surplus (used) material during the engine repair and overhaul process. Management believes that its Aerospace Aftermarket business continues to be competitively positioned based on well-established long-term customer relationships, including maintenance and repair contracts in the MRO business and long-term Revenue Sharing Programs ("RSPs") and Component Repair Programs ("CRPs"). The MRO business may also be impacted by airlines that closely manage their aftermarket costs as engine performance and quality improves. Fluctuations in fuel costs and their impact on airline profitability and behaviors within the aerospace industry could also impact levels and frequency of aircraft maintenance and overhaul activities, and airlines' decisions on maintaining, deferring or canceling new aircraft purchases, in part based on the economics associated with new fuel efficient technologies.

Given the recent pressures on sales growth resulting from COVID-19, the Company remains focused on the proactive management of costs as it takes action to mitigate continued pressure on operating profit. Cost saving initiatives taken include the workforce reductions and lower overtime described above, in addition to discretionary spending initiatives. Although taken in the prior year, these actions were critical in partially offsetting the lower profit contribution of lower sales in the current

period. Aerospace will continue to explore opportunities for additional cost savings throughout 2021, including working closely with vendors and customers as it relates to the timing of deliveries and pricing initiatives. Management also remains focused on strategic investments and new product and process introductions. Driving productivity through the application of the Barnes Enterprise System continues as a key initiative. Operating profit is expected to be affected by the impact of the changes in sales volume noted above, mix and pricing, particularly as they relate to the higher profit Aftermarket RSP spare parts business, and investments made in each of its businesses. Operating profits may also be impacted by potential changes in tariffs, trade agreements and trade policies that may affect the cost and/or availability of goods. Costs associated with new product and process introductions, the physical transfer of work to other global regions, additional productivity initiatives and restructuring activities may also negatively impact operating profit.

LIQUIDITY AND CAPITAL RESOURCES

Management assesses the Company's liquidity in terms of its overall ability to generate cash to fund its operating and investing activities. Of particular importance in the management of liquidity are cash flows generated from operating activities, capital expenditure levels, dividends, capital stock transactions, effective utilization of surplus cash positions overseas and adequate lines of credit. The Company currently maintains sufficient liquidity and will continue to evaluate ways to enhance its liquidity position as it navigates through the disrupted business environment that has resulted from COVID-19.

The Company believes that its ability to generate cash from operations in excess of its internal operating needs is one of its financial strengths. Management continues to focus on cash flow and working capital management, and anticipates that operating activities in 2021 will generate sufficient cash to fund operations. Given the recent global market disruptions caused by COVID-19, the Company is closely monitoring its cash generation, usage and preservation including the management of working capital to generate cash. The Company does not currently anticipate requiring any additional debt facilities. See additional discussion regarding currently available debt facilities below.

To better align costs with the current business environment, the Company has taken several actions. During 2020, the Company announced the Actions that were taken across the businesses and functions in response to the macroeconomic disruption in global industrial and aerospace end markets. A resulting pre-tax charge of $18.2 million was recorded through operating profit during the second quarter of 2020 (Note 17), primarily related to employee severance and other termination benefits. The Actions were substantially completed in 2020 and reduced the Company’s global workforce by approximately 8%. The Company continues to invest within its businesses, with its estimate of 2021 capital spending to be approximately $50 million.

In October 2014, the Company entered into a Note Purchase Agreement (“Note Purchase Agreement”), among the Company and New York Life Insurance Company, New York Life Insurance and Annuity Corporation and New York Life Insurance and Annuity Corporation Institutionally Owned Life Insurance Separate Account, as purchasers, for the issuance of $100.0 million aggregate principal amount of 3.97% senior notes due October 17, 2024 (the “3.97% Senior Notes”). The 3.97% Senior Notes are senior unsecured obligations of the Company and pay interest semi-annually on April 17 and October 17 of each year at an annual rate of 3.97%. The 3.97% Senior Notes will mature on October 17, 2024 unless earlier prepaid in accordance with their terms. Subject to certain conditions, the Company may, at its option, prepay all or any part of the 3.97% Senior Notes in an amount equal to 100% of the principal amount of the 3.97% Senior Notes so prepaid, plus any accrued and unpaid interest to the date of prepayment, plus the Make-Whole Amount, as defined in the Note Purchase Agreement, with respect to such principal amount being prepaid. The Note Purchase Agreement contains customary affirmative and negative covenants that are similar to the covenants required under the Amended Credit Agreement, as discussed below. At March 31, 2021, the Company was in compliance with all covenants under the Note Purchase Agreement.

On October 8, 2020, the Company entered into the sixth amendment to its fifth amended and restated revolving credit agreement with Bank of America (the “Sixth Amendment”) and the first amendment to the Note Purchase Agreement with New York Life (the “First NPA Amendment”). The Sixth Amendment maintained the borrowing availability of $1,000,000 along with access to request $200,000 through an accordion feature. The Sixth Amendment and the First NPA Amendment provided for an increase in the Company’s maximum ratio of Consolidated Senior Debt, as defined, to Consolidated EBITDA, as defined, from 3.25 times (or, if a certain permitted acquisition above $150.0 million is consummated, 3.50 times) to 3.75 times in each case at the end of the four fiscal quarters, beginning with December 31, 2020, and regardless of whether a permitted acquisition, as defined, is consummated, providing additional financing flexibility and access to liquidity. Additionally, the Sixth Amendment requires the Company to maintain a maximum ratio of Consolidated Total Debt, as defined, to Consolidated EBITDA, of not more than 3.75 times in each case, at the end of the four fiscal quarters, beginning with December 31, 2020 and regardless of whether a permitted acquisition, as defined, is consummated. Furthermore, the First NPA Amendment provides for (i) adjustments to the ratio of Consolidated Total Debt, as defined, to Consolidated EBITDA, as defined, to conform to a more restrictive total leverage ratio that may be required under the Amended

Credit Agreement, (ii) an increase in the amount of allowable add-back for restructuring charges when calculating Consolidated EBITDA from $15,000 to $25,000 and (iii) a required fee payment equal to 0.50% per annum times the daily outstanding principal amount of the note during each of the four fiscal quarters, following the quarter ended December 31, 2020, if the Company's Senior Leverage Ratio, as defined, exceeds 3.25 times. In October 2020, the Company paid fees and expenses of $1,384 in conjunction with executing the Amendments; such fees have been deferred within Other Assets on the accompanying Consolidated Balance Sheet and are being amortized on the Consolidated Statements of Income.

On February 10, 2021, the Company and certain of its subsidiaries entered into the sixth amended and restated senior unsecured revolving credit agreement (the "Amended Credit Agreement") and retained Bank of America, N.A. as the Administrative Agent for the lenders. The Amended Credit Agreement maintains the $1,000.0 million of availability within the facility, while increasing the available borrowings under the accordion feature from $200.0 million to $250.0 million (aggregate availability of $1,250.0 million) and extends the maturity date through February 2026. The Amended Credit Agreement also adjusts the interest rate to either the Eurocurrency rate, as defined in the Amended Credit Agreement, plus a margin of 1.175% to 1.775% or the base rate, as defined in the Amended Agreement, plus a margin of 0.175% and 0.775%, depending on the Company's leverage ratio at the time of the borrowing. Multi-currency borrowings, pursuant to the Amended Credit Agreement, bear interest at their respective interbank offered rate (i.e. Euribor) or 0.00% (higher of the two rates) plus a margin of between 1.175% to 1.775%. As with the earlier facility, the Company's borrowing capacity is limited by various debt covenants in the Amended Credit Agreement, as described further below. The Amended Credit Agreement requires the Company to maintain a Senior Debt Ratio of not more than 3.75 times at the end of each fiscal quarter ending on or before September 30, 2021, after which the ratio will revert to 3.25 times (or, if a permitted acquisition above $150.0 million is consummated, 3.50 times at the end of each of the first four fiscal quarters ending after the consummation of any such acquisition). In addition, the Amended Credit Agreement requires the Company to maintain a Total Debt Ratio of not more than 3.75 for each fiscal quarter (or, if a permitted acquisition above $150.0 million is consummated, 4.25 times at the end of each of the first four fiscal quarters ending after the consummation of any such acquisition, however, such increase in the ratio will not be effective during any period prior to October 1, 2021. A ratio of Consolidated EBITDA to Consolidated Cash Interest Expense, as defined, of not less than 4.25, is required at the end of each fiscal quarter. The Amended Credit Agreement also contemplates the potential replacement of LIBOR (as defined below) with a successor financing rate, pursuant to the intent of the United Kingdom's Financial Conduct Authority to phase out use of LIBOR. See additional discussion immediately below regarding the Company's ongoing evaluation related to this potential change in financing rates. The Company paid fees and expenses of $4.3 million in conjunction with executing the Amended Credit Agreement; such fees will be deferred within Other assets on the Consolidated Balance Sheets and will be amortized into interest expense on the Consolidated Statements of Income through its maturity.

The United Kingdom's Financial Conduct Authority, which regulates the London Interbank Offered Rate ("LIBOR"), announced its intent to phase out the use of LIBOR by the end of 2021. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, a steering committee comprised of large U.S. financial institutions, identified the Secured Overnight Financing Rate ("SOFR") as its preferred benchmark alternative to U.S. dollar LIBOR. Published by the Federal Reserve Bank of New York, SOFR represents a measure of the cost of borrowing cash overnight, collateralized by U.S. Treasury securities, and is calculated based on directly observable U.S. Treasury-backed repurchase transactions. The Company's Amended Credit Agreement and corresponding interest rate Swap are tied to LIBOR, with each maturing in February 2026, as noted above. The Company is continuing to monitor the potential impact of the replacement of LIBOR, but does not anticipate a material impact on our business, financial condition, results of operations and cash flows.

At March 31, 2021, the Company was in compliance with all applicable covenants. The Company anticipates continued compliance under the Agreements in each of the next four quarters. The Company's most restrictive financial covenant is the Senior Debt Ratio, which required the Company to maintain a ratio of Consolidated Senior Debt to Consolidated EBITDA of not more than 3.75 times at March 31, 2021. The actual ratio at March 31, 2021 was 3.09 times, as defined.

Management suspended share repurchase activity during 2020 as a result of COVID-19, and therefore no shares were repurchased during the first quarter of 2021. Going forward, management may resume share repurchase activity based on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. See "Part II - Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds".

Operating cash flow may be supplemented with external borrowings to meet near-term business expansion needs and the Company's current financial commitments. The Company has assessed its credit facilities in conjunction with the Amended Credit Facility and currently expects that its bank syndicate, comprised of 12 banks, will continue to support its recently executed Amended Credit Agreement which matures in February 2026. At March 31, 2021, the Company had $441.5 million unused and available for borrowings under its $1,000.0 million Amended Credit Facility, subject to covenants in the Company's revolving debt agreements. At March 31, 2021, additional borrowings of $142.7 million of Total Debt including $142.7 million of Senior Debt would have been allowed under the financial covenants. The Company intends to use borrowings under its Amended Credit Agreement to support the Company's ongoing growth initiatives as the Company continues to analyze potential acquisition targets and end markets that meet our strategic criteria with an emphasis on proprietary, highly-engineered industrial technologies. The Company believes its credit facilities and access to capital markets, coupled with cash generated from operations, are adequate for its anticipated future requirements. The Company has not drawn on its debt agreements as a result of COVID-19, as it believes the availability of those funds are not at risk given the strength of the underlying bank syndicate. The Company maintains communication with its bank syndicate as it continues to monitor its cash requirements.

The Company had $7.5 million in borrowings under short-term bank credit lines at March 31, 2021.

On April 28, 2017, the Company entered into an interest rate swap agreement (the "2017 Swap") with one bank which converts the interest on the first $100.0 million of the Company's one-month LIBOR-based borrowings from a variable rate plus the borrowing spread to a fixed rate of 1.92% plus the borrowing spread. The 2017 Swap expires on January 31, 2022. On March 24, 2021, the Company entered into a new interest rate swap agreement (the "2021 Swap") with this same bank that will commence on January 31, 2022 and will convert the interest on the first $100,000,000 of the Company's one-month LIBOR-based borrowings from a variable rate plus the borrowing spread to a fixed rate of 1.17% plus the borrowing spread. The 2021 Swap will expire on January 30, 2026. These interest rate swap agreements (the "Swaps") remained in place at March 31, 2021 and are accounted for as cash flow hedges. At March 31, 2021, the Company's total borrowings were comprised of approximately 31% fixed rate debt and 69% variable rate debt. At December 31, 2020, the Company's total borrowings were comprised of approximately 30% fixed rate debt and 70% variable rate debt.

The Company completed the sale of the Seeger business to KNG effective February 1, 2020. Gross proceeds received were 39.0 million Euros ($42.9 million) after consideration of post-closing adjustments, which were made during the fourth quarter of 2020, pursuant to the terms of the SPA. The Company yielded net cash proceeds of $36.1 million after consideration of cash sold and transaction costs. Resulting tax charges of $4.2 million were recognized in the first quarter of 2020 following the completion of the sale. The Company utilized the proceeds from the sale to reduce debt under the Amended Credit Facility.

At March 31, 2021, the Company held $84.9 million in cash and cash equivalents, the majority of which was held by foreign subsidiaries. These amounts have no material regulatory or contractual restrictions and are expected to primarily fund international investments.

The Company currently does not plan to make any additional discretionary contributions to its U.S. Qualified pension plans in 2021, however approximately $4.7 million is expected to be made into its U.S. Non-qualified and international pension plans throughout 2021.

Cash Flow

	Three Months Ended March 31,		
(in millions)	**2021**	**2020**	**Change**
Operating activities	$ 35.6	$ 47.2	$ (11.6)
Investing activities	(4.0)	25.2	(29.2)
Financing activities	(24.4)	(43.6)	19.1
Exchange rate effect	(2.3)	(3.1)	0.8
Increase in cash	$ 4.8	$ 25.6	$ (20.8)

Operating activities provided $35.6 million in the first three months of 2021 compared to $47.2 million in the first three months of 2020. Operating cash flows in the 2021 period included cash provided by working capital of $1.6 million compared to cash used by working capital of $1.9 million in the 2020 period, which was driven by growth in inventory.

Investing activities used $4.0 million in the first three months of 2021 and generated $25.2 million in the first three months of 2020. Net cash proceeds of $36.9 million from the sale of the Seeger business were included in investing activities for the 2020 period. See Note 2 of the Consolidated Financial Statements. Investing activities in the 2021 period included capital expenditures of $7.9 million compared to $11.9 million in the 2020 period. The Company expects capital spending in 2021 to approximate $50 million.

Financing activities in the first three months of 2021 included a net decrease in borrowings of $10.6 million compared to $12.7 million in the comparable 2020 period. During the first three months of 2020, the Company repurchased 0.4 million shares of the Company's stock at a cost of $15.6 million. No shares were repurchased during the first quarter of 2021. Total cash used to

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pay dividends was $8.1 million in the 2021 period and the 2020 period. Other financing cash flows during the first three months of 2021 and 2020 include $1.6 million and $7.2 million, respectively, of net cash payments resulting from the settlement of foreign currency hedges related to intercompany financing.

The Company maintains borrowing facilities with banks to supplement internal cash generation. At March 31, 2021, $558.5 million was borrowed at an average interest rate of 1.48% under the Company's $1,000.0 million Amended Credit Facility which matures in February 2026. In addition, as of March 31, 2021, the Company had $7.5 million in borrowings under short-term bank credit lines. At March 31, 2021, the Company's total borrowings were comprised of 31% fixed rate debt and 69% variable rate debt. The interest payments on $100.0 million of the variable rate interest debt have been converted into payment of fixed interest plus the borrowing spread under the terms of the respective interest rate swaps that were executed in April 2017 and March 2021.

Debt Covenants

As noted above, borrowing capacity is limited by various debt covenants in the Company's debt agreements. Following is a reconciliation of Consolidated EBITDA, a key metric in the debt covenants, to the Company's net income (in millions):

	Four Fiscal Quarters Ended March 31, 2021	
Net income	$	53.0
Add back:		
Interest expense		15.6
Income taxes		32.1
Depreciation and amortization		87.2
Adjustment for non-cash stock based compensation		10.0
Workforce reduction and restructuring charges (see Note 17)		19.5
Other adjustments		0.4
Consolidated EBITDA, as defined within the Amended Credit Agreement	$	217.7
Consolidated Senior Debt, as defined, as of March 31, 2021	$	673.6
Ratio of Consolidated Senior Debt to Consolidated EBITDA		3.09
Maximum		3.75
Consolidated Total Debt, as defined, as of March 31, 2021	$	673.6
Ratio of Consolidated Total Debt to Consolidated EBITDA		3.09
Maximum		3.75
Consolidated Cash Interest Expense, as defined, as of March 31, 2021	$	15.6
Ratio of Consolidated EBITDA to Consolidated Cash Interest Expense		13.99
Minimum		4.25

The Amended Credit Agreement allows for certain adjustments within the calculation of the financial covenants. Other adjustments consist primarily of due diligence and transaction expenses as permitted under the Amended Credit Agreement. The Company's financial covenants are measured as of the end of each fiscal quarter. At March 31, 2021, additional borrowings of $142.7 million of Senior Debt would have been allowed under the covenants. Additional borrowings for Total Debt would also have been limited to $142.7 million at March 31, 2021. Senior Debt includes primarily the borrowings under the Amended Credit Agreement, the 3.97% Senior Notes and the borrowings under the lines of credit. The Company's unused committed credit facilities at March 31, 2021 were $441.5 million; however, the borrowing capacity was limited by the debt covenants to $142.7 million at March 31, 2021.

OTHER MATTERS

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant accounting policies are disclosed in Note 1 of the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2020. The most significant areas involving management judgments and estimates are described in Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Annual Report on Form 10-K for the year ended December 31, 2020. Actual results could differ from those estimates. There have been no material changes to such judgments and estimates.

EBITDA

Earnings before interest expense, income taxes, and depreciation and amortization ("EBITDA") for the first three months of 2021 was $52.9 million compared to $71.3 million in the first three months of 2020. EBITDA is a measurement not in accordance with generally accepted accounting principles (“GAAP”). The Company defines EBITDA as net income plus interest expense, income taxes, and depreciation and amortization which the Company incurs in the normal course of business. The Company does not intend EBITDA to represent cash flows from operations as defined by GAAP, and the reader should not consider it as an alternative to net income, net cash provided by operating activities or any other items calculated in accordance with GAAP, or as an indicator of the Company's operating performance. The Company's definition of EBITDA may not be comparable with EBITDA as defined by other companies. The Company believes EBITDA is commonly used by financial analysts and others in the industries in which the Company operates and, thus, provides useful information to investors. Accordingly, the calculation has limitations depending on its use.

Following is a reconciliation of EBITDA to the Company's net income (in millions):

	Three Months Ended March 31,	
	2021	2020
Net income	$ 19.4	$ 29.7
Add back:		
Interest expense	3.9	4.3
Income taxes	7.6	13.7
Depreciation and amortization	22.0	23.6
EBITDA	$ 52.9	$ 71.3

FORWARD-LOOKING STATEMENTS

Certain of the statements in this quarterly report contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements often address our expected future operating and financial performance and financial condition, and often contain words such as "anticipate," "believe," "expect," "plan," "estimate," "project," "continue," "will," "should," and similar terms. These forward-looking statements do not constitute guarantees of future performance and are subject to a variety of risks and uncertainties that may cause actual results to differ materially from those expressed in the forward-looking statements. These include, among others: difficulty maintaining relationships with employees, customers, distributors, suppliers, business partners or governmental entities; failure to successfully negotiate collective bargaining agreements or potential strikes, work stoppages or other similar events; difficulties leveraging market opportunities; changes in market demand for our products and services; rapid technological and market change; the ability to protect and avoid infringing upon intellectual property rights; introduction or development of new products or transfer of work; higher risks in global operations and markets; the impact of intense competition; acts of terrorism, cybersecurity attacks or intrusions that could adversely impact our businesses; the impacts of the COVID-19 pandemic on our business, including on demand, supply chains, operations and our ability to maintain sufficient liquidity throughout the unknown duration and severity of the pandemic; the failure to achieve anticipated cost savings and benefits associated with workforce reductions and restructuring actions; uncertainties relating to conditions in financial markets; currency fluctuations and foreign currency exposure; future financial performance of the industries or customers that we serve; our dependence upon revenues and earnings from a small number of significant customers; a major loss of customers; inability to realize expected sales or profits from existing backlog due to a range of factors, including changes in customer sourcing decisions, material changes, production schedules and volumes of specific programs; the impact of government budget and funding decisions; government tariffs, trade agreements and trade policies; the impact of new or revised tax laws and regulations; the adoption of laws, directives or regulations that impact the materials processed by our products or their end markets; changes in raw material or product prices and availability; the continuing impact of prior acquisitions and divestitures; and any other future strategic actions, including acquisitions, divestitures, restructurings, or strategic business realignments, and our ability to achieve the financial and operational targets set in connection with any such actions; the ability to achieve social and environmental performance goals; the outcome of pending and future legal, governmental, or regulatory proceedings and contingencies; product liabilities and

uninsured claims; future repurchases of common stock; future levels of indebtedness; and numerous other matters of a global, regional or national scale, including those of a political, social, economic, business, competitive, environmental, regulatory and public health nature; and other risks and uncertainties described in documents filed with or furnished to the Securities and Exchange Commission ("SEC") by the Company, including, among others, those in the Management's Discussion and Analysis of Financial Condition and Results of Operations and Risk Factors sections of the Company's filings. The Company assumes no obligation to update its forward-looking statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For discussion of the Company's exposure to market risk, refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2020. There have been no material changes to such risk during the quarter ended March 31, 2021.

Item 4. Controls and Procedures

Management, including the Company's President and Chief Executive Officer and Interim Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based upon, and as of the date of, our evaluation, the President and Chief Executive Officer and Interim Chief Financial Officer concluded that the disclosure controls and procedures were effective, in all material respects and designed to provide reasonable assurance that information required to be disclosed in the reports the Company files and submits under the Securities Exchange Act of 1934, as amended, is (i) recorded, processed, summarized and reported as and when required and (ii) is accumulated and communicated to the Company's management, including our President and Chief Executive Officer and Interim Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting during the Company's first quarter of 2021 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are subject to litigation from time to time in the ordinary course of business and various other suits, proceedings and claims are pending against us and our subsidiaries. While it is not possible to determine the ultimate disposition of each of these proceedings and whether they will be resolved consistent with our beliefs, we expect that the outcome of these proceedings, individually or in the aggregate, will not have a material adverse effect on our consolidated financial position, cash flows or results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid Per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs[2]
January 1-31, 2021	903	$ 53.86	—	3,704,000
February 1-28, 2021	172	$ 52.08	—	3,704,000
March 1-31, 2021	194	$ 55.52	—	3,704,000
Total	1,269 (1)	$ 53.87	—	

(1) All acquisitions of equity securities during the first quarter of 2021 were the result of the operation of the terms of the Company's stockholder-approved equity compensation plans and the terms of the equity rights granted pursuant to those plans to pay for the related income tax upon issuance of shares. The purchase price of a share of stock used for tax withholding is the market price on the date of issuance.

(2) At March 31, 2019, 1.5 million shares of common stock had not been purchased under the publicly announced Repurchase Program (the "Program"). On April 25, 2019, the Board of Directors of the Company increased the number of shares authorized for repurchase under the Program by 3.5 million shares of common stock (5.0 million authorized, in total). The Program permits open market purchases, purchases under a Rule 10b5-1 trading plan and privately negotiated transactions.

Item 6. Exhibits

Exhibit 10.1	Form of Barnes Group Inc. Stock and Incentive Award Plan Performance Share Award Summary of Grant and Performance Share Award Agreement for Officers and Other Individuals as Designated by the Compensation and Management Development Committee dated as of February 11, 2021.
Exhibit 10.2	Offer Letter to Lukas Hovorka, dated February 12, 2021.
Exhibit 15	Letter regarding unaudited interim financial information.
Exhibit 31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 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.
Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document.
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
Exhibit 101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Barnes Group Inc.
(Registrant)

Date: April 30, 2021

/s/ MARIAN ACKER

Marian Acker
Interim Chief Financial Officer
(Principal Financial Officer)
and Vice President, Controller
(Principal Accounting Officer)

EXHIBIT INDEX

Barnes Group Inc.

Quarterly Report on Form 10-Q
For the Quarter ended March 31, 2021

Exhibit No.	Description	Reference
10.1	Form of Barnes Group Inc. Stock and Incentive Award Plan Performance Share Award Summary of Grant and Performance Share Award Agreement for Officers and Other Individuals as Designated by the Compensation and Management Development Committee dated as of February 11, 2021.	Filed with this report.
10.2	Offer Letter to Lukas Hovorka, dated February 12, 2021.	Filed with this report.
15	Letter regarding unaudited interim financial information.	Filed with this report.
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed with this report.
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed with this report.
32	Certification pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Furnished with this report.
Exhibit 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 with this report.
Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document.	Filed with this report.
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.	Filed with this report.
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Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.	Filed with this report.

UCC-108

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2021
OR

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

For the transition period from to

Commission file number 1-4801

BARNES GROUP INC.
(Exact name of registrant as specified in its charter)

Delaware	**06-0247840**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

123 Main Street
Bristol
Connecticut **06010**
(Address of Principal Executive Offices) (Zip Code)

(860) 583-7070
Registrant's telephone number, including area code

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

Title of Each Class	Trading Symbol	Name of Each Exchange on Which Registered
Common Stock, par value $0.01 per share	B	New York Stock Exchange

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 check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§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, smaller reporting company, or an emerging growth company. See the 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 is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

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The registrant had outstanding 50,575,323 shares of common stock as of July 28, 2021.

Barnes Group Inc.
Index to Form 10-Q
For the Quarterly Period Ended June 30, 2021

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. See "FORWARD-LOOKING STATEMENTS" under Part I - Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Quarterly Report on Form 10-Q.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

BARNES GROUP INC.
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands, except per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	**2020**	**2021**	**2020**
Net sales	$ 321,158	$ 235,537	$ 622,787	$ 566,207
Cost of sales	203,168	147,058	397,864	355,306
Selling and administrative expenses	79,447	78,364	154,000	151,472
	282,615	225,422	551,864	506,778
Operating income	38,543	10,115	70,923	59,429
Interest expense	4,475	3,898	8,416	8,223
Other expense (income), net	1,272	1,060	2,734	2,654
Income before income taxes	32,796	5,157	59,773	48,552
Income taxes	8,305	4,590	15,900	18,252
Net income	$ 24,491	$ 567	$ 43,873	$ 30,300
Per common share:				
Basic	$ 0.48	$ 0.01	$ 0.86	$ 0.60
Diluted	0.48	0.01	0.86	0.59
Weighted average common shares outstanding:				
Basic	50,933,222	50,764,575	50,933,373	50,912,854
Diluted	51,102,303	51,008,922	51,095,198	51,200,967

See accompanying notes.

BARNES GROUP INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Net income	$ 24,491	$ 567	$ 43,873	$ 30,300
Other comprehensive income (loss), net of tax				
Unrealized gain (loss) on hedging activities, net of tax (1)	102	811	(550)	(1,526)
Foreign currency translation adjustments, net of tax (2)	21,596	20,256	(26,286)	(16,077)
Defined benefit pension and other postretirement benefits, net of tax (3)	2,893	(4,023)	6,525	458
Total other comprehensive income (loss), net of tax	24,591	17,044	(20,311)	(17,145)
Total comprehensive income	$ 49,082	$ 17,611	$ 23,562	$ 13,155

(1) Net of tax of $31 and $269 for the three months ended June 30, 2021 and 2020, respectively, and $(153) and $(554) for the six months ended June 30, 2021 and 2020, respectively.

(2) Net of tax of $0 and $0 for the three months ended June 30, 2021 and 2020, respectively, and $0 and $(66) for the six months ended June 30, 2021 and 2020, respectively.

(3) Net of tax of $992 and $(1,198) for the three months ended June 30, 2021 and 2020, respectively, and $2,061 and $(388) for the six months ended June 30, 2021 and 2020, respectively.

See accompanying notes.

BARNES GROUP INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share data)
(Unaudited)

	June 30, 2021	December 31, 2020
Assets		
Current assets		
Cash and cash equivalents	$ 91,134	$ 79,145
Accounts receivable, less allowances (2021 - $6,208; 2020 - $6,348)	260,203	251,460
Inventories	235,537	238,008
Prepaid expenses and other current assets	77,795	73,732
Total current assets	664,669	642,345
Deferred income taxes	21,899	22,092
Property, plant and equipment	912,206	910,378
Less accumulated depreciation	(554,803)	(539,431)
	357,403	370,947
Goodwill	986,061	1,011,580
Other intangible assets, net	534,836	564,132
Other assets	62,003	65,130
Total assets	$ 2,626,871	$ 2,676,226
Liabilities and Stockholders' Equity		
Current liabilities		
Notes and overdrafts payable	$ 14	$ 2,115
Accounts payable	124,458	112,428
Accrued liabilities	180,978	178,560
Long-term debt - current	1,983	2,276
Total current liabilities	307,433	295,379
Long-term debt	654,483	699,868
Accrued retirement benefits	93,633	98,171
Deferred income taxes	76,507	91,668
Long-term tax liability	52,114	59,063
Other liabilities	52,308	49,400
Commitments and contingencies (Note 16)		
Stockholders' equity		
Common stock - par value $0.01 per share Authorized: 150,000,000 shares Issued: at par value (2021 - 64,199,988 shares; 2020 - 64,171,321 shares)	642	642
Additional paid-in capital	507,354	501,531
Treasury stock, at cost (2021 - 13,633,675 shares; 2020 - 13,530,074 shares)	(522,412)	(516,992)
Retained earnings	1,547,435	1,519,811
Accumulated other non-owner changes to equity	(142,626)	(122,315)
Total stockholders' equity	1,390,393	1,382,677
Total liabilities and stockholders' equity	$ 2,626,871	$ 2,676,226

See accompanying notes.

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BARNES GROUP INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Six Months Ended June 30,	
	2021	**2020**
Operating activities:		
Net income	$ 43,873	$ 30,300
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	44,683	45,258
Gain on disposition of property, plant and equipment	(76)	(111)
Stock compensation expense	5,632	5,798
Seeger divestiture charges	—	6,620
Changes in assets and liabilities, net of the effects of divestitures:		
Accounts receivable	(12,660)	89,426
Inventories	89	(32,551)
Prepaid expenses and other current assets	(3,473)	(6,607)
Accounts payable	13,880	(12,401)
Accrued liabilities	1,721	2,581
Deferred income taxes	(5,101)	(5,417)
Long-term retirement benefits	889	(2,730)
Long-term tax liability	(6,949)	—
Other	3,213	3,028
Net cash provided by operating activities	85,721	123,194
Investing activities:		
Proceeds from disposition of property, plant and equipment	136	230
Proceeds from the sale of businesses, net of cash sold	—	36,879
Capital expenditures	(17,567)	(19,800)
Other	2,924	—
Net cash (used) provided by investing activities	(14,507)	17,309
Financing activities:		
Net change in other borrowings	(2,184)	(2,167)
Payments on long-term debt	(56,502)	(189,370)
Proceeds from the issuance of long-term debt	25,000	75,000
Proceeds from the issuance of common stock	210	350
Common stock repurchases	(5,229)	(15,550)
Dividends paid	(16,194)	(16,205)
Withholding taxes paid on stock issuances	(191)	(137)
Other	(3,477)	(3,531)
Net cash used by financing activities	(58,567)	(151,610)
Effect of exchange rate changes on cash flows	(1,252)	(1,722)
Increase (decrease) in cash, cash equivalents and restricted cash	11,395	(12,829)
Cash, cash equivalents and restricted cash at beginning of period	91,468	93,805
Cash, cash equivalents and restricted cash at end of period	102,863	80,976
Less: Restricted cash, included in Prepaid expenses and other current assets	(6,970)	—
Less: Restricted cash, included in Other assets	(4,759)	(6,738)
Cash and cash equivalents at end of period	$ 91,134	$ 74,238

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See accompanying notes.

BARNES GROUP INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All dollar amounts included in the notes are stated in thousands except per share data)
(Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated balance sheet and the related unaudited consolidated statements of income, comprehensive income and cash flows have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. The consolidated financial statements do not include all information and notes required by accounting principles generally accepted in the United States of America for complete financial statements. The balance sheet as of December 31, 2020 has been derived from the 2020 financial statements of Barnes Group Inc. (the "Company"). For additional information, please refer to the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020. In the opinion of management, all adjustments, including normal recurring accruals considered necessary for a fair statement of the results, have been included. Operating results for the six-month period ended June 30, 2021 are not necessarily indicative of the results that may be expected for the year ending December 31, 2021. Certain reclassifications have been made to prior year amounts to conform to current year presentation.

The COVID-19 pandemic ("COVID-19") has resulted in a disruption in business activities worldwide and has caused weakened economic conditions, both in the United States and abroad. COVID-19 has had, and may continue to have, a significant negative impact on the Company's ongoing operations and the end markets in which it serves. The Company has assessed the impacts that COVID-19 has had on its accounting estimates, assumptions and disclosures.

2. Divestiture

On December 20, 2019, the Company entered into a Share Purchase and Transfer Agreement ("SPA") with the Kajo Neukirchen Group ("KNG") to sell the Seeger business, consisting of partnership interests and shares, respectively, of Seeger-Orbis GmbH & Co. OHG and Seeger-Orbis Mechanical Components (Tianjin) Co., Ltd. ("Seeger") for 42,500 Euros, subject to certain adjustments. The Company completed the sale of the Seeger business to KNG effective February 1, 2020. Gross proceeds received were 38,964 Euros ($42,915) after consideration of post-closing adjustments, which were made during the fourth quarter of 2020, pursuant to the terms of the SPA. The Company yielded net cash proceeds of $36,062 after consideration of cash sold and transaction costs. Resulting tax charges of $4,211 were recognized in the first quarter of 2020 following the completion of the sale. Divestiture charges of $2,409 resulted from the completion of the sale and were recorded within Selling and Administrative expenses on the Consolidated Statements of Income in the quarter ended March 31, 2020.

The Company utilized the proceeds from the sale to reduce debt under the Amended Credit Agreement. Pursuant to the SPA, 6,000 Euros of the proceeds were placed in escrow and will be released through 2024, pending any potential settlement of claims. Cash related to a pending claim would remain in escrow until a final determination of the claim has been made. The Company has recorded the restricted cash in Prepaid Expenses and Other Current Assets and Other Assets (non-current) as of June 30, 2021.

3. Recent Accounting Standards

The Financial Accounting Standards Board ("FASB") establishes changes to accounting principles under U.S. GAAP through the use of Accounting Standards Updates ("ASUs") to the FASB's Accounting Standards Codification. The Company evaluates the applicability and potential impacts of recent ASUs on its Consolidated Financial Statements and related disclosures.

Recently Adopted Accounting Standards

In June 2016, the FASB amended its guidance related to credit losses on financial instruments. The amended guidance requires the use of a methodology of estimation that reflects expected credit losses on certain types of financial instruments, including trade receivables, as a replacement to the current methodology, which estimates losses based on incurred credit losses. This expected credit loss methodology requires that the Company consider a broader range of information when estimating credit losses on receivables. The amended guidance was effective for fiscal years, and interim periods within those years, beginning after December 15, 2019. The Company adopted this amended guidance and applicable FASB updates related to the guidance during the first quarter of 2020 and it did not have a material impact on the Company's Consolidated Financial Statements.

In December 2019, the FASB amended its guidance related to income taxes. The amended guidance simplifies the accounting for income taxes, eliminating certain exceptions to the general income tax principles, in an effort to reduce the cost and complexity of application. The amended guidance is effective for annual periods beginning after December 15, 2020, and interim periods within those reporting periods. Early adoption is permitted in any interim or annual period. The guidance requires application on either a prospective, retrospective or modified retrospective basis, contingent on the income tax exception being applied. The Company has adopted this guidance, on a prospective basis, on January 1, 2021 and it did not have a material impact on the Company's Consolidated Financial Statements.

Recently Issued Accounting Standards

The United Kingdom's Financial Conduct Authority, which regulates the London Interbank Offered Rate ("LIBOR"), announced its intent to phase out the use of LIBOR by the end of 2021. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, a steering committee comprised of large U.S. financial institutions, identified the Secured Overnight Financing Rate ("SOFR") as its preferred benchmark alternative to U.S. dollar LIBOR. Published by the Federal Reserve Bank of New York, SOFR represents a measure of the cost of borrowing cash overnight, collateralized by U.S. Treasury securities, and is calculated based on directly observable U.S. Treasury-backed repurchase transactions. In March 2020, in response to this transition, the FASB issued guidance related to this rate reform, which provides optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships and other transactions that reference LIBOR or another reference rate expected to be discontinued by reference rate reform, and addresses operational issues likely to arise in modifying contracts to replace discontinued reference rates with new rates. In January 2021, the FASB issued further clarifying guidance regarding derivatives, as it relates to this transition. The guidance is effective through December 31, 2022. The Company's Amended Credit Agreement (Note 9) and corresponding interest rate Swaps (Note 10) are tied to LIBOR, with each maturing in February 2026. The Company is continuing to monitor the potential impact of the replacement of LIBOR, but does not anticipate a material impact on our business, financial condition, results of operations or cash flows.

4. Revenue

The Company is a global provider of highly engineered products, differentiated industrial technologies, and innovative solutions, serving a wide range of end markets and customers. Its specialized products and services are used in far-reaching applications including aerospace, transportation, manufacturing, automation, healthcare and packaging.

Revenue is recognized by the Company when control of the product or solution is transferred to the customer. Control is generally transferred when products are shipped or delivered to customers, title is transferred, and the significant risks and rewards of ownership have transferred, and the Company has rights to payment and rewards of ownership pass to the customer. Customer acceptance may also be a factor in determining whether control of the product has transferred. Although revenue is generally transferred at a point in time, a certain portion of the Company's businesses with customized products or contracts in which the Company performs work on customer-owned assets requires the use of an over time recognition model as certain contracts meet one or more of the established criteria pursuant to the accounting guidance. Also, service revenue is recognized as control transfers, which is concurrent with the services being performed.

The following table presents the Company's revenue disaggregated by products and services, and geographic regions, by segment:

	Three Months Ended June 30, 2021			Three Months Ended June 30, 2020		
	Industrial	**Aerospace**	**Total Company**	**Industrial**	**Aerospace**	**Total Company**
Products and Services						
Engineered Components Products	$ 45,429	$ —	$ 45,429	$ 25,961	$ —	$ 25,961
Molding Solutions Products	122,612	—	122,612	93,779	—	93,779
Force & Motion Control Products	48,321	—	48,321	34,646	—	34,646
Automation Products	18,311	—	18,311	10,643	—	10,643
Aerospace Original Equipment Manufacturer Products	—	60,985	60,985	—	44,617	44,617
Aerospace Aftermarket Products and Services	—	25,500	25,500	—	25,891	25,891
	$ 234,673	$ 86,485	$ 321,158	$ 165,029	$ 70,508	$ 235,537
Geographic Regions [A]						
Americas	$ 93,001	$ 65,638	$ 158,639	$ 53,911	$ 47,627	$ 101,538
Europe	90,094	13,263	103,357	68,351	14,440	82,791
Asia	50,746	7,096	57,842	41,763	7,537	49,300
Rest of World	832	488	1,320	1,004	904	1,908
	$ 234,673	$ 86,485	$ 321,158	$ 165,029	$ 70,508	$ 235,537

	Six Months Ended June 30, 2021			Six Months Ended June 30, 2020		
	Industrial	**Aerospace**	**Total Company**	**Industrial**	**Aerospace**	**Total Company**
Products and Services						
Engineered Components Products	$ 93,715	$ —	$ 93,715	$ 73,668	$ —	$ 73,668
Molding Solutions Products	231,159	—	231,159	191,185	—	191,185
Force & Motion Control Products	93,978	—	93,978	74,437	—	74,437
Automation Products	35,808	—	35,808	24,838	—	24,838
Aerospace Original Equipment Manufacturer Products	—	116,513	116,513	—	126,323	126,323
Aerospace Aftermarket Products and Services	—	51,614	51,614	—	75,756	75,756
	$ 454,660	$ 168,127	$ 622,787	$ 364,128	$ 202,079	$ 566,207
Geographic Regions [A]						
Americas	$ 175,896	$ 124,647	$ 300,543	$ 134,555	$ 140,205	$ 274,760
Europe	178,768	27,414	206,182	150,215	39,603	189,818
Asia	97,506	14,743	112,249	77,256	19,233	96,489
Rest of World	2,490	1,323	3,813	2,102	3,038	5,140
	$ 454,660	$ 168,127	$ 622,787	$ 364,128	$ 202,079	$ 566,207

(A) Sales by geographic region are based on the location to which the product is shipped.

Revenue from products and services transferred to customers at a point in time accounted for approximately 80 percent of total revenue for the three and six month periods ended June 30, 2021, and approximately 80 percent and 85 percent of total revenue for the three and six month periods ended June 30, 2020, respectively. A majority of revenue within the Industrial segment and Aerospace Original Equipment Manufacturer business ("OEM"), along with a portion of revenue within the Aerospace

Aftermarket Products and Services business ("Aftermarket"), is recognized at a point in time, primarily when the product or solution is shipped to the customer.

Revenue from products and services transferred to customers over-time accounted for approximately 20 percent of total revenue for the three and six month periods ended June 30, 2021, and approximately 20 percent and 15 percent for the three and six month periods ended June 30, 2020, respectively. The Company recognizes revenue over-time in instances where a contract supports a continual transfer of control to the customer. Substantially all of our revenue in the Aerospace maintenance repair and overhaul business (within Aftermarket Products and Services) and a portion of the revenue for Engineered Components products, Molding Solutions products and Aerospace OEM products is recognized over-time. Within the Molding Solutions and Aerospace Aftermarket businesses, this continual transfer of control to the customer results from repair and refurbishment work performed on customer-controlled assets. With other contracts, this continual transfer of control to the customer is supported by clauses in the contract, or governing commercial law for the relevant jurisdiction, where we deliver products that do not have an alternative use and require an enforceable right to payment of costs incurred (plus a reasonable profit) or the Company has a contractual right to complete any work in process and receive full contract price.

The majority of our revenues are from contracts that are for less than one year, however certain Aerospace OEM and Molding Solutions business contracts extend beyond one year. In the Industrial segment, customers are typically OEMs or suppliers to OEMs and, in some businesses, distributors. In the Aerospace segment, customers include commercial airlines, OEMs and other aircraft and defense-related parts and service providers.

A performance obligation represents a promise within a contract to provide a distinct good or service to the customer. Revenue is recognized in an over-time model 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 utilizes the cost-to-cost measure of progress for over-time contracts as we believe this measure best depicts the transfer of control to the customer, which occurs as we incur costs on contracts.

Adjustments to net sales, cost of sales and the related impact to operating income are recognized as necessary in the period they become known. Revenue recognized from performance obligations satisfied in previous periods was not material in both the three and six month periods ended June 30, 2021 and 2020.

Contract Balances. The timing of revenue recognition, invoicing and cash collections affect accounts receivable, unbilled receivables (contract assets) and customer advances and deposits (contract liabilities) on the Consolidated Balance Sheets.

Unbilled Receivables (Contract Assets) - Pursuant to the over-time revenue recognition model, revenue may be recognized prior to the customer being invoiced. An unbilled receivable is recorded to reflect revenue that is recognized when 1) the cost-to-cost method is applied and 2) such revenue exceeds the amount invoiced to the customer. Unbilled receivables are included within Prepaid Expenses and Other Current Assets on the Consolidated Balance Sheets as of June 30, 2021 and December 31, 2020.

Customer Advances and Deposits (Contract Liabilities) - The Company may receive a customer advance or deposit, or have an unconditional right to receive a customer advance, prior to revenue being recognized. Certain contracts within the Molding Solutions business, for example, may require such advances. Since the performance obligations related to such advances may not have been satisfied, a contract liability is established. An offsetting asset of equal amount is recorded as an account receivable until the advance is collected. Advances and deposits are included within Accrued Liabilities on the Consolidated Balance Sheets until the respective revenue is recognized. Advance payments are not considered a significant financing component as they are generally received less than one year before the customer solution is completed. These assets and liabilities are reported on the Consolidated Balance Sheets on an individual contract basis at the end of each reporting period.

Net contract assets (liabilities) consisted of the following:

	June 30, 2021	December 31, 2020	$ Change	% Change
Unbilled receivables (contract assets)	$ 36,362	$ 33,009	$ 3,353	10 %
Contract liabilities	(30,781)	(39,865)	9,084	(23)%
Net contract assets (liabilities)	$ 5,581	$ (6,856)	$ 12,437	NM

NM - Not Meaningful

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Contract liabilities balances at June 30, 2021 and December 31, 2020 include $10,693 and $12,750, respectively, of customer advances for which the Company has an unconditional right to collect payment. Accounts receivable, as presented on the Consolidated Balance Sheet, include corresponding balances at June 30, 2021 and December 31, 2020, respectively.
Changes in the net contract asset during the six-month period ended June 30, 2021 included a $9,084 decrease in contract liabilities, driven primarily by revenue recognized in the current period, partially offset by new customer advances and deposits. Adding to this net contract assets increase was a $3,353 increase in contract assets, driven primarily by contract progress (i.e. unbilled receivable), partially offset by earlier contract progress being invoiced to the customer.

The Company recognized approximately 15% and 55% of the revenue related to the contract liabilities balance as of December 31, 2020 during the three- and six- months ended June 30, 2021, respectively, and approximately 15% and 50% of the revenue related to the contract liabilities balance as of December 31, 2019 during the three and six months ended June 30, 2020, respectively, primarily representing revenue from the sale of molds and hot runners within the Molding Solutions business.

Remaining Performance Obligations. The Company has elected to disclose remaining performance obligations only for contracts with an original duration of greater than one year. Such remaining performance obligations represent the transaction price of firm orders for which work has not yet been performed and, for Aerospace, excludes projections of components and assemblies that Aerospace OEM customers anticipate purchasing in the future under existing programs, which represent orders that are beyond lead time and do not represent performance obligations pursuant to accounting guidance. As of June 30, 2021, the aggregate amount of the transaction price allocated to remaining performance obligations was $178,261. The Company expects to recognize revenue on approximately 70% of the remaining performance obligations over the next 12 months, with the remainder to be recognized within 24 months.

5. Stockholders' Equity

A schedule of consolidated changes in equity for the six months ended June 30, 2021 is as follows (number of shares in thousands):

	Common Stock (Number of Shares)	Common Stock (Amount)	Additional Paid-In Capital	Treasury Stock (Number of Shares)	Treasury Stock (Amount)	Retained Earnings	Accumulated Other Non-Owner Changes to Equity	Total Stockholders' Equity
December 31, 2020	64,171	$ 642	$ 501,531	13,530	$ (516,992)	$ 1,519,811	$ (122,315)	$ 1,382,677
Comprehensive income	—	—	—	—	—	19,382	(44,902)	(25,520)
Dividends declared ($0.16 per share)	—	—	—	—	—	(8,104)	—	(8,104)
Employee stock plans	12	—	2,406	1	(68)	(24)	—	2,314
March 31, 2021	64,183	$ 642	$ 503,937	13,531	$ (517,060)	$ 1,531,065	$ (167,217)	$ 1,351,367
Comprehensive income	—	—	—	—	—	24,491	24,591	49,082
Dividends declared ($0.16 per share)	—	—	—	—	—	(8,090)	—	(8,090)
Common stock repurchases	—	—	—	100	(5,229)	—	—	(5,229)
Employee stock plans	17	—	3,417	3	(123)	(31)	—	3,263
June 30, 2021	64,200	$ 642	$ 507,354	13,634	$ (522,412)	$ 1,547,435	$ (142,626)	$ 1,390,393

A schedule of consolidated changes in equity for the six months ended June 30, 2020 is as follows (number of shares in thousands):

	Common Stock (Number of Shares)	Common Stock (Amount)	Additional Paid-In Capital	Treasury Stock (Number of Shares)	Treasury Stock (Amount)	Retained Earnings	Accumulated Other Non-Owner Changes to Equity	Total Stockholders' Equity
December 31, 2019	63,873	$ 639	$ 489,282	13,051	$ (498,074)	$ 1,489,176	$ (210,495)	$ 1,270,528
Comprehensive income	—	—	—	—	—	29,733	(34,189)	(4,456)
Dividends declared ($0.16 per share)	—	—	—	—	—	(8,133)	—	(8,133)
Common stock repurchases	—	—	—	396	(15,550)	—	—	(15,550)
Employee stock plans	17	—	2,743	2	(84)	(88)	—	2,571
March 31, 2020	63,890	$ 639	$ 492,025	13,449	$ (513,708)	$ 1,510,688	$ (244,684)	$ 1,244,960
Comprehensive income	—	—	—	—	—	567	17,044	17,611
Dividends declared ($0.16 per share)	—	—	—	—	—	(8,072)	—	(8,072)
Employee stock plans	14	—	3,394	1	(53)	(134)	—	3,207
June 30, 2020	63,904	$ 639	$ 495,419	13,450	$ (513,761)	$ 1,503,049	$ (227,640)	$ 1,257,706

6. Net Income Per Common Share

For the purpose of computing diluted net income per common share, the weighted-average number of common shares outstanding is increased for the potential dilutive effects of stock-based incentive plans. For the purpose of computing diluted net income per common share, the weighted-average number of common shares outstanding was increased by 169,081 and 244,347 for the three- month periods ended June 30, 2021 and 2020, respectively, and by 161,825 and 288,113 for the six month periods ended June 30, 2021 and 2020, respectively.

The calculation of weighted-average diluted shares outstanding excludes all shares that would have been anti-dilutive. During the three month periods ended June 30, 2021 and 2020, the Company excluded 503,078 and 525,738 stock awards, respectively, from the calculation of weighted-average diluted shares outstanding as the stock awards were considered anti-dilutive. During the six month periods ended June 30, 2021 and 2020, the Company excluded 512,598 and 469,732 stock awards, respectively, from the calculation of weighted-average diluted shares outstanding as the stock awards were considered anti-dilutive.

The Company granted 144,000 stock options, 104,029 restricted stock unit awards and 99,155 performance share awards ("PSAs") in February 2021 as part of its annual long-term incentive equity grant awards. All of the stock options and the restricted stock unit awards vest upon meeting certain service conditions. The restricted stock unit awards are included in basic weighted-average common shares outstanding as they contain nonforfeitable rights to dividend payments. The PSAs are part of the long-term Performance Share Award Program and are based on performance goals that are driven by a combination of independently measured metrics (depending on the grant year) with each metric being weighted equally. The metrics for awards granted in 2021 include the Company's total shareholder return ("TSR"), return on invested capital ("ROIC") and operating income before depreciation and amortization growth ("EBITDA growth"). The TSR and EBITDA growth metrics are designed to assess the long-term Company performance relative to the performance of companies included in the Russell 2000 Index over a three-year performance period. ROIC is designed to assess the Company's performance compared to pre-established Company targets over a three-year performance period. The participants can earn from zero to 250% of the target award and the award includes a forfeitable right to dividend equivalents, which are not included in the aggregate target award numbers. The fair value of the TSR is determined using a Monte Carlo valuation method as the award contains a market condition.

7. Inventories

The components of inventories consisted of:

	June 30, 2021	December 31, 2020
Finished goods	$ 85,640	$ 79,833
Work-in-process	69,403	76,542
Raw material and supplies	80,494	81,633
	$ 235,537	$ 238,008

8. Goodwill and Other Intangible Assets

Goodwill:
The following table sets forth the change in the carrying amount of goodwill for each reportable segment and for the Company as of and for the period ended June 30, 2021:

	Industrial	Aerospace	Total Company
December 31, 2020	$ 980,794	$ 30,786	$ 1,011,580
Foreign currency translation	(25,519)	—	(25,519)
June 30, 2021	$ 955,275	$ 30,786	$ 986,061

In the second quarter of 2021, management performed its annual impairment testing of goodwill and determined that there was no goodwill impairment.

Other Intangible Assets:

Other intangible assets consisted of:

		June 30, 2021		December 31, 2020	
	Range of Life -Years	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Amortized intangible assets:					
Revenue Sharing Programs (RSPs)	Up to 30	$ 299,500	$ (146,870)	$ 299,500	$ (143,209)
Component Repair Programs (CRPs)	Up to 30	111,839	(32,756)	111,839	(30,869)
Customer relationships	10-16	338,366	(129,112)	338,366	(118,752)
Patents and technology	4-11	123,433	(81,843)	123,433	(77,311)
Trademarks/trade names	10-30	10,949	(10,487)	10,949	(10,377)
Other	Up to 15	10,746	(4,929)	10,746	(4,580)
		894,833	(405,997)	894,833	(385,098)
Unamortized intangible assets:					
Trade names		55,670	—	55,670	—
Foreign currency translation		(9,670)	—	(1,273)	—
Other intangible assets		$ 940,833	$ (405,997)	$ 949,230	$ (385,098)

Estimated amortization of intangible assets for future periods is as follows: 2021 (remainder) - $21,000; 2022 - $42,000; 2023- $44,000; 2024 - $44,000, 2025 - $44,000 and 2026- $43,000.

In the second quarter of 2021, management performed its annual impairment testing of its trade names, which are indefinite-lived intangible assets. Based on this assessment, there were no impairments.

9. Debt

Long-term debt and notes and overdrafts payable at June 30, 2021 and December 31, 2020 consisted of:

	June 30, 2021		December 31, 2020	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Amended Credit Agreement	$ 549,376	$ 586,441	$ 593,622	$ 601,936
3.97% Senior Notes	100,000	107,764	100,000	109,151
Borrowings under lines of credit and overdrafts	14	14	2,115	2,115
Finance leases	6,936	7,186	8,268	8,650
Other foreign bank borrowings	154	155	254	257
	656,480	701,560	704,259	722,109
Less current maturities	(1,997)		(4,391)	
Long-term debt	$ 654,483		$ 699,868	

In October 2014, the Company entered into a Note Purchase Agreement ("Note Purchase Agreement"), among the Company and New York Life Insurance Company, New York Life Insurance and Annuity Corporation and New York Life Insurance and Annuity Corporation Institutionally Owned Life Insurance Separate Account, as purchasers, for the issuance of $100,000 aggregate principal amount of 3.97% Senior Notes due October 17, 2024 (the "3.97% Senior Notes"). The 3.97% Senior Notes are senior unsecured obligations of the Company and pay interest semi-annually on April 17 and October 17 of each year at an annual rate of 3.97%. The 3.97% Senior Notes will mature on October 17, 2024 unless earlier prepaid in accordance with their terms. Subject to certain conditions, the Company may, at its option, prepay all or any part of the 3.97% Senior Notes in an amount equal to 100% of the principal amount of the 3.97% Senior Notes so prepaid, plus any accrued and unpaid interest to the date of prepayment, plus the Make-Whole Amount, as defined in the Note Purchase Agreement, with respect to such principal amount being prepaid. The fair value of the 3.97% Senior Notes was determined using the U.S. Treasury yield and a long-term credit spread for similar types of borrowings, which represent Level 2 observable inputs.

On October 8, 2020, the Company entered into the sixth amendment to its fifth amended and restated revolving credit agreement with Bank of America (the "Sixth Amendment") and the first amendment to the Note Purchase Agreement with New York Life (the "First NPA Amendment" and, together with the Sixth Amendment, the "Amendments"). The Sixth Amendment maintained the borrowing availability of $1,000,000 along with access to request $200,000 through an accordion feature. The Sixth Amendment and the First NPA Amendment provided for an increase in the Company's maximum ratio of Consolidated Senior Debt, as defined, to Consolidated EBITDA, as defined, from 3.25 times (or, if a certain Permitted Acquisition above $150,000 is consummated, 3.50 times) to 3.75 times in each case at the end of the four fiscal quarters, beginning with December 31, 2020, and regardless of whether a Permitted Acquisition, as defined, is consummated, providing additional financing flexibility and access to liquidity. Additionally, the Sixth Amendment requires the Company to maintain a maximum ratio of Consolidated Total Debt, as defined, to Consolidated EBITDA, of not more than 3.75 times in each case, at the end of the four fiscal quarters, beginning with December 31, 2020 and regardless of whether a permitted acquisition is consummated. Furthermore, the First NPA Amendment provides for (i) adjustments to the ratio of Consolidated Total Debt, as defined, to Consolidated EBITDA, as defined, to conform to a more restrictive total leverage ratio that may be required under the Amended Credit Agreement, (ii) an increase in the amount of allowable add-back for restructuring charges when calculating Consolidated EBITDA from $15,000 to $25,000 and (iii) a required fee payment equal to 0.50% per annum times the daily outstanding principal amount of the note during each of the four fiscal quarters, following the quarter ended December 31, 2020, if the Company's Senior Leverage Ratio, as defined, exceeds 3.25 times. In October 2020, the Company paid fees and expenses of $1,384 in conjunction with executing the Amendments; such fees have been deferred within Other Assets on the accompanying Consolidated Balance Sheet and are being amortized on the Consolidated Statements of Income.

On February 10, 2021, the Company and certain of its subsidiaries entered into the sixth amended and restated senior unsecured revolving credit agreement (the "Amended Credit Agreement") and retained Bank of America, N.A. as the Administrative Agent for the lenders. The Amended Credit Agreement maintains the $1,000,000 of availability within the facility, while increasing the available borrowings under the accordion feature from $200,000 to $250,000 (aggregate availability of $1,250,000) and extends the maturity date through February 2026. The Amended Credit Agreement also adjusts the interest rate to either the Eurocurrency rate, as defined in the Amended Credit Agreement, plus a margin of 1.175% to 1.775% or the base rate, as defined in the Amended Agreement, plus a margin of 0.175% and 0.775%, depending on the Company's leverage ratio at the time of the borrowing. Multi-currency borrowings, pursuant to the Amended Credit Agreement, bear interest at their respective interbank offered rate (i.e. Euribor) or 0.00% (higher of the two rates) plus a margin of between 1.175% to 1.775%. As with the earlier facility, the Company's borrowing capacity is limited by various debt covenants in the Amended Credit Agreement, as described further below. The Amended Credit Agreement requires the Company to maintain a Senior Debt Ratio of not more than 3.75 times at the end of each fiscal quarter ending on or before September 30, 2021, after which the ratio will revert to 3.25 times (or, if a permitted acquisition above $150,000 is consummated, 3.50 times at the end of each of the first

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four fiscal quarters ending after the consummation of any such acquisition). In addition, the Amended Credit Agreement requires the Company to maintain a Total Debt Ratio of not more than 3.75 for each fiscal quarter (or, if a permitted acquisition above $150,000 is consummated, 4.25 times at the end of each of the first four fiscal quarters ending after the consummation of any such acquisition, however, such increase in the ratio will not be effective during any period prior to October 1, 2021). A ratio of Consolidated EBITDA to Consolidated Cash Interest Expense, as defined, of not less than 4.25, is required at the end of each fiscal quarter. The Company paid fees and expenses of $4,208 in the first quarter of 2021 in conjunction with executing the Amended Credit Agreement; such fees have been deferred within Other Assets on the Consolidated Balance Sheets and are being amortized into interest expense on the Consolidated Statements of Income through their maturity. Cash used to pay these fees has been recorded through other financing activities on the Consolidated Statements of Cash Flows.

Borrowings and availability under the Amended Credit Agreement were $549,376 and $450,624, respectively, at June 30, 2021 and borrowings and availability under the Sixth Amendment were $593,622 and $406,378, respectively, at December 31, 2020, subject to covenants in the Company's revolving debt agreements. At June 30, 2021, additional borrowings of $203,751 of Total Debt (including $203,751 of Senior Debt) would have been allowed under the financial covenants. The average interest rate on these borrowings was 1.70% and 1.42% on June 30, 2021 and December 31, 2020, respectively. Borrowings included Euro-denominated borrowings of 331,450 Euros ($394,376) at June 30, 2021 and 344,450 Euros ($423,622) at December 31, 2020. The fair value of the borrowings is based on observable Level 2 inputs. The borrowings were valued using discounted cash flows based upon the Company's estimated interest costs for similar types of borrowings.

At June 30, 2021, the Company was in compliance with all applicable covenants. The Company currently anticipates that it will maintain compliance with all of its covenants in the next four quarters while continuing to monitor its future compliance based on current and future economic conditions. The Company's most restrictive financial covenant is the Senior Debt Ratio, which required the Company to maintain a ratio of Consolidated Senior Debt to Consolidated EBITDA of not more than 3.75 times at June 30, 2021. The actual ratio at June 30, 2021 was 2.86 times, as defined.

In addition, the Company has approximately $82,000 in uncommitted short-term bank credit lines ("Credit Lines") and overdraft facilities. The Credit Lines are accessed locally and are available primarily within the U.S., Europe and Asia. The Credit Lines are subject to the applicable borrowing rates within each respective country and vary between jurisdictions (i.e. LIBOR, Euribor, etc.). Under the Credit Lines, the Company had no borrowings at June 30, 2021 while $2,100 was borrowed at December 31, 2020 at an average interest rate of 1.10%. The Company had also borrowed $14 and $15 under the overdraft facilities at June 30, 2021 and December 31, 2020, respectively. Repayments under the Credit Lines are due within one month after being borrowed. Repayments of the overdrafts are generally due within two days after being borrowed. The carrying amounts of the Credit Lines and overdrafts approximate fair value due to the short maturities of these financial instruments.

The Company also has several finance leases under which $6,936 and $8,268 was outstanding at June 30, 2021 and December 31, 2020, respectively. The fair value of the finance leases are based on observable Level 2 inputs. These instruments were valued using discounted cash flows based upon the Company's estimated interest costs for similar types of borrowings.

At June 30, 2021 and December 31, 2020, the Company also had other foreign bank borrowings of $154 and $254, respectively. The fair value of the other foreign bank borrowings was based on observable Level 2 inputs. These instruments were valued using discounted cash flows based upon the Company's estimated interest costs for similar types of borrowings.

10. Derivatives

The Company has manufacturing, service and sales facilities around the world and thus makes investments and conducts business transactions denominated in various currencies. The Company is also exposed to fluctuations in interest rates and commodity price changes. These financial exposures are monitored and managed by the Company as an integral part of its risk management program.

Derivative financial instruments have been used by the Company to hedge its exposure to fluctuations in interest rates. On April 28, 2017, the Company entered into an interest rate swap agreement (the "2017 Swap") with one bank which converts the interest on the first $100,000 of the Company's one-month LIBOR-based borrowings from a variable rate plus the borrowing spread to a fixed rate of 1.92% plus the borrowing spread. The 2017 Swap expires on January 31, 2022. On March 24, 2021, the Company entered into a new interest rate swap agreement (the "2021 Swap") with this same bank that will commence on January 31, 2022 and will convert the interest on the first $100,000 of the Company's one-month LIBOR-based borrowings from a variable rate plus the borrowing spread to a fixed rate of 1.17% plus the borrowing spread. The 2021 Swap will expire on January 30, 2026. These interest rate swap agreements (collectively, the "Swaps") remained in place at June 30, 2021 and are accounted for as cash flow hedges.

The Company also uses derivative financial instruments to hedge its exposures to fluctuations in foreign currency exchange rates. The Company has various contracts outstanding which primarily hedge recognized assets or liabilities and anticipated transactions in various currencies including the Euro, British pound sterling, U.S. dollar, Canadian dollar, Japanese yen, Singapore dollar, Korean won, Swedish kroner, Chinese renminbi, Mexican peso, Hong Kong dollar and Swiss franc. Certain foreign currency derivative instruments are treated as cash flow hedges of forecasted transactions. All foreign exchange contracts are due within two years.

The Company does not use derivatives for speculative or trading purposes or to manage commodity exposures.

The Company records the derivatives at fair value on the Consolidated Balance Sheets within Prepaid Expenses and Other Current Assets, Other Assets, Accrued Liabilities or Other Liabilities depending on their fair value and remaining contractual period. Changes in the fair market value of derivatives accounted for as cash flow hedges are recorded to accumulated other comprehensive income (loss) and reclassified to earnings in a manner that matches the earnings impact of the hedged transaction. Reclassifications to earnings for the Swaps are recorded through interest expense and reclassifications to earnings for foreign exchange contracts are recorded through net sales. Changes in the fair market value of the foreign exchange contracts that are not designated hedging instruments are recorded directly to earnings through other expense (income), net.

The fair values of derivatives were not material to the Company's Consolidated Balance Sheets as of June 30, 2021 or December 31, 2020. The activity related to the derivatives that have been designated hedging instruments was not material to the Company's Consolidated Financial Statements for the periods ended June 30, 2021 or 2020. The Company recognized gains of $2,889 and $6,372 related to the foreign exchange contracts that are not accounted for as hedging instruments within other expense (income), net, in the Consolidated Statements of Income for the three month periods ended June 30, 2021 and 2020, respectively. The Company recognized losses of $412 and $5,822 related to the foreign exchange contracts that are not accounted for as hedging instruments within other expense (income), net, in the Consolidated Statements of Income for the six month periods ended June 30, 2021 and 2020, respectively. Such gains and losses were substantially offset by net losses and gains recorded on the underlying hedged asset or liability (the "underlying"). Offsetting net gains or losses on the underlying are also recorded within other expense (income), net.

The Company's policy for classifying cash flows from derivatives is to report the cash flows consistent with the underlying hedged item. Other financing cash flows during the six months ended June 30, 2021 and 2020, as presented on the Consolidated Statements of Cash Flows, include $808 of net cash proceeds and $3,456 of net cash payments, respectively, related to the settlement of foreign currency hedges related to intercompany financing.

11. Fair Value Measurements

The provisions of the accounting standard for fair value define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This standard classifies the inputs used to measure fair value into the following hierarchy:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 Unadjusted quoted prices in active markets for similar assets or liabilities, or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

Level 3 Unobservable inputs for the asset or liability.

The following table provides the assets and liabilities reported at fair value and measured on a recurring basis:

Description	Total	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2021				
Asset derivatives	$ 484	$ —	$ 484	$ —
Liability derivatives	(2,565)	—	(2,565)	—
Bank acceptances	9,033	—	9,033	—
Rabbi trust assets	3,434	3,434	—	—
Total	$ 10,386	$ 3,434	$ 6,952	$ —
December 31, 2020				
Asset derivatives	$ 1,642	$ —	$ 1,642	$ —
Liability derivatives	(1,988)	—	(1,988)	—
Bank acceptances	13,267	—	13,267	—
Rabbi trust assets	3,233	3,233	—	—
Total	$ 16,154	$ 3,233	$ 12,921	$ —

The derivative contracts are valued using observable current market information as of the reporting date such as the prevailing LIBOR-based interest rates and foreign currency spot and forward rates. Bank acceptances represent financial instruments accepted from certain China-based customers in lieu of cash paid on receivables, have maturities of less than one year and are guaranteed by banks. The carrying amounts of the bank acceptances, which are included within prepaid expenses and other current assets, approximate fair value due to their short maturities. The fair values of rabbi trust assets are based on quoted market prices from various financial exchanges.

12. Pension and Other Postretirement Benefits

Pension and other postretirement benefits expenses consisted of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
Pensions	**2021**	**2020**	**2021**	**2020**
Service cost	$ 1,538	$ 1,435	$ 3,279	$ 3,084
Interest cost	3,204	3,806	6,376	7,623
Expected return on plan assets	(6,962)	(7,404)	(13,934)	(14,797)
Amortization of prior service cost	80	73	165	153
Amortization of actuarial losses	4,080	3,307	8,006	6,646
Curtailment loss	—	484	—	484
Net periodic benefit cost	$ 1,940	$ 1,701	$ 3,892	$ 3,193

	Three Months Ended June 30,		Six Months Ended June 30,	
Other Postretirement Benefits	**2021**	**2020**	**2021**	**2020**
Service cost	$ 25	$ 19	$ 50	$ 41
Interest cost	206	257	412	521
Amortization of prior service cost	8	7	15	14
Amortization of actuarial losses	70	(5)	140	18
Net periodic benefit cost	$ 309	$ 278	$ 617	$ 594

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The service cost component of net periodic benefit cost is included within cost of sales and selling and administrative expenses. The components of net periodic benefit cost other than the service cost component are included in Other Income (Expense) on the Consolidated Statements of Income.

13. Income Taxes

During the second quarter of 2021, the Italian tax authorities released Tax Guidance related to the application of tax basis realignment rules for intangible property ("Realignment") which provides Italian taxpayers with the opportunity to step up the basis of goodwill and intangibles to their fair market value and amortize the step up over 18 years for tax purposes in exchange for paying a 3% tax on the step up, payable over a three years period. The Company opted to elect the Realignment in June 2021 and accordingly recorded a tax payable of $3,008 and a long-term tax payable of $6,016. The Company also recorded a deferred tax asset of $83,921 related to the Realignment. Accounting guidance requires that when a deferred tax asset is realigned for tax purposes, a corresponding revaluation reserve also be recorded. Under Italian tax rules, any dividends paid out of this revaluation reserve are subject to tax at a 24% rate. Accordingly, the Company recorded a deferred tax liability of $72,190 related to the potential 24% tax due on any dividends, paid out of the revaluation reserve. The deferred tax asset and liability balances have been presented on a net basis on the Consolidated Balance Sheets. The Company also recorded a one time $2,707 benefit to the provision in the quarter related to this election and related accounting.

The Company's effective tax rate for the first half of 2021 was 26.6% compared with 37.6% in the first half of 2020 and 37.6% for the full year 2020. The decrease in the first half of 2021 effective tax rate from the full year 2020 rate is primarily due to the absence of tax expense related to the completed sale of the Seeger business in 2020, the second quarter 2021 benefit related to the tax basis of goodwill and intangibles at Automation and a favorable mix in earnings based on tax jurisdictions. The tax rate benefits were partially offset by second quarter 2021 tax expense related to the revaluation of UK deferred taxes resulting from a legislative increase in the corporate tax rate.

The Aerospace and Industrial segments have a number of multi-year tax holidays in Singapore and China. The tax holiday in China expired at the end of 2020. The Company has re-applied for approval of a potential three-year holiday in China which could reduce the tax rate. The Company anticipates notification of a decision on its application for the holiday in the latter half of 2021. These holidays are subject to the Company meeting certain commitments in the respective jurisdictions. Aerospace was granted an income tax holiday for operations recently established in Malaysia. This holiday commenced effective November 2020 and remains effective for a period of ten years from inception.

14. Changes in Accumulated Other Comprehensive Income (Loss) by Component

The following tables set forth the changes in accumulated other comprehensive income (loss), net of tax, by component for the six-month periods ended June 30, 2021 and 2020:

	Gains and Losses on Cash Flow Hedges	Pension and Other Postretirement Benefit Items	Foreign Currency Items	Total
December 31, 2020	$ (757)	$ (142,119)	$ 20,561	$ (122,315)
Other comprehensive (loss) income before reclassifications	(1,003)	145	(26,286)	(27,144)
Amounts reclassified from accumulated other comprehensive income to the consolidated statements of income	453	6,380	—	6,833
Net current-period other comprehensive (loss) income	(550)	6,525	(26,286)	(20,311)
June 30, 2021	$ (1,307)	$ (135,594)	$ (5,725)	$ (142,626)

	Gains and Losses on Cash Flow Hedges	Pension and Other Postretirement Benefit Items	Foreign Currency Items	Total
December 31, 2019	$ (115)	$ (144,047)	$ (66,333)	$ (210,495)
Other comprehensive (loss) income before reclassifications	(2,255)	(5,141)	(16,077)	(23,473)
Amounts reclassified from accumulated other comprehensive income to the consolidated statements of income	729	5,599	—	6,328
Net current-period other comprehensive (loss) income	(1,526)	458	(16,077)	(17,145)
June 30, 2020	$ (1,641)	$ (143,589)	$ (82,410)	$ (227,640)

The following table sets forth the reclassifications out of accumulated other comprehensive income (loss) by component for the three-month periods ended June 30, 2021 and 2020:

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)		Affected Line Item in the Consolidated Statements of Income
	Three Months Ended June 30, 2021	**Three Months Ended June 30, 2020**	
Gains and losses on cash flow hedges			
Interest rate contracts	$ (460)	$ (356)	Interest expense
Foreign exchange contracts	171	74	Net sales
	(289)	(282)	Total before tax
	73	95	Tax benefit
	(216)	(187)	Net of tax
Pension and other postretirement benefit items			
Amortization of prior service costs	$ (88)	$ (80)	(A)
Amortization of actuarial losses	(4,150)	(3,302)	(A)
Curtailment loss	—	(484)	(A)
	(4,238)	(3,866)	Total before tax
	992	906	Tax benefit
	(3,246)	(2,960)	Net of tax
Total reclassifications in the period	$ (3,462)	$ (3,147)	

The following table sets forth the reclassifications out of accumulated other comprehensive income (loss) by component for the six-month periods ended June 30, 2021 and 2020:

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)		Affected Line Item in the Consolidated Statements of Income
	Six Months Ended June 30, 2021	**Six Months Ended June 30, 2020**	
Gains and losses on cash flow hedges			
Interest rate contracts	$ (909)	(417)	Interest expense
Foreign exchange contracts	298	(449)	Net sales
	(611)	(866)	Total before tax
	158	137	Tax benefit
	(453)	(729)	Net of tax
Pension and other postretirement benefit items			
Amortization of prior service costs	$ (180)	$ (167)	(A)
Amortization of actuarial losses	(8,146)	(6,664)	(A)
Curtailment loss	—	(484)	(A)
	(8,326)	(7,315)	Total before tax
	1,946	1,716	Tax benefit
	(6,380)	(5,599)	Net of tax
Total reclassifications in the period	$ (6,833)	$ (6,328)	

(A) These accumulated other comprehensive income (loss) components are included within the computation of net periodic Pension and Other Postretirement Benefits cost. See Note 12.

15. Information on Business Segments

The Company is organized based upon the nature of its products and services and reports under two global business segments: Industrial and Aerospace. Segment information is consistent with how management reviews the businesses, makes investing and resource allocation decisions and assesses operating performance. The Company has not aggregated operating segments for purposes of identifying these two reportable segments.

Industrial is a global provider of highly-engineered, high-quality precision components, products and systems for critical applications serving a diverse customer base in end-markets such as transportation, industrial equipment, automation, personal care, packaging, electronics, and medical devices. Focused on innovative custom solutions, Industrial participates in the design phase of components and assemblies whereby customers receive the benefits of application and systems engineering, new product development, testing and evaluation, and the manufacturing of final products. Products are sold primarily through its direct sales force and global distribution channels. Industrial's Molding Solutions business designs and manufactures customized hot runner systems, advanced mold cavity sensors and process control systems, and precision high cavitation mold assemblies - collectively, the enabling technologies for many complex injection molding applications. The Force & Motion Control business provides innovative cost effective force and motion control solutions for a wide range of metal forming and other industrial markets. The Automation business designs and develops pneumatic robotic grippers, advanced end-of-arm tooling systems, sensors and other automation components for intelligent robotic handling solutions and industrial automation applications. Industrial's Engineered Components business manufactures and supplies precision mechanical products used in transportation and industrial applications, including mechanical springs, and high-precision punched and fine-blanked components.

Aerospace is a global manufacturer of complex fabricated and precision machined components and assemblies for turbine engines, nacelles and structures for both commercial and defense-related aircraft. The Aerospace Aftermarket business provides aircraft engine component maintenance, repair and overhaul ("MRO") services, including services performed under our Component Repair Programs (“CRPs”), for many of the world’s major turbine engine manufacturers, commercial airlines and the defense market. The Aerospace Aftermarket business also manufactures and supplies aerospace aftermarket spare parts, including through revenue sharing programs (“RSPs”) under which the Company receives an exclusive right to supply designated aftermarket parts over the life of specific aircraft engine programs.

The following tables set forth information about the Company's operations by its two reportable segments:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Net sales				
Industrial	$ 234,679	$ 165,031	$ 454,671	$ 364,131
Aerospace	86,485	70,508	168,127	202,079
Intersegment sales	(6)	(2)	(11)	(3)
Total net sales	$ 321,158	$ 235,537	$ 622,787	$ 566,207
Operating profit (loss)				
Industrial	$ 27,273	$ (300)	$ 48,568	$ 17,625
Aerospace	11,270	10,415	22,355	41,804
Total operating profit	38,543	10,115	70,923	59,429
Interest expense	4,475	3,898	8,416	8,223
Other expense (income), net	1,272	1,060	2,734	2,654
Income before income taxes	$ 32,796	$ 5,157	$ 59,773	$ 48,552

	June 30, 2021	December 31, 2020
Assets		
Industrial	$ 1,872,730	$ 1,908,389
Aerospace	601,093	623,547
Other [(A)]	153,048	144,290
Total assets	$ 2,626,871	$ 2,676,226

(A) "Other" assets include corporate-controlled assets, the majority of which are cash and cash equivalents and deferred tax assets.

16. Commitments and Contingencies

Product Warranties

The Company provides product warranties in connection with the sale of certain products. From time to time, the Company is subject to customer claims with respect to product warranties. The Company accrues its estimated exposure for warranty claims at the time of sale based upon the length of the warranty period, historical experience and other related information known to the Company. Liabilities related to product warranties and extended warranties were not material as of June 30, 2021 and December 31, 2020.

Litigation

The Company is subject to litigation from time to time in the ordinary course of business and various other suits, proceedings and claims are pending involving the Company and its subsidiaries. The Company records a loss contingency liability when a loss is considered probable and the amount can be reasonably estimated. While it is not possible to determine the ultimate disposition of each of these proceedings and whether they will be resolved consistent with the Company's beliefs, the Company expects that the outcome of such proceedings, individually or in the aggregate, will not have a material adverse effect on financial condition or results of operations.

17. Business Reorganizations

In June 2020, the Company announced restructuring and workforce reduction actions ("Actions") which were implemented across its businesses and functions in response to the macroeconomic disruption in global industrial and aerospace end markets arising from COVID-19. During 2020, a resulting pre-tax charge of $19,116 was recorded ($18,158 through operating profit), primarily related to employee severance and termination benefits (recorded largely during the second quarter of 2020). These actions were substantially complete as of December 31, 2020 and reduced the Company's global workforce by approximately 8%. A corresponding liability of $4,240, per below, was included within accrued liabilities as of June 30, 2021. The Company does not expect any additional costs related to the Actions to be significant.

The following table sets forth the change in the liability related to these actions:

December 31, 2020	$ 13,151
Severance expense	(600)
Payments	(8,311)
June 30, 2021	$ 4,240

In June 2021, the Company initiated additional restructuring actions ("Restructurings") at two locations. The Restructurings include a transfer of manufacturing capabilities to leverage existing manufacturing capacity which is expected to reduce labor and infrastructure costs. The Restructurings resulted in pre-tax charges of $1,118, primarily related to employee severance and termination benefits, and have been recorded within Selling and Administrative Expenses in the accompanying Consolidated Statements of Income. The Company expects to incur additional charges of approximately $3,000 related to these actions through 2022.

With respect to the unaudited consolidated financial information of Barnes Group Inc. for the three- month period ended June 30, 2021 and 2020, PricewaterhouseCoopers LLP reported that they have applied limited procedures in accordance with

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professional standards for a review of such information. However, their separate report dated July 30, 2021 appearing herein, states that they did not audit and they do not express an opinion on that unaudited consolidated financial information. Accordingly, the degree of reliance on their report should be restricted in light of the limited nature of the review procedures applied. PricewaterhouseCoopers LLP is not subject to the liability provisions of Section 11 of the Securities Act of 1933, as amended, for their report on the unaudited consolidated financial information because that report is not a “report” or a “part” of the registration statement prepared or certified by PricewaterhouseCoopers LLP within the meaning of Sections 7 and 11 of the Securities Act of 1933, as amended.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Barnes Group Inc.

Results of Review of Interim Financial Information

We have reviewed the accompanying consolidated balance sheet of Barnes Group Inc. and its subsidiaries (the "Company") as of June 30, 2021, and the related consolidated statements of income and of comprehensive income for the three-month and six-month periods ended June 30, 2021 and 2020 and the consolidated statement of cash flows for the six-month periods ended June 30, 2021 and 2020, including the related notes (collectively referred to as the "interim financial information"). Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim financial information for it to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of December 31, 2020, and the related consolidated statements of income, of comprehensive income, of changes in stockholders' equity, and of cash flows for the year then ended (not presented herein), and in our report dated February 22, 2021, which included a paragraph describing a change in the manner of accounting for leases in the 2019 financial statements, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet information as of December 31, 2020, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Basis for Review Results

This interim financial information is the responsibility of the Company's management. 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 review in accordance with the standards of the PCAOB. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the PCAOB, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

/s/ PricewaterhouseCoopers LLP

Hartford, Connecticut
July 30, 2021

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

Please refer to the Overview in the Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Annual Report on Form 10-K for the year ended December 31, 2020. The Annual Report on Form 10-K, along with the Company's other filings, can be found on the Securities and Exchange Commission's website, www.sec.gov, as well as on the Company's website: www.bginc.com.

Second Quarter Highlights

The Company reported net sales of $321.2 million in the second quarter of 2021, an increase of $85.6 million or 36.4%, from the second quarter of 2020. Organic sales increased by $73.5 million, or 31.2%, including an increase of $16.0 million, or 22.7%, at Aerospace and an increase of $57.5 million, or 34.8%, at Industrial. On a sequential basis relative to the first quarter of 2021, sales increased 6.5%. The year-over-year increase at Aerospace was driven by a volume increase within the Aerospace Original Equipment Manufacturing business, whereas the Aerospace Aftermarket business, which remains more heavily impacted by the lingering effects of the COVID-19 pandemic, was down slightly. Industrial end-markets continued to recover during the second quarter of 2021, benefiting sales volumes. The weakening of the U.S. dollar against foreign currencies increased net sales within the Industrial segment by approximately $12.4 million. Operating margins increased from 4.3% in the 2020 period to 12.0% in the current period, largely a result of the absence of $17.7 million of restructuring charges taken during the 2020 period, the profit impact of increased sales volumes and continued productivity resulting from earlier cost initiatives, partially offset by an increase in employee related costs, including incentive compensation, and investments in growth and innovation.

Impact of COVID-19

The COVID-19 pandemic has resulted in a disruption in business activities worldwide and caused weakened economic conditions, both in the United States and abroad. Beginning during the first quarter of 2020, COVID-19 had a significant impact on order rates within Industrial and, on a more targeted basis, Aerospace end-markets. Financial conditions worsened during the second quarter of 2020. End-markets and order activity have since improved within both segments. Industrial sales volumes and order rates strengthened during the first half of 2021, while the Aerospace Aftermarket business, sequentially lower, remains impacted by lower passenger traffic and the removal of aircraft from service. Although sales volumes have increased within the Aerospace Original Equipment Manufacturing ("OEM") business, management anticipates continued sales pressure as the production of certain wide body aircraft has been lowered. COVID-19 may continue to have further negative impacts on the Company's operations, customers and supply chain despite preventative measures taken.

The Company currently maintains sufficient liquidity and remained in compliance with all debt covenants as of June 30, 2021, and anticipates continued compliance in each of the next four quarters. The Company continues to closely monitor its cash generation, usage and preservation including the management of working capital to generate cash. To better align costs with the current business environment, the Company has taken several actions in earlier periods, which include restructuring and workforce reductions (the "Actions"). Resulting pre-tax charges of $18.2 million were recorded through operating profit in 2020 (primarily during the second quarter of 2020). See Note 17. Certain other cost savings initiatives (including those resulting from the Actions) remain in place, providing additional benefit during the current period.

RESULTS OF OPERATIONS

Net Sales

	Three Months Ended June 30,				Six Months Ended June 30,			
(in millions)	2021	2020	Change		2021	2020	Change	
Industrial	$ 234.7	$ 165.0	$ 69.6	42.2 %	$ 454.7	$ 364.1	$ 90.5	24.9 %
Aerospace	86.5	70.5	16.0	22.7 %	168.1	202.1	(34.0)	(16.8)%
Total	$ 321.2	$ 235.5	$ 85.6	36.4 %	$ 622.8	$ 566.2	$ 56.6	10.0 %

The Company reported net sales of $321.2 million in the second quarter of 2021, an increase of $85.6 million or 36.4%, from the second quarter of 2020. Organic sales increased by $73.5 million, or 31.2%, including increases of $57.5 million at Industrial and $16.0

million at Aerospace. Sales at Industrial and Aerospace reflected sequential improvements of approximately 7% and 6%, respectively, in the second quarter of 2021, as compared with the first quarter of 2021. The year-over-year increase at Aerospace was driven by improved sales within the OEM business, partially offset by a decline within the Aerospace Aftermarket business, resulting primarily from a global slowdown in aerospace markets, and more specifically a resulting decline in aircraft utilization and the removal of aircraft from service by certain airlines. OEM sales improved sequentially by 10%, whereas Aerospace Aftermarket sales declined sequentially by roughly 2%. From an Industrial standpoint, end-markets improved on both a year-over-year and sequential basis. Medical end markets in which the Company participates remain solid and order activity remains favorable. General industrial markets demonstrated significant strength in the current quarter, with both sales and order improvement on a year-over-year and sequential basis. Forecasted automotive production rates remained strong during the 2021 period, although pressures resulting from semiconductor shortages continue to impact near-term automotive production. The Automation business experienced organic sales growth during the current period as a result of further penetration into end markets. The weakening of the U.S. dollar against foreign currencies increased net sales within the Industrial segment by approximately $12.4 million.

The Company reported net sales of $622.8 million in the first half of 2021, an increase of $56.6 million, or 10.0%, from the first half of 2020. Organic sales increased by $39.1 million driven by an increase of $73.1 million at Industrial and offset by a decrease of $34.0 million at Aerospace. The weakening of the U.S. dollar against foreign currencies increased net sales within the Industrial segment by approximately $22.7 million. The decrease at Aerospace was driven by organic sales declines within each of the businesses, due primarily to the effect of COVID-19 on airline travel, whereas improvements within Industrial were driven by recovering end-markets within each of the businesses.

Expenses and Operating Income

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
(in millions)	2021	2020			2021	2020		
Cost of sales	$ 203.2	$ 147.1	$ 56.1	38.2 %	$ 397.9	$ 355.3	$ 42.6	12.0 %
% sales	63.3 %	62.4 %			63.9 %	62.8 %		
Gross profit (1)	$ 118.0	$ 88.5	$ 29.5	33.4 %	$ 224.9	$ 210.9	$ 14.0	6.6 %
% sales	36.7 %	37.6 %			36.1 %	37.2 %		
Selling and administrative expenses	$ 79.4	$ 78.4	$ 1.1	1.4 %	$ 154.0	$ 151.5	$ 2.5	1.7 %
% sales	24.7 %	33.3 %			24.7 %	26.8 %		
Operating income	$ 38.5	$ 10.1	$ 28.4	281.0 %	$ 70.9	$ 59.4	$ 11.5	19.3 %
% sales	12.0 %	4.3 %			11.4 %	10.5 %		

(1) Sales less cost of sales.

Cost of sales in the second quarter of 2021 increased 38.2% from the 2020 period and gross profit margin decreased from 37.6% in the 2020 period to 36.7% in the 2021 period. Gross profit margins declined at Aerospace and remained flat at Industrial. Within Industrial, gross profit increased primarily as a result of the profit contribution of higher sales volumes, combined with cost savings initiatives discussed above. Within Aerospace, higher volumes within the OEM business, in particular, contributed to an increase in gross profit during the second quarter of 2021. Gross profit margin decreased during the second quarter of 2021 at Aerospace, however, given the mix of products between the OEM and Aftermarket businesses. Selling and administrative expenses in the second quarter of 2021 increased 1.4% from the 2020 period. Sales, however, increased by 36.4% between the comparable 2020 and 2021 periods. As a percentage of sales, selling and administrative costs decreased from 33.3% in the second quarter of 2020 to 24.7% in the 2021 period. The decrease in selling and administrative costs as a percentage of sales was driven primarily by the absence of $17.7 million of pre-tax charges related to restructuring and workforce reduction actions that were taken during the 2020 period, combined with the ongoing benefit of earlier cost savings initiatives. Partially offsetting this decrease in selling and administrative costs as a percentage of sales were investments in growth and innovation, and an increase in employee related costs, including incentive compensation within both segments. Operating income in the second quarter of 2021 increased by 281.0% to $38.5 million compared with the second quarter of 2020 and operating income margin increased from 4.3% to 12.0%, driven by the items above, primarily the absence of prior period restructuring charges.

Cost of sales in the first half of 2021 increased 12.0% from the 2020 period, while gross profit margin decreased from 37.2% in the 2020 period to 36.1% in the 2021 period. Gross profit margins declined at Aerospace and remained flat at Industrial. Within Aerospace, lower volumes within both businesses on a year to date basis, in particular, contributed to a decrease in gross profit

during the first half of 2021. Gross profit margin also decreased during the first half of 2021 at Aerospace, given the mix of products between the OEM and Aftermarket businesses. Within Industrial, gross profit increased primarily as a result of the profit contribution of increased sales volumes. Gross profit margins at Industrial during the 2021 and 2020 periods remained flat as the cost savings initiatives initiated in the earlier period remained in place during the current period. Within Aerospace, a reduction in gross profit in the first half of 2021 was driven by significantly lower volumes across the OEM and Aftermarket businesses, primarily due to OEM sales being lower during the first quarter of 2021. Selling and administrative expenses in the first half of 2021 increased 1.7% from the 2020 period. Sales, however, increased by 10.0% between the comparable 2020 and 2021 periods. As a percentage of sales, selling and administrative costs decreased from 26.8% in the first half of 2020 to 24.7% in the 2021 period. The decrease in selling and administrative costs as a percentage of sales was driven by the absence of $17.7 million of restructuring charges and $2.4 million of divestiture charges related to the completion of the Seeger sale during the 2020 period, combined with the ongoing benefit of earlier cost savings initiatives. Partially offsetting this decrease in selling and administrative costs as a percentage of sales were investments in growth and innovation, and an increase in employee related costs, including incentive compensation within both segments. Operating income in the first half of 2021 increased 19.3% to $70.9 million from the first half of 2020 and operating income margin increased from 10.5% in the 2020 period to 11.4% in the 2021 period, primarily driven by the items noted above.

Interest expense

Interest expense increased by $0.6 million in the second quarter of 2021 and by $0.2 million in the first half of 2021 as compared with the prior year periods, primarily as a result of higher interest rates, partially offset by decreased average borrowings during the period.

Other expense (income), net

Other expense (income), net in the second quarter of 2021 was $1.3 million compared to $1.1 million in the second quarter of 2020. Other expense (income), net in the first half of 2021 was $2.7 million, flat since the first half of 2020.

Income Taxes

During the second quarter of 2021, the Italian tax authorities released Tax Guidance related to the application of tax basis realignment rules for intangible property ("Realignment") which provides Italian taxpayers with the opportunity to step up the basis of goodwill and intangibles to their fair market value and amortize the step up over 18 years for tax purposes in exchange for paying a 3% tax on the step up, payable over a three year period. The Company opted to elect the Realignment in June 2021 and accordingly recorded a tax payable of $3,008 and a long-term tax payable of $6,016. The Company also recorded a deferred tax asset of $83,921 related to the Realignment. Accounting guidance requires that when a deferred tax asset is realigned for tax purposes, a corresponding revaluation reserve also be recorded. Under Italian tax rules, any dividends paid out of this revaluation reserve are subject to tax at a 24% rate. Accordingly, the Company recorded a deferred tax liability of $72,190 related to the potential 24% tax due on any dividends, paid out of the revaluation reserve. The deferred tax asset and liability balances have been presented on a net basis on the Consolidated Balance Sheets. The Company also recorded a one time $2,707 benefit to the provision in the quarter related to this election and related accounting.

The Company's effective tax rate for the first half of 2021 was 26.6% compared with 37.6% in the first half of 2020 and 37.6% for the full year 2020. The decrease in the first half of 2021 effective tax rate from the full year 2020 rate is primarily due to the absence of tax expense related to the completed sale of the Seeger business in 2020, the second quarter 2021 benefit related to the tax basis of goodwill and intangibles at Automation and a favorable mix in earnings based on tax jurisdictions. The tax rate benefits were partially offset by second quarter 2021 tax expense related to the revaluation of UK deferred taxes resulting from a legislative increase in the corporate tax rate.

The Aerospace and Industrial segments have a number of multi-year tax holidays in Singapore and China. The tax holiday in China expired at the end of 2020. The Company has re-applied for approval of a potential three-year holiday in China which could reduce the tax rate. The Company anticipates notification of a decision on its application for the holiday in the latter half of 2021. These holidays are subject to the Company meeting certain commitments in the respective jurisdictions. Aerospace was granted an income tax holiday for operations recently established in Malaysia. This holiday commenced effective November 2020 and remains effective for a period of ten years from inception.

Income and Income per Share

	Three Months Ended June 30,				Six Months Ended June 30,			
(in millions, except per share)	2021	2020	Change		2021	2020	Change	
Net income	$ 24.5	$ 0.6	$ 23.9	NM	$ 43.9	$ 30.3	$ 13.6	44.8 %
Net income per common share:								
Basic	$ 0.48	$ 0.01	$ 0.47	NM	$ 0.86	$ 0.60	$ 0.26	43.3 %
Diluted	0.48	0.01	0.47	NM	0.86	0.59	0.27	45.8 %
Weighted average common shares outstanding:								
Basic	50.9	50.8	0.2	0.3 %	50.9	50.9	—	— %
Diluted	51.1	51.0	0.1	0.2 %	51.1	51.2	(0.1)	(0.2)%

NM - Not meaningful

Basic and diluted net income per common share increased for the three and six month periods ended June 30, 2021 as compared to 2020. The increases were due to the increases in net income for the periods. Basic and diluted weighted average common shares outstanding were largely consistent for the periods and were only slightly impacted by the repurchase of 396,000 and 100,000 shares during 2020 and 2021, respectively, as part of the Company's publicly announced Repurchase Program (as defined herein) as well as the issuance of additional shares for employee stock plans.

Financial Performance by Business Segment

Industrial

	Three Months Ended June 30,				Six Months Ended June 30,			
(in millions)	2021	2020	Change		2021	2020	Change	
Sales	$ 234.7	$ 165.0	$ 69.6	42.2 %	$ 454.7	$ 364.1	$ 90.5	24.9 %
Operating profit	27.3	(0.3)	27.6	NM	48.6	17.6	30.9	175.6 %
Operating margin	11.6 %	(0.2)%			10.7 %	4.8 %		

Sales at Industrial were $234.7 million in the second quarter of 2021, a $69.6 million, or 42.2% increase from the second quarter of 2020. Organic sales increased by $57.5 million, or 34.8%, during the 2021 period, driven by improved volumes across each of the businesses. On a sequential basis, Industrial sales increased by approximately 7% in the second quarter of 2021 relative to the first quarter of 2021, supporting a continued recovery within our end-markets. Industrial end-markets improved as the broader effects of COVID-19 continued to lessen. Forecasted automotive production rates remained strong during the 2021 period, though were tempered by semiconductor shortages that continue to impact near-term automotive production. The release of certain orders related to automotive model changes, earlier deferred by customers due to economic uncertainty, provided benefit to Industrial during the second quarter of 2021. The Automation business saw strong organic sales growth during the current period, with continuing signs of strength beginning during the second half of 2020. Orders within the personal care and packaging markets began to improve during the back end of 2020, with strength within personal care orders continuing throughout 2021. Volumes within our medical markets remained solid, consistent with this market trend throughout the pandemic, and order rates remain favorable. Foreign currency increased sales by approximately $12.4 million as the U.S. dollar weakened against foreign currencies. During the first half of 2021, this segment reported sales of $454.7 million, a 24.9% increase from the first half of 2020. Organic sales increased by $73.1 million, or 20.1%, during the 2021 period, primarily a result of recovering end-markets, the lessened impacts of COVID-19 and related sales improvements within each of the businesses. The Company completed the sale of its Seeger business in February 2020, reducing sales by $5.3 million during the first half of 2021 relative to the prior year period. Foreign currency increased sales by approximately $22.7 million as the U.S. dollar weakened against foreign currencies.

Operating profit in the second quarter of 2021 at Industrial was $27.3 million, an increase of $27.6 million from the second quarter operating loss of $0.3 million in 2020. Operating profit benefited from the profit contribution of increased organic sales volumes and the absence of $15.8 million of restructuring charges related primarily to severance and other termination benefits, driven by management actions taken in the 2020 period during the earlier stages of COVID-19. The current year period also benefited from the continued impacts of cost initiatives that were taken in earlier periods, including discretionary spending initiatives. These benefits were partially offset by an increase in employee related costs, including incentive compensation, investments in growth and severance charges resulting from a restructuring action that occurred during the 2021 period. Research and development costs also increased in the current year period as the Company continues to invest in innovation. Operating margin increased from (0.2)% in the 2020 period to 11.6% in the 2021 period, driven primarily by the items described above. Operating profit in the first half of 2021 was $48.6 million, an increase of $30.9 million from the first half of 2020, driven by the profit impact of increased organic sales, the continued impacts of cost initiatives that were taken in earlier periods, and the absence of $15.8 million of restructuring charges and $2.4 million of divestiture charges related to the completion of the Seeger sale during the 2020 period. Operating margin increased from 4.8% in the 2020 period to 10.7% in the 2021 period, primarily a result of the items described above.

Outlook: In Industrial, management remains focused on generating organic sales growth through the introduction of new products and services and by leveraging the benefits of its diversified products and global industrial end-markets, however our end markets continue to recover from the impacts of COVID-19 and related supply chain constraints. Markets within our key regions of North America, Europe and China continue to demonstrate recovery as order rates have generally improved further during the second quarter of 2021. General industrial end markets have shown significant improvement and a continuation is anticipated as the broader economy recovers. For overall industrial end-markets, the manufacturing Purchasing Managers' Index ("PMI") are above 50 in all regions. PMI within the United States and Europe have continued to improve during 2021, with slight deterioration in China since the end of the year. All regions remain above 50, with particular strength in the U.S. and certain regions within Europe (above 60). Global forecasted production for light vehicles has also remained strong within the North America, Europe and China markets, a positive sign for our businesses. Production, however, remains under pressure due to semiconductor shortages that have impacted, and may continue to impact, near-term automotive builds, tempering overall strength within the transportation markets during the first half of 2021. Management also continues to track closely the impact of pricing changes and lead times on raw materials. Within our Molding Solutions business, global medical markets remain healthy and are expected to remain favorable given the recent demands of COVID-19, an aging population and expanded medical applications. The automotive hot runner and tool and die markets continue to improve following the release of projects with automotive original equipment manufacturers related to model launches, including new electric vehicles. Orders within the packaging market have improved on a year-over-year basis, however proposed environmental regulations affecting product and packaging composition and disposability may impact future sales within these end markets. Automation end-markets continue to trend positively with increased order activity through 2021 and we look to expand further into adjacent end-markets. Overall industrial end-markets may be impacted by uncertainty related to current and potential future tariffs. As noted above, our sales were positively impacted by $12.4 million from fluctuations in foreign currencies. To the extent that the U.S. dollar fluctuates relative to other foreign currencies, our sales may be impacted relative to the prior year periods. The relative impact on operating profit is not expected to be as significant as the impact on sales as most of our businesses have expenses primarily denominated in local currencies, where their revenues reside, however operating margins may be impacted. Management is focused on sales growth through innovation, acquisition and expanding geographic reach. Strategic investments in new technologies, manufacturing processes and product development are expected to provide benefits over the long term and management continues to evaluate such opportunities.

The Company is focused on the proactive management of costs to mitigate any residual impacts of COVID-19 on operating profit. Management also remains focused on strategic investments and new product and process introductions, as well as driving productivity by leveraging the Barnes Enterprise System ("BES"). Cost saving initiatives taken earlier, including discretionary spending initiatives, continue to provide benefit. The Company continues to manage its cost structure to align with the intake of orders and sales given some level of remaining uncertainty within certain end-markets as we progress through 2021. Management will continue to explore opportunities for additional cost savings, while working closely with vendors and customers as it relates to the timing of deliveries and pricing initiatives. It is anticipated that operating profit will continue to be impacted by changes in sales volume, mix and pricing, freight costs and the levels of investments made within each of the Industrial businesses. Operating profit may also be impacted by enactment of or changes in tariffs, trade agreements and trade policies that may affect the cost, lead times and/or availability of goods, including but not limited to, steel and aluminum. Costs associated with new product and process introductions, restructuring and other cost initiatives, strategic investments and the integration of acquisitions may negatively impact operating profit.

Aerospace

(in millions)	Three Months Ended June 30, 2021	2020	Change		Six Months Ended June 30, 2021	2020	Change	
Sales	$ 86.5	$ 70.5	$ 16.0	22.7 %	$ 168.1	$ 202.1	$ (34.0)	(16.8)%
Operating profit	11.3	10.4	0.9	8.2 %	22.4	41.8	(19.4)	(46.5)%
Operating margin	13.0 %	14.8 %			13.3 %	20.7 %		

The Aerospace segment reported sales of $86.5 million in the second quarter of 2021, a 22.7% increase from the second quarter of 2020. Sales increased 37% within the OEM business and decreased 2% within the Aftermarket business relative to the 2020 period. On a sequential basis, Aerospace sales improved by 6% in the second quarter of 2021 relative to the first quarter of 2021. The sales mix within the businesses varied on a sequential basis, as OEM sales improved by 10% and Aftermarket sales declined slightly by 2% relative to the first quarter of 2021. The year-over-year increase in OEM sales was driven by growing narrow body airframe production and a return to flight of the Boeing 737 Max. COVID-19 continues to impact the broader aerospace industry during 2021. Sales within OEM, although having increased since the comparable 2020 period, continued to experience the impact of earlier reductions in engine and airframe build schedules, in addition to higher levels of inventory within the supply chain. The order schedules of our OEM customers stabilized during the second quarter of 2021. Sales within the Aftermarket Maintenance Repair and Overhaul ("MRO") and spare parts businesses declined slightly during the second quarter of 2021 on a year-over-year basis. Airline traffic and aircraft utilization have improved relative to the second quarter of 2020, however the removal of aircraft from service by airlines remains a driver as required maintenance, in many cases, is deferred. The MRO business is showing signs of a gradual recovery as the distribution of vaccines increased, certain domestic health and travel restrictions were lifted and passenger traffic improved. Sequentially, however, the Aftermarket business declined by roughly 2%. Sales within the segment are largely denominated in U.S. dollars and therefore were not significantly impacted by changes in foreign currency. During the first half of 2021, the Aerospace segment reported sales of $168.1 million, a 16.8% decrease from the first half of 2020, also driven by declines within each of the Aerospace businesses. The sales decline during the first half of 2021 resulted from lower sales volumes, primarily during the first quarter of 2021, due to the impact of COVID-19. Aerospace segment sales during the first quarter of 2021 were down 37.9% relative to the comparable 2020 quarter, thereby weighing on the first half of 2021.

Operating profit at Aerospace in the second quarter of 2021 increased 8.2% from the second quarter of 2020 to $11.3 million. The operating profit increase resulted from the profit impact of higher volumes within the OEM business, as discussed above, productivity and cost savings initiatives including discretionary spending initiatives, and the absence of $1.9 million of restructuring charges included within the 2020 period. These benefits were partially offset by an increase in incentive compensation, unfavorable mix and severance charges resulting from a restructuring action that occurred during the 2021 period. Operating margin decreased from 14.8% in the 2020 period to 13.0% in the 2021 period primarily as a result of mix between the OEM and Aftermarket businesses. Operating margin decreased from 20.7% in the first half of 2020 to 13.3% in the first half of 2021, also a result of mix across the businesses and, more specifically, the comparably lower Aftermarket sales during the first half of 2021. Operating profit in the first half of 2021 decreased 46.5% from the first half of 2020 to $22.4 million, also driven by strong aftermarket performance within the prior year period.

Outlook: Sales in the Aerospace OEM business are based on the general state of the aerospace market driven by the worldwide economy and are supported by its order backlog through participation in certain strategic commercial and defense-related engine and airframe programs. OEM sales and orders grew modestly in 2021 relative to the second half of 2020 and management anticipates gradual order improvement in the latter half of 2021 as customer schedules continue to normalize, albeit at lower levels. The Company expects, however, that the OEM business will continue to see lingering softness in demand for its manufactured components as aircraft production rates at Boeing and Airbus have been reduced. Narrow body airframe production is beginning to ramp, whereas wide body airframe production remains under pressure given continued international travel restrictions. The duration and depth of the aerospace market disruptions remain uncertain at this time, however a recovery to pre-pandemic levels is expected to take several years. Aerospace management continues to work with customers to evaluate engine and airframe build schedules, giving management the ability to react timely to such changes. Management is also working closely with suppliers to align raw material schedules with production requirements. Management remains focused on executing long-term agreements while expanding our share of production on key programs. Backlog at OEM was $694.0 million at June 30, 2021, an increase of 21.3% since December 31, 2020, at which time backlog was $572.0 million. The recent trend of improved OEM orders has increased backlog as we progressed through 2021, as noted above, however backlog may decline as Aerospace customers adjust orders based on their changing aircraft production schedules. Approximately 40% of OEM backlog is currently scheduled to ship in the next 12 months. If COVID-19 continues to have a material impact on the aviation industry, including our more significant OEM customers, it will continue to materially affect our Aerospace business

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and results of operations. The Aerospace OEM business may also be impacted by changes in the content levels on certain platforms, changes in customer sourcing decisions, adjustments to customer inventory levels, commodity availability and pricing, vendor sourcing capacity and the use of alternate materials. Additional impacts may include the redesign of parts, quantity of parts per engine, cost schedules agreed to under contract with the engine and airframe manufacturers, as well as the pursuit and duration of new programs.

COVID-19 continues to impact our Aerospace Aftermarket businesses. Reduced aircraft utilization, increased levels of aircraft removed from service and reduced airline profitability are expected to continue to negatively impact our business in the mid-term. The Aftermarket business has, however, showed signs of a gradual recovery during the first half of 2021 as domestic passenger traffic improved, the distribution of vaccines increased and certain domestic health and travel restrictions were lifted. Travel restrictions, especially on an international basis, continue to impact wide body aircraft utilization and corresponding Aftermarket orders, although freight remains strong. Sales in the Aerospace Aftermarket business may continue to be impacted by inventory management and changes in customer sourcing, deferred or limited maintenance activity during engine shop visits and the use of surplus (used) material during the engine repair and overhaul process. Management believes that its Aerospace Aftermarket business continues to be competitively positioned based on well-established long-term customer relationships, including maintenance and repair contracts in the MRO business and long-term Revenue Sharing Programs ("RSPs") and Component Repair Programs ("CRPs"). The MRO business may also be impacted by airlines that closely manage their aftermarket costs as engine performance and quality improves. Fluctuations in fuel costs and their impact on airline profitability and behaviors within the aerospace industry could also impact levels and frequency of aircraft maintenance and overhaul activities, and airlines' decisions on maintaining, deferring or canceling new aircraft purchases, in part based on the economics associated with new fuel efficient technologies.

Given the pressures on sales growth resulting from COVID-19, the Company remains focused on the proactive management of costs as it takes action to mitigate continued pressure on operating profit. Certain cost savings actions taken in the prior year remain in effect and were critical in partially offsetting the lower profit contribution of lower Aftermarket sales in the current period. Aerospace will continue to explore opportunities for additional cost savings throughout 2021, including working closely with vendors and customers as it relates to the timing of deliveries and pricing initiatives. Management also remains focused on strategic investments and new product and process introductions. Driving productivity through the application of the Barnes Enterprise System continues as a key initiative. Operating profit is expected to be affected by the impact of the changes in sales volume noted above, mix and pricing, particularly as they relate to the higher profit Aftermarket RSP spare parts business, and investments made in each of its businesses. Operating profits may also be impacted by potential changes in tariffs, trade agreements and trade policies that may affect the cost and/or availability of goods. Costs associated with new product and process introductions, the physical transfer of work to other global regions, additional productivity initiatives and restructuring activities may also negatively impact operating profit.

LIQUIDITY AND CAPITAL RESOURCES

Management assesses the Company's liquidity in terms of its overall ability to generate cash to fund its operating and investing activities. Of particular importance in the management of liquidity are cash flows generated from operating activities, capital expenditure levels, dividends, capital stock transactions, effective utilization of surplus cash positions overseas and adequate lines of credit. The Company currently maintains sufficient liquidity and will continue to evaluate ways to enhance its liquidity position as it navigates through the disrupted business environment that has resulted from COVID-19.

The Company believes that its ability to generate cash from operations in excess of its internal operating needs is one of its financial strengths. Management continues to focus on cash flow and working capital management, and anticipates that operating activities in 2021 will generate sufficient cash to fund operations. Given the recent global market disruptions caused by COVID-19, the Company is closely monitoring its cash generation, usage and preservation including the management of working capital to generate cash. The Company does not currently anticipate requiring any additional debt facilities. See additional discussion regarding currently available debt facilities below.

To better align costs with the current business environment, the Company has taken several actions. During 2020, the Company announced the Actions that were taken across the businesses and functions in response to the macroeconomic disruption in global industrial and aerospace end markets. A resulting pre-tax charge of $18.2 million was recorded through operating profit during 2020 (Note 17), primarily related to employee severance and other termination benefits. The Actions were substantially completed in 2020 and, at the time of the Actions being taken, reduced the Company’s global workforce by approximately 8%. The Company continues to invest within its businesses, with its estimate of 2021 capital spending to be approximately $50 million.

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In October 2014, the Company entered into a Note Purchase Agreement (“Note Purchase Agreement”), among the Company and New York Life Insurance Company, New York Life Insurance and Annuity Corporation and New York Life Insurance and Annuity Corporation Institutionally Owned Life Insurance Separate Account, as purchasers, for the issuance of $100.0 million aggregate principal amount of 3.97% senior notes due October 17, 2024 (the “3.97% Senior Notes”). The 3.97% Senior Notes are senior unsecured obligations of the Company and pay interest semi-annually on April 17 and October 17 of each year at an annual rate of 3.97%. The 3.97% Senior Notes will mature on October 17, 2024 unless earlier prepaid in accordance with their terms. Subject to certain conditions, the Company may, at its option, prepay all or any part of the 3.97% Senior Notes in an amount equal to 100% of the principal amount of the 3.97% Senior Notes so prepaid, plus any accrued and unpaid interest to the date of prepayment, plus the Make-Whole Amount, as defined in the Note Purchase Agreement, with respect to such principal amount being prepaid. The Note Purchase Agreement contains customary affirmative and negative covenants that are similar to the covenants required under the Amended Credit Agreement, as discussed below. At June 30, 2021, the Company was in compliance with all covenants under the Note Purchase Agreement.

On October 8, 2020, the Company entered into the sixth amendment to its fifth amended and restated revolving credit agreement with Bank of America (the “Sixth Amendment”) and the first amendment to the Note Purchase Agreement with New York Life (the “First NPA Amendment”). The Sixth Amendment maintained the borrowing availability of $1,000.0 million along with access to request $200.0 million through an accordion feature. The Sixth Amendment and the First NPA Amendment provided for an increase in the Company’s maximum ratio of Consolidated Senior Debt, as defined, to Consolidated EBITDA, as defined, from 3.25 times (or, if a certain permitted acquisition above $150.0 million is consummated, 3.50 times) to 3.75 times in each case at the end of the four fiscal quarters, beginning with December 31, 2020, and regardless of whether a permitted acquisition, as defined, is consummated, providing additional financing flexibility and access to liquidity. Additionally, the Sixth Amendment requires the Company to maintain a maximum ratio of Consolidated Total Debt, as defined, to Consolidated EBITDA, of not more than 3.75 times in each case, at the end of the four fiscal quarters, beginning with December 31, 2020 and regardless of whether a permitted acquisition, as defined, is consummated. Furthermore, the First NPA Amendment provides for (i) adjustments to the ratio of Consolidated Total Debt, as defined, to Consolidated EBITDA, as defined, to conform to a more restrictive total leverage ratio that may be required under the Amended Credit Agreement, (ii) an increase in the amount of allowable add-back for restructuring charges when calculating Consolidated EBITDA from $15.0 million to $25.0 million and (iii) a required fee payment equal to 0.50% per annum times the daily outstanding principal amount of the note during each of the four fiscal quarters, following the quarter ended December 31, 2020, if the Company’s Senior Leverage Ratio, as defined, exceeds 3.25 times. In October 2020, the Company paid fees and expenses of $1.4 million in conjunction with executing the Amendments; such fees have been deferred within Other Assets on the accompanying Consolidated Balance Sheet and are being amortized on the Consolidated Statements of Income.

On February 10, 2021, the Company and certain of its subsidiaries entered into the sixth amended and restated senior unsecured revolving credit agreement (the "Amended Credit Agreement") and retained Bank of America, N.A. as the Administrative Agent for the lenders. The Amended Credit Agreement maintains the $1,000.0 million of availability within the facility, while increasing the available borrowings under the accordion feature from $200.0 million to $250.0 million (aggregate availability of $1,250.0 million) and extends the maturity date through February 2026. The Amended Credit Agreement also adjusts the interest rate to either the Eurocurrency rate, as defined in the Amended Credit Agreement, plus a margin of 1.175% to 1.775% or the base rate, as defined in the Amended Agreement, plus a margin of 0.175% and 0.775%, depending on the Company's leverage ratio at the time of the borrowing. Multi-currency borrowings, pursuant to the Amended Credit Agreement, bear interest at their respective interbank offered rate (i.e. Euribor) or 0.00% (higher of the two rates) plus a margin of between 1.175% to 1.775%. As with the earlier facility, the Company's borrowing capacity is limited by various debt covenants in the Amended Credit Agreement, as described further below. The Amended Credit Agreement requires the Company to maintain a Senior Debt Ratio of not more than 3.75 times at the end of each fiscal quarter ending on or before September 30, 2021, after which the ratio will revert to 3.25 times (or, if a permitted acquisition above $150.0 million is consummated, 3.50 times at the end of each of the first four fiscal quarters ending after the consummation of any such acquisition). In addition, the Amended Credit Agreement requires the Company to maintain a Total Debt Ratio of not more than 3.75 for each fiscal quarter (or, if a permitted acquisition above $150.0 million is consummated, 4.25 times at the end of each of the first four fiscal quarters ending after the consummation of any such acquisition, however, such increase in the ratio will not be effective during any period prior to October 1, 2021. A ratio of Consolidated EBITDA to Consolidated Cash Interest Expense, as defined, of not less than 4.25, is required at the end of each fiscal quarter. The Amended Credit Agreement also contemplates the potential replacement of LIBOR (as defined below) with a successor financing rate, pursuant to the intent of the United Kingdom's Financial Conduct Authority to phase out use of LIBOR. See additional discussion immediately below regarding the Company's ongoing evaluation related to this potential change in financing rates. The Company paid fees and expenses of $4.2 million in conjunction with executing the Amended Credit Agreement; such fees will be deferred within Other assets on the Consolidated Balance Sheets and will be amortized into interest expense on the Consolidated Statements of Income through its maturity.

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The United Kingdom's Financial Conduct Authority, which regulates the London Interbank Offered Rate (“LIBOR”), announced its intent to phase out the use of LIBOR by the end of 2021. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, a steering committee comprised of large U.S. financial institutions, identified the Secured Overnight Financing Rate (“SOFR”) as its preferred benchmark alternative to U.S. dollar LIBOR. Published by the Federal Reserve Bank of New York, SOFR represents a measure of the cost of borrowing cash overnight, collateralized by U.S. Treasury securities, and is calculated based on directly observable U.S. Treasury-backed repurchase transactions. The Company’s Amended Credit Agreement and corresponding interest rate Swap are tied to LIBOR, with each maturing in February 2026, as noted above. The Company is continuing to monitor the potential impact of the replacement of LIBOR, but does not anticipate a material impact on our business, financial condition, results of operations and cash flows.

At June 30, 2021, the Company was in compliance with all applicable covenants. The Company anticipates continued compliance under the Agreements in each of the next four quarters. The Company's most restrictive financial covenant is the Senior Debt Ratio, which required the Company to maintain a ratio of Consolidated Senior Debt to Consolidated EBITDA of not more than 3.75 times at June 30, 2021. The actual ratio at June 30, 2021 was 2.86 times, as defined.

Management suspended share repurchase activity during 2020 as a result of COVID-19, and therefore no shares were repurchased during the first quarter of 2021. Management resumed share repurchase activity during the second quarter of 2021 and, in an effort to offset equity compensation dilution, repurchased 0.1 million shares of the Company's stock at a cost of $5.2 million. Management will continue to evaluate additional repurchases based on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. See "Part II - Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds".

Operating cash flow may be supplemented with external borrowings to meet near-term business expansion needs and the Company's current financial commitments. The Company has assessed its credit facilities in conjunction with the Amended Credit Facility and currently expects that its bank syndicate, comprised of 12 banks, will continue to support its recently executed Amended Credit Agreement which matures in February 2026. At June 30, 2021, the Company had $450.6 million unused and available for borrowings under its $1,000.0 million Amended Credit Facility, subject to covenants in the Company's revolving debt agreements. At June 30, 2021, additional borrowings of $203.8 million of Total Debt, as defined, including $203.8 million of Senior Debt would have been allowed under the financial covenants. The Company intends to use borrowings under its Amended Credit Agreement to support the Company's ongoing growth initiatives. The Company continues to analyze potential acquisition targets and end markets that meet its strategic criteria with an emphasis on proprietary, highly-engineered industrial technologies. The Company believes its credit facilities and access to capital markets, coupled with cash generated from operations, are adequate for its anticipated future requirements. The Company has not drawn on its debt agreements as a result of COVID-19, as it believes the availability of those funds are not at risk given the strength of the underlying bank syndicate. The Company maintains communication with its bank syndicate as it continues to monitor its cash requirements.

The Company had no borrowings under short-term bank credit lines at June 30, 2021.

On April 28, 2017, the Company entered into an interest rate swap agreement (the "2017 Swap") with one bank which converts the interest on the first $100.0 million of the Company's one-month LIBOR-based borrowings from a variable rate plus the borrowing spread to a fixed rate of 1.92% plus the borrowing spread. The 2017 Swap expires on January 31, 2022. On March 24, 2021, the Company entered into a new interest rate swap agreement (the "2021 Swap") with this same bank that will commence on January 31, 2022 and will convert the interest on the first $100.0 million of the Company's one-month LIBOR-based borrowings from a variable rate plus the borrowing spread to a fixed rate of 1.17% plus the borrowing spread. The 2021 Swap will expire on January 30, 2026. These interest rate swap agreements (the "Swaps") remained in place at June 30, 2021 and are accounted for as cash flow hedges. At June 30, 2021, the Company's total borrowings were comprised of 32% fixed rate debt and 68% variable rate debt. At December 31, 2020, the Company's total borrowings were comprised of 30% fixed rate debt and 70% variable rate debt.

The Company completed the sale of the Seeger business to KNG effective February 1, 2020. Gross proceeds received were 39.0 million Euros ($42.9 million) after consideration of post-closing adjustments, which were made during the fourth quarter of 2020, pursuant to the terms of the SPA. The Company yielded net cash proceeds of $36.1 million after consideration of cash sold and transaction costs. Resulting tax charges of $4.2 million were recognized in the first quarter of 2020 following the completion of the sale. The Company utilized the proceeds from the sale to reduce debt under the Amended Credit Facility.

At June 30, 2021, the Company held $91.1 million in cash and cash equivalents, the majority of which was held by foreign subsidiaries. These amounts have no material regulatory or contractual restrictions and are expected to primarily fund international investments.

The Company currently does not plan to make any additional discretionary contributions to its U.S. Qualified pension plans in 2021, however approximately $4.7 million is expected to be made into its U.S. Non-qualified and international pension plans throughout 2021.

Cash Flow

	Six Months Ended June 30,		
(in millions)	**2021**	**2020**	**Change**
Operating activities	$ 85.7	$ 123.2	$ (37.5)
Investing activities	(14.5)	17.3	(31.8)
Financing activities	(58.6)	(151.6)	93.0
Exchange rate effect	(1.3)	(1.7)	0.5
Increase (decrease) in cash	$ 11.4	$ (12.8)	$ 24.2

Operating activities provided $85.7 million in the first half of 2021 compared to $123.2 million in the first half of 2020. Operating cash flows in the comparable 2021 period included cash provided by working capital of $1.3 million compared to $44.5 million in the 2020 period, reflecting a recovery within our end-markets and a corresponding growth in sales.

Investing activities used $14.5 million in the first half of 2021 and generated $17.3 million in the first half of 2020. Net cash proceeds of $36.9 million from the sale of the Seeger business were included in investing activities for the 2020 period. See Note 2 of the Consolidated Financial Statements. Investing activities in the 2021 period included capital expenditures of $17.6 million compared to $19.8 million in the 2020 period. The Company expects capital spending in 2021 to approximate $50 million.

Financing activities in the first half of 2021 included a net decrease in borrowings of $33.7 million compared to $116.5 million in the comparable 2020 period. During the first six months of 2021 and 2020, the Company repurchased 0.1 million shares and 0.4 million shares, respectively, of the Company's stock at a cost of $5.2 million and $15.6 million, respectively. Total cash used to pay dividends was $16.2 million in both the 2021 and 2020 periods. Other financing cash flows during the first half of 2021 and 2020 include $0.8 million of net cash proceeds and $3.5 million of net cash payments, respectively, resulting from the settlement of foreign currency hedges related to intercompany financing. Other financing cash flows during the first half of 2021 also include $4.2 million of payments made in conjunction with executing the Amended Credit Agreement.

The Company maintains borrowing facilities with banks to supplement internal cash generation. At June 30, 2021, $549.4 million was borrowed at an average interest rate of 1.70% under the Company's $1,000.0 million Amended Credit Facility which matures in February 2026. In addition, as of June 30, 2021, the Company had no borrowings under short-term bank credit lines. At June 30, 2021, the Company's total borrowings were comprised of 32% fixed rate debt and 68% variable rate debt. The interest payments on $100.0 million of the variable rate interest debt have been converted into payment of fixed interest plus the borrowing spread under the terms of the respective interest rate swaps that were executed in April 2017 and March 2021.

Debt Covenants

As noted above, borrowing capacity is limited by various debt covenants in the Company's debt agreements. Following is a reconciliation of Consolidated EBITDA, a key metric in the debt covenants, to the Company's net income (in millions):

		Four Fiscal Quarters Ended June 30, 2021
Net income	$	76.9
Add back:		
Interest expense		16.1
Income taxes		35.8
Depreciation and amortization		88.1
Adjustment for non-cash stock based compensation		10.1
Workforce reduction and restructuring charges		2.0
Other adjustments		0.4
Consolidated EBITDA, as defined within the Amended Credit Agreement	$	229.4
Consolidated Senior Debt, as defined, as of June 30, 2021	$	656.5
Ratio of Consolidated Senior Debt to Consolidated EBITDA		2.86
Maximum		3.75
Consolidated Total Debt, as defined, as of June 30, 2021	$	656.5
Ratio of Consolidated Total Debt to Consolidated EBITDA		2.86
Maximum		3.75
Consolidated Cash Interest Expense, as defined, as of June 30, 2021	$	16.1
Ratio of Consolidated EBITDA to Consolidated Cash Interest Expense		14.21
Minimum		4.25

The Amended Credit Agreement allows for certain adjustments within the calculation of the financial covenants. Other adjustments consist primarily of due diligence and transaction expenses as permitted under the Amended Credit Agreement. The Company's financial covenants are measured as of the end of each fiscal quarter. At June 30, 2021, additional borrowings of $203.8 million of Senior Debt would have been allowed under the covenants. Additional borrowings for Total Debt would also have been limited to $203.8 million at June 30, 2021. Senior Debt includes primarily the borrowings under the Amended Credit Agreement, the 3.97% Senior Notes and the borrowings under the lines of credit. The Company's unused committed credit facilities at June 30, 2021 were $450.6 million; however, the borrowing capacity was limited by the debt covenants to $203.8 million at June 30, 2021.

OTHER MATTERS

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant accounting policies are disclosed in Note 1 of the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2020. The most significant areas involving management judgments and estimates are described in Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Annual Report on Form 10-K for the year ended December 31, 2020. Actual results could differ from those estimates. There have been no material changes to such judgments and estimates.

Critical Accounting Policies

Goodwill and Indefinite-Lived Intangible Assets: Goodwill and indefinite-lived intangible assets are subject to impairment testing annually or earlier if an event or change in circumstances indicates that the fair value of a reporting unit has been reduced below its carrying value. Management completes their annual impairment assessments during the second quarter of each year as of April 1. The Company utilizes the option to first assess qualitative factors to determine whether it is necessary to perform the Step 1 quantitative goodwill impairment test in accordance with the applicable accounting standards. Under the qualitative assessment, management considers relevant events and circumstances including but not limited to macroeconomic conditions, industry and market considerations, overall unit performance and events directly affecting a unit. If the Company determines that the Step 1 quantitative impairment test is required, management estimates the fair value of the reporting unit primarily using the income approach, which reflects management's cash flow projections, and also evaluates the fair value using the market approach. Inherent in management's development of cash flow projections are assumptions and estimates,

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including those related to future earnings and growth and the weighted average cost of capital. The Company compares the fair value of the reporting unit with the carrying value of the reporting unit. If the fair values were to fall below the carrying values, the Company would recognize a non-cash impairment charge to income from operations for the amount by which the carrying amount of any reporting unit exceeds the reporting unit's fair value, assuming the loss recognized does not exceed the total amount of goodwill for the reporting unit. Based on our second quarter assessment, the estimated fair value of the Automation reporting unit, which represents the 2018 acquisition of Gimatic, exceeded its carrying value while the estimated fair value of each of the remaining reporting units significantly exceeded their carrying values. There was no goodwill impairment at any reporting units. Many of the factors used in assessing fair value are outside the control of management, and these assumptions and estimates can change in future periods as a result of both Company-specific and overall economic conditions, including the impacts of the COVID-19 pandemic. Management's quantitative assessment includes a review of the potential impacts of current and projected market conditions from a market participant's perspective on reporting units' projected cash flows, growth rates and cost of capital to assess the likelihood of whether the fair value would be less than the carrying value. The Company also completed its annual impairment testing of its trade names, indefinite-lived intangible assets, in the second quarter of 2021 and determined that there were no impairments.

EBITDA

Earnings before interest expense, income taxes, and depreciation and amortization ("EBITDA") for the first half of 2021 was $112.9 million compared to $102.0 million in the first half of 2020. EBITDA is a measurement not in accordance with generally accepted accounting principles ("GAAP"). The Company defines EBITDA as net income plus interest expense, income taxes, and depreciation and amortization which the Company incurs in the normal course of business. The Company does not intend EBITDA to represent cash flows from operations as defined by GAAP, and the reader should not consider it as an alternative to net income, net cash provided by operating activities or any other items calculated in accordance with GAAP, or as an indicator of the Company's operating performance. The Company's definition of EBITDA may not be comparable with EBITDA as defined by other companies. The Company believes EBITDA is commonly used by financial analysts and others in the industries in which the Company operates and, thus, provides useful information to investors. Accordingly, the calculation has limitations depending on its use.

Following is a reconciliation of EBITDA to the Company's net income (in millions):

	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Net income	$ 43.9	$ 30.3
Add back:		
Interest expense	8.4	8.2
Income taxes	15.9	18.3
Depreciation and amortization	44.7	45.3
EBITDA	$ 112.9	$ 102.0

FORWARD-LOOKING STATEMENTS

Certain statements in this Quarterly Report on Form 10-Q are forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements often address our expected future operating and financial performance and financial condition, and often contain words such as "anticipate," "believe," "expect," "plan," "estimate," "project," "continue," "will," "should," "may," and similar terms. These forward-looking statements do not constitute guarantees of future performance and are subject to a variety of risks and uncertainties that may cause actual results to differ materially from those expressed in the forward-looking statements. These include, among others: difficulty maintaining relationships with employees, customers, distributors, suppliers, business partners or governmental entities; failure to successfully negotiate collective bargaining agreements or potential strikes, work stoppages or other similar events; difficulties leveraging market opportunities; changes in market demand for our products and services; rapid technological and market change; the ability to protect and avoid infringing upon intellectual property rights; introduction or development of new products or transfer of work; higher risks in global operations and markets; the impact of intense competition; acts of terrorism, cybersecurity attacks or intrusions that could adversely impact our businesses; the impacts of the COVID-19 pandemic on our business, including on demand, supply chains, operations and our ability to maintain sufficient liquidity throughout the unknown duration and severity of the pandemic; the failure to achieve anticipated cost savings and benefits associated with workforce reductions and restructuring actions; uncertainties relating to conditions in financial markets; currency fluctuations and foreign currency

exposure; future financial performance of the industries or customers that we serve; our dependence upon revenues and earnings from a small number of significant customers; a major loss of customers; inability to realize expected sales or profits from existing backlog due to a range of factors, including changes in customer sourcing decisions, material changes, production schedules and volumes of specific programs; the impact of government budget and funding decisions; government tariffs, trade agreements and trade policies; the impact of new or revised tax laws and regulations; the adoption of laws, directives or regulations that impact the materials processed by our products or their end markets; changes in raw material or product prices and availability; disruptions in information technology systems, including as a result of cybersecurity or data security breaches; the continuing impact of prior acquisitions and divestitures; and any other future strategic actions, including acquisitions, divestitures, restructurings, or strategic business realignments, and our ability to achieve the financial and operational targets set in connection with any such actions; the ability to achieve social and environmental performance goals; the outcome of pending and future legal, governmental, or regulatory proceedings and contingencies; product liabilities and uninsured claims; future repurchases of common stock; future levels of indebtedness; and numerous other matters of a global, regional or national scale, including those of a political, social, economic, business, competitive, environmental, regulatory and public health nature; and other risks and uncertainties described in documents filed with or furnished to the Securities and Exchange Commission ("SEC") by the Company, including, among others, those in the Management's Discussion and Analysis of Financial Condition and Results of Operations and Risk Factors sections of the Company's filings. The Company assumes no obligation to update its forward-looking statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For discussion of the Company's exposure to market risk, refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2020. There have been no material changes to such risk during the six-months ended June 30, 2021.

Item 4. Controls and Procedures

Management, including the Company's President and Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based upon, and as of the date of, our evaluation, the President and Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective, in all material respects and designed to provide reasonable assurance that information required to be disclosed in the reports the Company files and submits under the Securities Exchange Act of 1934, as amended, is (i) recorded, processed, summarized and reported as and when required and (ii) is accumulated and communicated to the Company's management, including our President and Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting during the Company's second quarter of 2021 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are subject to litigation from time to time in the ordinary course of business and various other suits, proceedings and claims are pending against us and our subsidiaries. While it is not possible to determine the ultimate disposition of each of these proceedings and whether they will be resolved consistent with our beliefs, we expect that the outcome of these proceedings, individually or in the aggregate, will not have a material adverse effect on our consolidated financial position, cash flows or results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid Per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs[(2)]
April 1-30, 2021	730	$ 51.12	—	3,704,000
May 1-31, 2021	100,472	$ 52.29	100,000	3,604,000
June 1-30, 2021	1,130	$ 53.28	—	3,604,000
Total	102,332 [(1)]	$ 52.30	100,000	

(1) Other than 100,000 shares purchased during the second quarter of 2021, which were purchased as part of the Company's Repurchase Program (defined below), all acquisitions of equity securities during the second quarter of 2021 were the result of the operation of the terms of the Company's stockholder-approved equity compensation plans and the terms of the equity rights granted pursuant to those plans to pay for the related income tax upon issuance of shares. The purchase price of a share of stock used for tax withholding is the market price on the date of issuance.

(2) At March 31, 2019, 1.5 million shares of common stock had not been purchased under the publicly announced Repurchase Program (the "Program"). On April 25, 2019, the Board of Directors of the Company increased the number of shares authorized for repurchase under the Program by 3.5 million shares of common stock (5.0 million authorized, in total). The Program permits open market purchases, purchases under a Rule 10b5-1 trading plan and privately negotiated transactions.

Item 6. Exhibits

Exhibit 10.1	Offer Letter to Julie K. Streich dated April 20, 2021.
Exhibit 15	Letter regarding unaudited interim financial information.
Exhibit 31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 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.
Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document.
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
Exhibit 101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Barnes Group Inc.
(Registrant)

Date: July 30, 2021

/s/ JULIE K. STREICH

Julie K. Streich
Senior Vice President, Finance
Chief Financial Officer
(Principal Financial Officer)

Date: July 30, 2021

/s/ MARIAN ACKER

Marian Acker
Vice President, Controller
(Principal Accounting Officer)

EXHIBIT INDEX

Barnes Group Inc.

Quarterly Report on Form 10-Q
For the Quarter ended June 30, 2021

Exhibit No.	Description	Reference
10.1	Offer Letter to Julie K. Streich dated April 20, 2021.	Incorporated by reference to Exhibit 10.1 to Form 8-K filed by the Company on April 30, 2021.
15	Letter regarding unaudited interim financial information.	Filed with this report.
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed with this report.
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed with this report.
32	Certification pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Furnished with this report.
Exhibit 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 with this report.
Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document.	Filed with this report.
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.	Filed with this report.
Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.	Filed with this report.
Exhibit 101.LAB	XBRL Taxonomy Extension Label Linkbase Document.	Filed with this report.
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.	Filed with this report.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2021

OR

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

For the transition period from to

Commission file number 1-4801

BARNES GROUP INC.
(Exact name of registrant as specified in its charter)

Delaware	**06-0247840**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

123 Main Street
Bristol
Connecticut **06010**
(Address of Principal Executive Offices) (Zip Code)

UCC-109

(860) 583-7070
Registrant's telephone number, including area code

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

Title of Each Class	Trading Symbol	Name of Each Exchange on Which Registered
Common Stock, par value $0.01 per share	B	New York Stock Exchange

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 check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§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, smaller reporting company, or an emerging growth company. See the 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 is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

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The registrant had outstanding 50,627,316 shares of common stock as of October 27, 2021.

Barnes Group Inc.
Index to Form 10-Q
For the Quarterly Period Ended September 30, 2021

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. See "FORWARD-LOOKING STATEMENTS" under Part I - Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Quarterly Report on Form 10-Q.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

BARNES GROUP INC.
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands, except per share data)
(Unaudited)

	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Net sales	$ 325,059	$ 269,059	$ 947,846	$ 835,266
Cost of sales	205,079	176,908	602,943	532,214
Selling and administrative expenses	76,271	60,908	230,271	212,380
	281,350	237,816	833,214	744,594
Operating income	43,709	31,243	114,632	90,672
Interest expense	4,027	3,701	12,443	11,924
Other expense (income), net	1,217	47	3,952	2,700
Income before income taxes	38,465	27,495	98,237	76,048
Income taxes	10,602	12,137	26,501	30,390
Net income	$ 27,863	$ 15,358	$ 71,736	$ 45,658
Per common share:				
Basic	$ 0.55	$ 0.30	$ 1.41	$ 0.90
Diluted	0.55	0.30	1.40	0.89
Weighted average common shares outstanding:				
Basic	50,905,202	50,833,157	50,925,702	50,886,094
Diluted	51,060,684	50,937,093	51,085,509	51,123,024

See accompanying notes.

BARNES GROUP INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net income	$ 27,863	$ 15,358	$ 71,736	$ 45,658
Other comprehensive (loss) income, net of tax				
Unrealized gain (loss) on hedging activities, net of tax (1)	62	79	(488)	(1,447)
Foreign currency translation adjustments, net of tax (2)	(25,383)	39,851	(51,669)	23,774
Defined benefit pension and other postretirement benefits, net of tax (3)	3,640	2,209	10,165	2,667
Total other comprehensive (loss) income, net of tax	(21,681)	42,139	(41,992)	24,994
Total comprehensive income	$ 6,182	$ 57,497	$ 29,744	$ 70,652

(1) Net of tax of $47 and $73 for the three months ended September 30, 2021 and 2020, respectively, and $(106) and $(481) for the nine months ended September 30, 2021 and 2020, respectively.

(2) Net of tax of $0 and $0 for the three months ended September 30, 2021 and 2020, respectively, and $0 and $(66) for the nine months ended September 30, 2021 and 2020, respectively.

(3) Net of tax of $972 and $844 for the three months ended September 30, 2021 and 2020, respectively, and $3,033 and $456 for the nine months ended September 30, 2021 and 2020, respectively.

See accompanying notes.

BARNES GROUP INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share data)
(Unaudited)

	September 30, 2021	December 31, 2020
Assets		
Current assets		
Cash and cash equivalents	$ 93,475	$ 79,145
Accounts receivable, less allowances (2021 - $6,216; 2020 - $6,348)	260,146	251,460
Inventories	238,842	238,008
Prepaid expenses and other current assets	79,594	73,732
Total current assets	672,057	642,345
Deferred income taxes	21,153	22,092
Property, plant and equipment	905,301	910,378
Less accumulated depreciation	(557,760)	(539,431)
	347,541	370,947
Goodwill	967,481	1,011,580
Other intangible assets, net	517,324	564,132
Other assets	61,033	65,130
Total assets	$ 2,586,589	$ 2,676,226
Liabilities and Stockholders' Equity		
Current liabilities		
Notes and overdrafts payable	$ 1,799	$ 2,115
Accounts payable	124,603	112,428
Accrued liabilities	179,185	178,560
Long-term debt - current	1,969	2,276
Total current liabilities	307,556	295,379
Long-term debt	628,689	699,868
Accrued retirement benefits	91,685	98,171
Deferred income taxes	73,292	91,668
Long-term tax liability	52,114	59,063
Other liabilities	40,024	49,400
Commitments and contingencies (Note 16)		
Stockholders' equity		
Common stock - par value $0.01 per share Authorized: 150,000,000 shares Issued: at par value (2021 - 64,283,591 shares; 2020 - 64,171,321 shares)	643	642
Additional paid-in capital	513,357	501,531
Treasury stock, at cost (2021 - 13,657,055 shares; 2020 - 13,530,074 shares)	(523,577)	(516,992)
Retained earnings	1,567,113	1,519,811
Accumulated other non-owner changes to equity	(164,307)	(122,315)
Total stockholders' equity	1,393,229	1,382,677
Total liabilities and stockholders' equity	$ 2,586,589	$ 2,676,226

See accompanying notes.

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BARNES GROUP INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2021	**2020**
Operating activities:		
Net income	$ 71,736	$ 45,658
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	68,004	66,045
Gain on disposition of property, plant and equipment	(414)	(303)
Stock compensation expense	9,212	8,094
Seeger divestiture charges	—	6,620
Changes in assets and liabilities, net of the effects of divestitures:		
Accounts receivable	(15,649)	103,161
Inventories	(5,582)	(11,616)
Prepaid expenses and other current assets	(7,205)	(10,168)
Accounts payable	17,827	(24,476)
Accrued liabilities	(1,051)	(7,981)
Deferred income taxes	(7,052)	(5,032)
Long-term retirement benefits	2,308	(2,517)
Long-term tax liability	(6,949)	(6,949)
Other	2,605	3,296
Net cash provided by operating activities	127,790	163,832
Investing activities:		
Proceeds from disposition of property, plant and equipment	1,204	580
Proceeds from the sale of businesses, net of cash sold	—	36,879
Capital expenditures	(26,735)	(30,170)
Other	2,107	—
Net cash (used) provided by investing activities	(23,424)	7,289
Financing activities:		
Net change in other borrowings	(226)	6,794
Payments on long-term debt	(73,081)	(219,279)
Proceeds from the issuance of long-term debt	25,000	75,000
Proceeds from the issuance of common stock	464	1,661
Common stock repurchases	(5,229)	(15,550)
Dividends paid	(24,293)	(24,302)
Withholding taxes paid on stock issuances	(1,356)	(3,177)
Other	(9,835)	(2,217)
Net cash used by financing activities	(88,556)	(181,070)
Effect of exchange rate changes on cash flows	(2,923)	675
Increase (decrease) in cash, cash equivalents and restricted cash	12,887	(9,274)
Cash, cash equivalents and restricted cash at beginning of period	91,468	93,805
Cash, cash equivalents and restricted cash at end of period	104,355	84,531
Less: Restricted cash, included in Prepaid expenses and other current assets	(6,239)	—
Less: Restricted cash, included in Other assets	(4,641)	(7,046)
Cash and cash equivalents at end of period	$ 93,475	$ 77,485

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See accompanying notes.

BARNES GROUP INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(All dollar amounts included in the notes are stated in thousands except per share data)
(Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated balance sheet and the related unaudited consolidated statements of income, comprehensive income and cash flows have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. The consolidated financial statements do not include all information and notes required by accounting principles generally accepted in the United States of America for complete financial statements. The balance sheet as of December 31, 2020 has been derived from the 2020 financial statements of Barnes Group Inc. (the "Company"). For additional information, please refer to the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020. In the opinion of management, all adjustments, including normal recurring accruals considered necessary for a fair statement of the results, have been included. Operating results for the nine-month period ended September 30, 2021 are not necessarily indicative of the results that may be expected for the year ending December 31, 2021. Certain reclassifications have been made to prior year amounts to conform to current year presentation.

The COVID-19 pandemic ("COVID-19") has resulted in a disruption in business activities worldwide and has caused weakened economic conditions, both in the United States and abroad. COVID-19 has had, and may continue to have, a significant negative impact on the Company's ongoing operations and the end markets in which it serves. The Company has assessed the impacts that COVID-19 has had on its accounting estimates, assumptions and disclosures.

2. Divestiture

On December 20, 2019, the Company entered into a Share Purchase and Transfer Agreement ("SPA") with the Kajo Neukirchen Group ("KNG") to sell the Seeger business, consisting of partnership interests and shares, respectively, of Seeger-Orbis GmbH & Co. OHG and Seeger-Orbis Mechanical Components (Tianjin) Co., Ltd. ("Seeger") for 42,500 Euros, subject to certain adjustments. The Company completed the sale of the Seeger business to KNG effective February 1, 2020. Gross proceeds received were 38,964 Euros ($42,915) after consideration of post-closing adjustments, which were made during the fourth quarter of 2020, pursuant to the terms of the SPA. The Company yielded net cash proceeds of $36,062 after consideration of cash sold and transaction costs. Resulting tax charges of $4,211 were recognized in the first quarter of 2020 following the completion of the sale. Divestiture charges of $2,409 resulted from the completion of the sale and were recorded within Selling and Administrative expenses on the Consolidated Statements of Income in the quarter ended March 31, 2020.

The Company utilized the proceeds from the sale to reduce debt under the Amended Credit Agreement. Pursuant to the SPA, 6,000 Euros of the proceeds were placed in escrow and will be released through 2024, pending any potential settlement of claims. Cash related to a pending claim would remain in escrow until a final determination of the claim has been made. The Company has recorded the restricted cash in Prepaid Expenses and Other Current Assets and Other Assets (non-current) as of September 30, 2021.

3. Recent Accounting Standards

The Financial Accounting Standards Board ("FASB") establishes changes to accounting principles under U.S. GAAP through the use of Accounting Standards Updates ("ASUs") to the FASB's Accounting Standards Codification. The Company evaluates the applicability and potential impacts of recent ASUs on its Consolidated Financial Statements and related disclosures.

Recently Adopted Accounting Standards

In June 2016, the FASB amended its guidance related to credit losses on financial instruments. The amended guidance requires the use of a methodology of estimation that reflects expected credit losses on certain types of financial instruments, including trade receivables, as a replacement to the current methodology, which estimates losses based on incurred credit losses. This expected credit loss methodology requires that the Company consider a broader range of information when estimating credit losses on receivables. The amended guidance was effective for fiscal years, and interim periods within those years, beginning after December 15, 2019. The Company adopted this amended guidance and applicable FASB updates related to the guidance during the first quarter of 2020 and it did not have a material impact on the Company's Consolidated Financial Statements.

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In December 2019, the FASB amended its guidance related to income taxes. The amended guidance simplifies the accounting for income taxes, eliminating certain exceptions to the general income tax principles, in an effort to reduce the cost and complexity of application. The amended guidance is effective for annual periods beginning after December 15, 2020, and interim periods within those reporting periods. Early adoption is permitted in any interim or annual period. The guidance requires application on either a prospective, retrospective or modified retrospective basis, contingent on the income tax exception being applied. The Company has adopted this guidance, on a prospective basis, on January 1, 2021 and it did not have a material impact on the Company's Consolidated Financial Statements.

Recently Issued Accounting Standards

The United Kingdom's Financial Conduct Authority, which regulates the London Interbank Offered Rate ("LIBOR"), announced its intent to phase out the use of LIBOR by December 31, 2021. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, a steering committee comprised of large U.S. financial institutions, identified the Secured Overnight Financing Rate ("SOFR") as its preferred benchmark alternative to U.S. dollar LIBOR. Published by the Federal Reserve Bank of New York, SOFR represents a measure of the cost of borrowing cash overnight, collateralized by U.S. Treasury securities, and is calculated based on directly observable U.S. Treasury-backed repurchase transactions. In March 2020, in response to this transition, the FASB issued guidance related to this rate reform, which provides optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships and other transactions that reference LIBOR or another reference rate expected to be discontinued by reference rate reform, and addresses operational issues likely to arise in modifying contracts to replace discontinued reference rates with new rates. In January 2021, the FASB issued further clarifying guidance regarding derivatives, as it relates to this transition. The guidance is effective through December 31, 2022. The Company's Amended Credit Agreement (Note 9) and corresponding interest rate Swaps (Note 10) are tied to LIBOR, with each maturing in February 2026. In March 2021, the ICE Benchmark Association announced that it will extend the publication of overnight, 1, 3, 6 and 12 month LIBOR rates until June 30, 2023, while ceasing publication of all other LIBOR rates including 1 week and 2 month rates. See Note 9 as the Company's Credit Facility was amended in October 2021 to address the replacement of LIBOR, defining certain applicable multi-currency borrowing rates that may be used as a replacement. The Company is continuing to monitor the potential impact of the replacement of LIBOR, but does not anticipate a material impact on our business, financial condition, results of operations or cash flows.

4. Revenue

The Company is a global provider of highly engineered products, differentiated industrial technologies, and innovative solutions, serving a wide range of end markets and customers. Its specialized products and services are used in far-reaching applications including aerospace, transportation, manufacturing, automation, healthcare and packaging.

Revenue is recognized by the Company when control of the product or solution is transferred to the customer. Control is generally transferred when products are shipped or delivered to customers, title is transferred, and the significant risks and rewards of ownership have transferred, and the Company has rights to payment and rewards of ownership pass to the customer. Although revenue is generally transferred at a point in time, a certain portion of the Company's businesses with customized products or contracts in which the Company performs work on customer-owned assets requires the use of an over time recognition model as certain contracts meet one or more of the established criteria pursuant to the accounting guidance. Also, service revenue is recognized as control transfers, which is concurrent with the services being performed.

The following table presents the Company's revenue disaggregated by products and services, and geographic regions, by segment:

	Three Months Ended September 30, 2021			Three Months Ended September 30, 2020		
	Industrial	**Aerospace**	**Total Company**	**Industrial**	**Aerospace**	**Total Company**
Products and Services						
Engineered Components Products	$ 47,217	$ —	$ 47,217	$ 41,746	$ —	$ 41,746
Molding Solutions Products	119,956	—	119,956	103,684	—	103,684
Force & Motion Control Products	47,534	—	47,534	37,813	—	37,813
Automation Products	16,841	—	16,841	13,668	—	13,668
Aerospace Original Equipment Manufacturer Products	—	64,058	64,058	—	52,023	52,023
Aerospace Aftermarket Products and Services	—	29,453	29,453	—	20,125	20,125
	$ 231,548	$ 93,511	$ 325,059	$ 196,911	$ 72,148	$ 269,059
Geographic Regions (A)						
Americas	$ 90,902	$ 70,231	$ 161,133	$ 73,677	$ 56,740	$ 130,417
Europe	83,255	16,002	99,257	80,470	10,139	90,609
Asia	56,370	6,586	62,956	41,255	4,704	45,959
Rest of World	1,021	692	1,713	1,509	565	2,074
	$ 231,548	$ 93,511	$ 325,059	$ 196,911	$ 72,148	$ 269,059

	Nine Months Ended September 30, 2021			Nine Months Ended September 30, 2020		
	Industrial	**Aerospace**	**Total Company**	**Industrial**	**Aerospace**	**Total Company**
Products and Services						
Engineered Components Products	$ 140,932	$ —	$ 140,932	$ 115,414	$ —	$ 115,414
Molding Solutions Products	351,115	—	351,115	294,869	—	294,869
Force & Motion Control Products	141,512	—	141,512	112,250	—	112,250
Automation Products	52,648	—	52,648	38,506	—	38,506
Aerospace Original Equipment Manufacturer Products	—	180,571	180,571	—	178,346	178,346
Aerospace Aftermarket Products and Services	—	81,068	81,068	—	95,881	95,881
	$ 686,207	$ 261,639	$ 947,846	$ 561,039	$ 274,227	$ 835,266
Geographic Regions (A)						
Americas	$ 266,798	$ 194,878	$ 461,676	$ 208,232	$ 196,945	$ 405,177
Europe	262,023	43,416	305,439	230,685	49,742	280,427
Asia	153,876	21,329	175,205	118,511	23,937	142,448
Rest of World	3,510	2,016	5,526	3,611	3,603	7,214
	$ 686,207	$ 261,639	$ 947,846	$ 561,039	$ 274,227	$ 835,266

(A) Sales by geographic region are based on the location to which the product is shipped.

Revenue from products and services transferred to customers at a point in time accounted for approximately 80 percent of total revenue for each of the three and nine month periods ended September 30, 2021, and approximately 90 percent and 85 percent of total revenue for each of the three and nine month periods ended September 30, 2020, respectively. A majority of revenue within the Industrial segment and Aerospace Original Equipment Manufacturing business ("OEM"), along with a portion of revenue within the Aerospace Aftermarket Products and Services business ("Aftermarket"), is recognized at a point in time, primarily when the product or solution is shipped to the customer.

Revenue from products and services transferred to customers over-time accounted for approximately 20 percent of total revenue for each of the three and nine month periods ended September 30, 2021, and approximately 10 percent and 15 percent for each of the three and nine month periods ended September 30, 2020, respectively. The Company recognizes revenue over-time in instances where a contract supports a continual transfer of control to the customer. Substantially all of our revenue in the Aerospace maintenance repair and overhaul business (within Aftermarket Products and Services) and a portion of the revenue for Engineered Components products, Molding Solutions products and Aerospace OEM products is recognized over-time. Within the Molding Solutions and Aerospace Aftermarket businesses, this continual transfer of control to the customer partially results from repair and refurbishment work performed on customer-controlled assets. With other contracts, this continual transfer of control to the customer is supported by clauses in the contract, or governing commercial law of the relevant jurisdiction, where we deliver products that do not have an alternative use and require an enforceable right to payment of costs incurred (plus a reasonable profit) or the Company has a contractual right to complete any work in process and receive full contract price.

The majority of our revenues are from contracts that are for less than one year, however certain Aerospace OEM and Molding Solutions business contracts extend beyond one year. In the Industrial segment, customers are typically OEMs or suppliers to OEMs and, in some businesses, distributors. In the Aerospace segment, customers include commercial airlines, OEMs, defense-related manufacturers, and industry parts & service providers.

A performance obligation represents a promise within a contract to provide a distinct good or service to the customer. Revenue is recognized in an over-time model 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 utilizes the cost-to-cost measure of progress for over-time contracts as we believe this measure best depicts the transfer of control to the customer, which occurs as we incur costs on contracts.

Adjustments to net sales, cost of sales and the related impact to operating income are recognized as necessary in the period they become known. Revenue recognized from performance obligations satisfied in previous periods was not material in both the three and nine month periods ended September 30, 2021 and 2020.

Contract Balances. The timing of revenue recognition, invoicing and cash collections affect accounts receivable, unbilled receivables (contract assets) and customer advances and deposits (contract liabilities) on the Consolidated Balance Sheets.

Unbilled Receivables (Contract Assets) - Pursuant to the over-time revenue recognition model, revenue may be recognized prior to the customer being invoiced. An unbilled receivable is recorded to reflect revenue that is recognized when 1) the cost-to-cost method is applied and 2) such revenue exceeds the amount invoiced to the customer. Unbilled receivables are included within Prepaid Expenses and Other Current Assets on the Consolidated Balance Sheets as of September 30, 2021 and December 31, 2020.

Customer Advances and Deposits (Contract Liabilities) - The Company may receive a customer advance or deposit, or have an unconditional right to receive a customer advance, prior to revenue being recognized. Certain contracts within the Molding Solutions business, for example, may require such advances. Since the performance obligations related to such advances may not have been satisfied, a contract liability is established. An offsetting asset of equal amount is recorded as an account receivable until the advance is collected. Advances and deposits are included within Accrued Liabilities on the Consolidated Balance Sheets until the respective revenue is recognized. Advance payments are not considered a significant financing component as they are generally received less than one year before the customer solution is completed. These assets and liabilities are reported on the Consolidated Balance Sheets on an individual contract basis at the end of each reporting period.

Net contract assets (liabilities) consisted of the following:

	September 30, 2021	December 31, 2020	$ Change	% Change
Unbilled receivables (contract assets)	$ 37,063	$ 33,009	$ 4,054	12 %
Contract liabilities	(26,290)	(39,865)	13,575	(34)%
Net contract assets (liabilities)	$ 10,773	$ (6,856)	$ 17,629	NM

NM - Not Meaningful

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Contract liabilities balances at September 30, 2021 and December 31, 2020 include $11,682 and $12,750, respectively, of customer advances for which the Company has an unconditional right to collect payment. Accounts receivable, as presented on the Consolidated Balance Sheet, include corresponding balances at September 30, 2021 and December 31, 2020, respectively.
Changes in the net contract asset during the nine-month period ended September 30, 2021 included a $13,575 decrease in contract liabilities, driven primarily by revenue recognized in the current period, partially offset by new customer advances and deposits. Adding to this net contract assets increase was a $4,054 increase in contract assets, driven primarily by contract progress (i.e. unbilled receivable), partially offset by earlier contract progress being invoiced to the customer.

The Company recognized approximately 30% and 85% of the revenue related to the contract liabilities balance as of December 31, 2020 during the three and nine months ended September 30, 2021, respectively, and approximately 25% and 75% of the revenue related to the contract liabilities balance as of December 31, 2019 during the three and nine months ended September 30, 2020, respectively, primarily representing revenue from the sale of molds and hot runners within the Molding Solutions business.

Remaining Performance Obligations. The Company has elected to disclose remaining performance obligations only for contracts with an original duration of greater than one year. Such remaining performance obligations represent the transaction price of firm orders for which work has not yet been performed and, for Aerospace, excludes projections of components and assemblies that Aerospace OEM customers anticipate purchasing in the future under existing programs, which represent orders that are beyond lead time and do not represent performance obligations pursuant to accounting guidance. As of September 30, 2021, the aggregate amount of the transaction price allocated to remaining performance obligations was $175,029. The Company expects to recognize revenue on approximately 70% of the remaining performance obligations over the next 12 months, with the remainder to be recognized within 24 months.

5. Stockholders' Equity

A schedule of consolidated changes in equity for the nine months ended September 30, 2021 is as follows (number of shares in thousands):

	Common Stock (Number of Shares)	Common Stock (Amount)	Additional Paid-In Capital	Treasury Stock (Number of Shares)	Treasury Stock (Amount)	Retained Earnings	Accumulated Other Non-Owner Changes to Equity	Total Stockholders' Equity
December 31, 2020	64,171	$ 642	$ 501,531	13,530	$ (516,992)	$ 1,519,811	$ (122,315)	$ 1,382,677
Comprehensive income	—	—	—	—	—	19,382	(44,902)	(25,520)
Dividends declared ($0.16 per share)	—	—	—	—	—	(8,104)	—	(8,104)
Employee stock plans	12	—	2,406	1	(68)	(24)	—	2,314
March 31, 2021	64,183	$ 642	$ 503,937	13,531	$ (517,060)	$ 1,531,065	$ (167,217)	$ 1,351,367
Comprehensive income	—	—	—	—	—	24,491	24,591	49,082
Dividends declared ($0.16 per share)	—	—	—	—	—	(8,090)	—	(8,090)
Common stock repurchases	—	—	—	100	(5,229)	—	—	(5,229)
Employee stock plans	17	—	3,417	3	(123)	(31)	—	3,263
June 30, 2021	64,200	$ 642	$ 507,354	13,634	$ (522,412)	$ 1,547,435	$ (142,626)	$ 1,390,393
Comprehensive income	—	—	—	—	—	27,863	(21,681)	6,182
Dividends declared ($0.16 per share)	—	—	—	—	—	(8,099)	—	(8,099)
Residual interest in subsidiary	—	—	2,177	—	—	—	—	2,177
Employee stock plans	84	1	3,826	23	(1,165)	(86)	—	2,576
September 30, 2021	64,284	$ 643	$ 513,357	13,657	$ (523,577)	$ 1,567,113	$ (164,307)	$ 1,393,229

A schedule of consolidated changes in equity for the nine months ended September 30, 2020 is as follows (number of shares in thousands):

	Common Stock (Number of Shares)	Common Stock (Amount)	Additional Paid-In Capital	Treasury Stock (Number of Shares)	Treasury Stock (Amount)	Retained Earnings	Accumulated Other Non-Owner Changes to Equity	Total Stockholders' Equity
December 31, 2019	63,873	$ 639	$ 489,282	13,051	$ (498,074)	$ 1,489,176	$ (210,495)	$ 1,270,528
Comprehensive income	—	—	—	—	—	29,733	(34,189)	(4,456)
Dividends declared ($0.16 per share)	—	—	—	—	—	(8,133)	—	(8,133)
Common stock repurchases	—	—	—	396	(15,550)	—	—	(15,550)
Employee stock plans	17	—	2,743	2	(84)	(88)	—	2,571
March 31, 2020	63,890	$ 639	$ 492,025	13,449	$ (513,708)	$ 1,510,688	$ (244,684)	$ 1,244,960
Comprehensive income	—	—	—	—	—	567	17,044	17,611
Dividends declared ($0.16 per share)	—	—	—	—	—	(8,072)	—	(8,072)
Employee stock plans	14	—	3,394	1	(53)	(134)	—	3,207
June 30, 2020	63,904	$ 639	$ 495,419	13,450	$ (513,761)	$ 1,503,049	$ (227,640)	$ 1,257,706
Comprehensive income	—	—	—	—	—	15,358	42,139	57,497
Dividends declared ($0.16 per share)	—	—	—	—	—	(8,097)	—	(8,097)
Employee stock plans	237	2	3,601	76	(3,039)	(14)	—	550
September 30, 2020	64,141	$ 641	$ 499,020	13,526	$ (516,800)	$ 1,510,296	$ (185,501)	$ 1,307,656

6. Net Income Per Common Share

For the purpose of computing diluted net income per common share, the weighted-average number of common shares outstanding is increased for the potential dilutive effects of stock-based incentive plans. For the purpose of computing diluted net income per common share, the weighted-average number of common shares outstanding was increased by 155,482 and 103,936 for the three-month periods ended September 30, 2021 and 2020, respectively, and by 159,807 and 236,930 for the nine-month periods ended September 30, 2021 and 2020, respectively.

The calculation of weighted-average diluted shares outstanding excludes all shares that would have been anti-dilutive. During the three-month periods ended September 30, 2021 and 2020, the Company excluded 501,242 and 525,738 stock awards, respectively, from the calculation of weighted-average diluted shares outstanding as the stock awards were considered anti-dilutive. During the nine-month periods ended September 30, 2021 and 2020, the Company excluded 508,812 and 488,401 stock awards, respectively, from the calculation of weighted-average diluted shares outstanding as the stock awards were considered anti-dilutive.

The Company granted 144,000 stock options, 105,669 restricted stock unit awards and 97,515 performance share awards ("PSAs") in February 2021 as part of its annual long-term incentive equity grant awards. All of the stock options and the restricted stock unit awards vest upon meeting certain service conditions. The restricted stock unit awards are included in basic weighted-average common shares outstanding as they contain nonforfeitable rights to dividend payments. The PSAs are part of the long-term Performance Share Award Program and are based on performance goals that are driven by a combination of independently measured metrics (depending on the grant year) with each metric being weighted equally. The metrics for awards granted in 2021 include the Company's total shareholder return ("TSR"), return on invested capital ("ROIC") and operating income before depreciation and amortization growth ("EBITDA growth"). The TSR and EBITDA growth metrics are designed to assess the long-term Company performance relative to the performance of companies included in the Russell 2000 Index over a three-year performance period. ROIC is designed to assess the Company's performance compared to pre-established Company targets over a three-year performance period. The participants can earn from zero to 250% of the target award and the award includes a forfeitable right to dividend equivalents, which are not included in the aggregate target award numbers. The fair value of the TSR is determined using a Monte Carlo valuation method as the award contains a market condition.

7. Inventories

The components of inventories consisted of:

	September 30, 2021	December 31, 2020
Finished goods	$ 86,776	$ 79,833
Work-in-process	67,350	76,542
Raw material and supplies	84,716	81,633
	$ 238,842	$ 238,008

8. Goodwill and Other Intangible Assets

Goodwill:

The following table sets forth the change in the carrying amount of goodwill for each reportable segment and for the Company as of and for the period ended September 30, 2021:

	Industrial	Aerospace	Total Company
December 31, 2020	$ 980,794	$ 30,786	$ 1,011,580
Foreign currency translation	(44,099)	—	(44,099)
September 30, 2021	$ 936,695	$ 30,786	$ 967,481

In the second quarter of 2021, management performed its annual impairment testing of goodwill and determined that there was no goodwill impairment.

Other Intangible Assets:

Other intangible assets consisted of:

		September 30, 2021		December 31, 2020	
	Range of Life -Years	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Amortized intangible assets:					
Revenue Sharing Programs (RSPs)	Up to 30	$ 299,500	$ (149,243)	$ 299,500	$ (143,209)
Component Repair Programs (CRPs)	Up to 30	111,839	(34,204)	111,839	(30,869)
Customer relationships	10-16	338,366	(134,180)	338,366	(118,752)
Patents and technology	4-11	123,433	(84,040)	123,433	(77,311)
Trademarks/trade names	10-30	10,949	(10,542)	10,949	(10,377)
Other	Up to 15	10,746	(5,160)	10,746	(4,580)
		894,833	(417,369)	894,833	(385,098)
Unamortized intangible assets:					
Trade names		55,670	—	55,670	—
Foreign currency translation		(15,810)	—	(1,273)	—
Other intangible assets		$ 934,693	$ (417,369)	$ 949,230	$ (385,098)

Estimated amortization of intangible assets for future periods is as follows: 2021 (remainder) - $10,000; 2022 - $42,000; 2023- $44,000; 2024 - $44,000; 2025 - $44,000 and 2026- $43,000.

In the second quarter of 2021, management performed its annual impairment testing of its trade names, which are indefinite-lived intangible assets. Based on this assessment, there were no impairments.

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9. Debt

Long-term debt and notes and overdrafts payable at September 30, 2021 and December 31, 2020 consisted of:

	September 30, 2021		December 31, 2020	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Amended Credit Agreement	$ 523,405	$ 551,793	$ 593,622	$ 601,936
3.97% Senior Notes	100,000	108,090	100,000	109,151
Borrowings under lines of credit and overdrafts	148	148	2,115	2,115
Finance leases	7,149	7,401	8,268	8,650
Other	1,755	1,757	254	257
	632,457	669,189	704,259	722,109
Less current maturities	(3,768)		(4,391)	
Long-term debt	$ 628,689		$ 699,868	

In October 2014, the Company entered into a Note Purchase Agreement ("Note Purchase Agreement"), among the Company and New York Life Insurance Company, New York Life Insurance and Annuity Corporation and New York Life Insurance and Annuity Corporation Institutionally Owned Life Insurance Separate Account, as purchasers, for the issuance of $100,000 aggregate principal amount of 3.97% Senior Notes due October 17, 2024 (the "3.97% Senior Notes"). The 3.97% Senior Notes are senior unsecured obligations of the Company and pay interest semi-annually on April 17 and October 17 of each year at an annual rate of 3.97%. The 3.97% Senior Notes will mature on October 17, 2024 unless earlier prepaid in accordance with their terms. Subject to certain conditions, the Company may, at its option, prepay all or any part of the 3.97% Senior Notes in an amount equal to 100% of the principal amount of the 3.97% Senior Notes so prepaid, plus any accrued and unpaid interest to the date of prepayment, plus the Make-Whole Amount, as defined in the Note Purchase Agreement, with respect to such principal amount being prepaid. The fair value of the 3.97% Senior Notes was determined using the U.S. Treasury yield and a long-term credit spread for similar types of borrowings, which represent Level 2 observable inputs.

On October 8, 2020, the Company entered into the sixth amendment to its fifth amended and restated revolving credit agreement with Bank of America (the "Sixth Amendment") and the first amendment to the Note Purchase Agreement with New York Life (the "First NPA Amendment" and, together with the Sixth Amendment, the "Amendments"). The Sixth Amendment maintained the borrowing availability of $1,000,000 along with access to request $200,000 through an accordion feature. The Sixth Amendment and the First NPA Amendment provided for an increase in the Company's maximum ratio of Consolidated Senior Debt, as defined, to Consolidated EBITDA, as defined, from 3.25 times (or, if a certain Permitted Acquisition above $150,000 is consummated, 3.50 times) to 3.75 times in each case at the end of the four fiscal quarters, beginning with December 31, 2020, and regardless of whether a Permitted Acquisition, as defined, is consummated, providing additional financing flexibility and access to liquidity. Additionally, the Sixth Amendment requires the Company to maintain a maximum ratio of Consolidated Total Debt, as defined, to Consolidated EBITDA, of not more than 3.75 times in each case, at the end of the four fiscal quarters, beginning with December 31, 2020 and regardless of whether a permitted acquisition is consummated. Furthermore, the First NPA Amendment provides for (i) adjustments to the ratio of Consolidated Total Debt, as defined, to Consolidated EBITDA, as defined, to conform to a more restrictive total leverage ratio that may be required under the Amended Credit Agreement, (ii) an increase in the amount of allowable add-back for restructuring charges when calculating Consolidated EBITDA from $15,000 to $25,000 and (iii) a required fee payment equal to 0.50% per annum times the daily outstanding principal amount of the note during each of the four fiscal quarters, following the quarter ended December 31, 2020, if the Company's Senior Leverage Ratio, as defined, exceeds 3.25 times. In October 2020, the Company paid fees and expenses of $1,384 in conjunction with executing the Amendments; such fees have been deferred within Other Assets on the accompanying Consolidated Balance Sheet and are being amortized on the Consolidated Statements of Income.

On February 10, 2021, the Company and certain of its subsidiaries entered into the sixth amended and restated senior unsecured revolving credit agreement (the "Amended Credit Agreement") and retained Bank of America, N.A. as the Administrative Agent for the lenders. The Amended Credit Agreement maintains the $1,000,000 of availability within the facility, while increasing the available borrowings under the accordion feature from $200,000 to $250,000 (aggregate availability of $1,250,000) and extends the maturity date through February 2026. The Amended Credit Agreement also adjusts the interest rate to either the Eurocurrency rate, as defined in the Amended Credit Agreement, plus a margin of 1.175% to 1.775% or the base rate, as defined in the Amended Agreement, plus a margin of 0.175% and 0.775%, depending on the Company's leverage ratio at the time of the borrowing. Multi-currency borrowings, pursuant to the Amended Credit Agreement, bear interest at their respective interbank offered rate (i.e. Euribor) or 0.00% (higher of the two rates) plus a margin of between 1.175% to 1.775%. As with the earlier facility, the Company's borrowing capacity is limited by various debt covenants in the Amended Credit

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Agreement, as described further below. The Amended Credit Agreement requires the Company to maintain a Senior Debt Ratio of not more than 3.75 times at the end of each fiscal quarter ending on or before September 30, 2021, after which the ratio will revert to 3.25 times (or, if a permitted acquisition above $150,000 is consummated, 3.50 times at the end of each of the first four fiscal quarters ending after the consummation of any such acquisition). In addition, the Amended Credit Agreement requires the Company to maintain a Total Debt Ratio of not more than 3.75 for each fiscal quarter (or, if a permitted acquisition above $150,000 is consummated, 4.25 times at the end of each of the first four fiscal quarters ending after the consummation of any such acquisition, however, such increase in the ratio will not be effective during any period prior to October 1, 2021). A ratio of Consolidated EBITDA to Consolidated Cash Interest Expense, as defined, of not less than 4.25, is required at the end of each fiscal quarter. The Company paid fees and expenses of $4,208 in the first quarter of 2021 in conjunction with executing the Amended Credit Agreement; such fees have been deferred within Other Assets on the Consolidated Balance Sheets and are being amortized into interest expense on the Consolidated Statements of Income through their maturity. Cash used to pay these fees has been recorded through other financing activities on the Consolidated Statements of Cash Flows. The Company subsequently amended the Credit Agreement on October 11, 2021, defining certain applicable multi-currency borrowing rates that may be used as replacement rates for LIBOR, which is expected to be discontinued by reference rate reform. See Note 3.

Borrowings and availability under the Amended Credit Agreement were $523,405 and $476,595, respectively, at September 30, 2021 and borrowings and availability under the Sixth Amendment were $593,622 and $406,378, respectively, at December 31, 2020, subject to covenants in the Company's revolving debt agreements. At September 30, 2021, additional borrowings of $282,826 of Total Debt (including $282,826 of Senior Debt) would have been allowed under the financial covenants. The average interest rate on these borrowings was 1.47% and 1.42% on September 30, 2021 and December 31, 2020, respectively. Borrowings included Euro-denominated borrowings of 330,450 Euros ($383,405) at September 30, 2021 and 344,450 Euros ($423,622) at December 31, 2020. The fair value of the borrowings is based on observable Level 2 inputs. The borrowings were valued using discounted cash flows based upon the Company's estimated interest costs for similar types of borrowings.

At September 30, 2021, the Company was in compliance with all applicable covenants. The Company currently anticipates that it will maintain compliance with all of its covenants in the next four quarters while continuing to monitor its future compliance based on current and future economic conditions. The Company's most restrictive financial covenant is the Senior Debt Ratio, which required the Company to maintain a ratio of Consolidated Senior Debt to Consolidated EBITDA of not more than 3.75 times at September 30, 2021. The actual ratio at September 30, 2021 was 2.59 times, as defined. As noted above, the Amended Credit Agreement requires the Company to maintain a Senior Debt Ratio of not more than 3.75 times at the end of each fiscal quarter ending on or before September 30, 2021, after which the ratio will revert to 3.25 times in subsequent periods.

In addition, the Company has approximately $87,000 in uncommitted short-term bank credit lines ("Credit Lines") and overdraft facilities. The Credit Lines are accessed locally and are available primarily within the U.S., Europe and Asia. The Credit Lines are subject to the applicable borrowing rates within each respective country and vary between jurisdictions (i.e. LIBOR, Euribor, etc.). Under the Credit Lines, the Company had no borrowings at September 30, 2021 while $2,100 was borrowed at December 31, 2020 at an average interest rate of 1.10%. The Company had also borrowed $148 and $15 under the overdraft facilities at September 30, 2021 and December 31, 2020, respectively. Repayments under the Credit Lines are due within one month after being borrowed. Repayments of the overdrafts are generally due within two days after being borrowed. The carrying amounts of the Credit Lines and overdrafts approximate fair value due to the short maturities of these financial instruments.

The Company also has several finance leases under which $7,149 and $8,268 was outstanding at September 30, 2021 and December 31, 2020, respectively. The fair value of the finance leases are based on observable Level 2 inputs. These instruments were valued using discounted cash flows based upon the Company's estimated interest costs for similar types of borrowings.

Other debt includes bank acceptances and other foreign bank borrowings. Bank acceptances represent financial instruments accepted by certain China-based vendors in lieu of cash paid on payables, generally range from three to six months in maturity and are guaranteed by banks. The Company had $1,651 of bank acceptances outstanding at September 30, 2021. There were no bank acceptances outstanding at December 31, 2020. The carrying amounts of the bank acceptances approximate fair value due to the short maturities of these financial instruments. At September 30, 2021 and December 31, 2020, the Company also had other foreign bank borrowings of $104 and $254, respectively. The fair value of the other foreign bank borrowings was based on observable Level 2 inputs. These instruments were valued using discounted cash flows based upon the Company's estimated interest costs for similar types of borrowings.

10. Derivatives

The Company has manufacturing, service and sales facilities around the world and thus makes investments and conducts business transactions denominated in various currencies. The Company is also exposed to fluctuations in interest rates and commodity price changes. These financial exposures are monitored and managed by the Company as an integral part of its risk management program.

Derivative financial instruments have been used by the Company to hedge its exposure to fluctuations in interest rates. On April 28, 2017, the Company entered into an interest rate swap agreement (the "2017 Swap") with one bank which converts the interest on the first $100,000 of the Company's one-month LIBOR-based borrowings from a variable rate plus the borrowing spread to a fixed rate of 1.92% plus the borrowing spread. The 2017 Swap expires on January 31, 2022. On March 24, 2021, the Company entered into a new interest rate swap agreement (the "2021 Swap") with this same bank that will commence on January 31, 2022 and will convert the interest on the first $100,000 of the Company's one-month LIBOR-based borrowings from a variable rate plus the borrowing spread to a fixed rate of 1.17% plus the borrowing spread. The 2021 Swap will expire on January 30, 2026. These interest rate swap agreements (collectively, the "Swaps") remained in place at September 30, 2021 and are accounted for as cash flow hedges.

The Company also uses derivative financial instruments to hedge its exposures to fluctuations in foreign currency exchange rates. The Company has various contracts outstanding which primarily hedge recognized assets or liabilities and anticipated transactions in various currencies including the Euro, British pound sterling, U.S. dollar, Canadian dollar, Japanese yen, Singapore dollar, Korean won, Swedish kroner, Chinese renminbi, Mexican peso, Hong Kong dollar and Swiss franc. Certain foreign currency derivative instruments are treated as cash flow hedges of forecasted transactions. All foreign exchange contracts are due within two years.

The Company does not use derivatives for speculative or trading purposes or to manage commodity exposures.

The Company records the derivatives at fair value on the Consolidated Balance Sheets within Prepaid Expenses and Other Current Assets, Other Assets, Accrued Liabilities or Other Liabilities depending on their fair value and remaining contractual period. Changes in the fair market value of derivatives accounted for as cash flow hedges are recorded to accumulated other comprehensive income (loss) and reclassified to earnings in a manner that matches the earnings impact of the hedged transaction. Reclassifications to earnings for the Swaps are recorded through interest expense and reclassifications to earnings for foreign exchange contracts are recorded through net sales. Changes in the fair market value of the foreign exchange contracts that are not designated hedging instruments are recorded directly to earnings through Other expense (income), net.

The fair values of derivatives were not material to the Company's Consolidated Balance Sheets as of September 30, 2021 or December 31, 2020. The activity related to the derivatives that have been designated hedging instruments was not material to the Company's Consolidated Financial Statements for the periods ended September 30, 2021 or 2020. The Company recognized (losses) and gains of $(2,991) and $3,079 related to the foreign exchange contracts that are not accounted for as hedging instruments within other expense (income), net, in the Consolidated Statements of Income for the three month periods ended September 30, 2021 and 2020, respectively. The Company recognized losses of $3,404 and $2,743 related to the foreign exchange contracts that are not accounted for as hedging instruments within other expense (income), net, in the Consolidated Statements of Income for the nine month periods ended September 30, 2021 and 2020, respectively. Such gains and losses were substantially offset by net losses and gains recorded on the underlying hedged asset or liability (the "underlying"). Offsetting net gains or losses on the underlying are also recorded within Other expense (income), net.

The Company's policy for classifying cash flows from derivatives is to report the cash flows consistent with the underlying hedged item. Other financing cash flows during the nine months ended September 30, 2021 and 2020, as presented on the Consolidated Statements of Cash Flows, include $1,070 and $1,880 of net cash payments related to the settlement of foreign currency hedges related to intercompany financing.

11. Fair Value Measurements

The provisions of the accounting standard for fair value define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This standard classifies the inputs used to measure fair value into the following hierarchy:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 Unadjusted quoted prices in active markets for similar assets or liabilities, or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

Level 3 Unobservable inputs for the asset or liability.

The following table provides the assets and liabilities reported at fair value and measured on a recurring basis:

		Fair Value Measurements Using		
Description	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
September 30, 2021				
Asset derivatives	$ 195	$ —	$ 195	$ —
Liability derivatives	(2,774)	—	(2,774)	—
Bank acceptances	11,303	—	11,303	—
Rabbi trust assets	3,317	3,317	—	—
Total	$ 12,041	$ 3,317	$ 8,724	$ —
December 31, 2020				
Asset derivatives	$ 1,642	$ —	$ 1,642	$ —
Liability derivatives	(1,988)	—	(1,988)	—
Bank acceptances	13,267	—	13,267	—
Rabbi trust assets	3,233	3,233	—	—
Total	$ 16,154	$ 3,233	$ 12,921	$ —

The derivative contracts are valued using observable current market information as of the reporting date such as the prevailing LIBOR-based interest rates and foreign currency spot and forward rates. Bank acceptances represent financial instruments accepted from certain China-based customers in lieu of cash paid on receivables, have maturities of less than one year and are guaranteed by banks. The carrying amounts of the bank acceptances, which are included within prepaid expenses and other current assets, approximate fair value due to their short maturities. The fair values of rabbi trust assets are based on quoted market prices from various financial exchanges.

12. Pension and Other Postretirement Benefits

Pension and other postretirement benefits expenses consisted of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Pensions	**2021**	**2020**	**2021**	**2020**
Service cost	$ 1,633	$ 1,620	$ 4,912	$ 4,704
Interest cost	3,186	3,815	9,562	11,438
Expected return on plan assets	(6,963)	(7,594)	(20,897)	(22,391)
Amortization of prior service cost	83	128	248	281
Amortization of actuarial losses	3,999	3,502	12,005	10,148
Curtailment loss	—	—	—	484
Net periodic benefit cost	$ 1,938	$ 1,471	$ 5,830	$ 4,664

Other Postretirement Benefits	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Service cost	$ 27	$ 20	$ 77	$ 61
Interest cost	203	259	615	780
Amortization of prior service cost	7	6	22	20
Amortization of actuarial losses	54	9	194	27
Net periodic benefit cost	$ 291	$ 294	$ 908	$ 888

The service cost component of net periodic benefit cost is included within cost of sales and selling and administrative expenses. The components of net periodic benefit cost other than the service cost component are included in Other income (expense) on the Consolidated Statements of Income.

13. Income Taxes

During the second quarter of 2021, the Italian tax authorities released Tax Guidance related to the application of tax basis realignment rules for intangible property ("Realignment") which provides Italian taxpayers with the opportunity to step up the basis of goodwill and intangibles to their fair market value and amortize the step up over 18 years for tax purposes in exchange for paying a 3% tax on the step up, payable over a three years period. The Company opted to elect the Realignment in June 2021 and accordingly recorded a tax payable of $3,008 and a long-term tax payable of $6,016. The Company subsequently made its first required installment payment of $3,008 during the third quarter of 2021, reducing the long-term tax payable accordingly. The Company also recorded a deferred tax asset of $83,921 related to the Realignment. Accounting guidance requires that when a deferred tax asset is realigned for tax purposes, a corresponding revaluation reserve also be recorded. Under Italian tax rules, any dividends paid out of this revaluation reserve are subject to tax at a 24% rate. Accordingly, the Company recorded a deferred tax liability of $72,190 related to the potential 24% tax due on any dividends, paid out of the revaluation reserve. The deferred tax asset and liability balances have been presented on a net basis on the Consolidated Balance Sheets. The Company also recorded a one time $2,707 benefit to the provision in the first nine months of 2021 related to this election and related accounting.

The Company's effective tax rate for the first nine months of 2021 was 27.0% compared with 40.0% in the first nine months of 2020 and 37.6% for the full year 2020. The decrease in the first nine months of 2021 effective tax rate from the full year 2020 rate is primarily due to the absence of tax expense related to the completed sale of the Seeger business in 2020, the benefit related to the tax basis of goodwill and intangibles (discussed above), a net benefit related to the resolution of a foreign tax matter and a favorable mix in earnings based on tax jurisdictions. The tax rate benefits were partially offset by tax expense related to the revaluation of UK deferred taxes resulting from a legislative increase in the corporate tax rate.

The Aerospace and Industrial segments have a number of multi-year tax holidays in Singapore and China. The tax holiday in China expired at the end of 2020. The Company has re-applied for approval of a potential three-year holiday in China which could reduce the tax rate effective January 1, 2021 (retroactively). The Company anticipates a decision on its application for the holiday in the fourth quarter of 2021. These holidays are subject to the Company meeting certain commitments in the respective jurisdictions. Aerospace was granted an income tax holiday for operations recently established in Malaysia. This holiday commenced effective November 2020 and remains effective for a period of ten years.

14. Changes in Accumulated Other Comprehensive Income (Loss) by Component

The following tables set forth the changes in accumulated other comprehensive income (loss), net of tax, by component for the nine-month periods ended September 30, 2021 and 2020:

	Gains and Losses on Cash Flow Hedges	Pension and Other Postretirement Benefit Items	Foreign Currency Items	Total
December 31, 2020	$ (757)	$ (142,119)	$ 20,561	$ (122,315)
Other comprehensive (loss) income before reclassifications	(1,115)	614	(51,669)	(52,170)
Amounts reclassified from accumulated other comprehensive income to the consolidated statements of income	627	9,551	—	10,178
Net current-period other comprehensive (loss) income	(488)	10,165	(51,669)	(41,992)
September 30, 2021	$ (1,245)	$ (131,954)	$ (31,108)	$ (164,307)

	Gains and Losses on Cash Flow Hedges	Pension and Other Postretirement Benefit Items	Foreign Currency Items	Total
December 31, 2019	$ (115)	$ (144,047)	$ (66,333)	$ (210,495)
Other comprehensive (loss) income before reclassifications	(2,305)	(5,733)	23,774	15,736
Amounts reclassified from accumulated other comprehensive income to the consolidated statements of income	858	8,400	—	9,258
Net current-period other comprehensive (loss) income	(1,447)	2,667	23,774	24,994
September 30, 2020	$ (1,562)	$ (141,380)	$ (42,559)	$ (185,501)

The following table sets forth the reclassifications out of accumulated other comprehensive income (loss) by component for the three-month periods ended September 30, 2021 and 2020:

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)		Affected Line Item in the Consolidated Statements of Income
	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	
(Losses)/gains on cash flow hedges			
Interest rate contracts	$ (468)	$ (449)	Interest expense
Foreign exchange contracts	219	237	Net sales
	(249)	(212)	Total before tax
	75	85	Tax benefit
	(174)	(127)	Net of tax
Pension and other postretirement benefit items			
Amortization of prior service costs	$ (90)	$ (134)	(A)
Amortization of actuarial losses	(4,053)	(3,511)	(A)
	(4,143)	(3,645)	Total before tax
	972	844	Tax benefit
	(3,171)	(2,801)	Net of tax
Total reclassifications in the period	$ (3,345)	$ (2,928)	

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The following table sets forth the reclassifications out of accumulated other comprehensive income (loss) by component for the nine-month periods ended September 30, 2021 and 2020:

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)		Affected Line Item in the Consolidated Statements of Income
	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020	
(Losses)/gains on cash flow hedges			
Interest rate contracts	$ (1,377)	(866)	Interest expense
Foreign exchange contracts	517	(213)	Net sales
	(860)	(1,079)	Total before tax
	233	221	Tax benefit
	(627)	(858)	Net of tax
Pension and other postretirement benefit items			
Amortization of prior service costs	$ (270)	$ (301)	(A)
Amortization of actuarial losses	(12,199)	(10,175)	(A)
Curtailment loss	—	(484)	(A)
	(12,469)	(10,960)	Total before tax
	2,918	2,560	Tax benefit
	(9,551)	(8,400)	Net of tax
Total reclassifications in the period	$ (10,178)	$ (9,258)	

(A) These accumulated other comprehensive income (loss) components are included within the computation of net periodic Pension and Other Postretirement Benefits cost. See Note 12.

15. Information on Business Segments

The Company is organized based upon the nature of its products and services and reports under two global business segments: Industrial and Aerospace. Segment information is consistent with how management reviews the businesses, makes investing and resource allocation decisions and assesses operating performance. The Company has not aggregated operating segments for purposes of identifying these two reportable segments.

Industrial is a global provider of highly-engineered, high-quality precision components, products and systems for critical applications serving a diverse customer base in end-markets such as transportation, industrial equipment, automation, personal care, packaging, electronics, and medical devices. Focused on innovative custom solutions, Industrial participates in the design phase of components and assemblies whereby customers receive the benefits of application and systems engineering, new product development, testing and evaluation, and the manufacturing of final products. Products are sold primarily through its direct sales force and global distribution channels. Industrial's Molding Solutions business designs and manufactures customized hot runner systems, advanced mold cavity sensors and process control systems, and precision high cavitation mold assemblies - collectively, the enabling technologies for many complex injection molding applications. The Force & Motion Control business provides innovative cost effective force and motion control solutions for a wide range of metal forming and other industrial markets. The Automation business designs and develops pneumatic robotic grippers, advanced end-of-arm tooling systems, sensors and other automation components for intelligent robotic handling solutions and industrial automation applications. Industrial's Engineered Components business manufactures and supplies precision mechanical products used in transportation and industrial applications, including mechanical springs, and high-precision punched and fine-blanked components.

Aerospace is a global manufacturer of complex fabricated and precision machined components and assemblies for turbine engines, nacelles and structures for both commercial and defense-related aircraft. The Aerospace Aftermarket business provides aircraft engine component maintenance, repair and overhaul ("MRO") services, including services performed under our Component Repair Programs (“CRPs”), for many of the world’s major turbine engine manufacturers, commercial airlines and

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the defense market. The Aerospace Aftermarket business also manufactures and supplies aerospace aftermarket spare parts, including through revenue sharing programs ("RSPs") under which the Company receives an exclusive right to supply designated aftermarket parts over the life of specific aircraft engine programs.

The following tables set forth information about the Company's operations by its two reportable segments:

	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Net sales				
Industrial	$ 231,549	$ 196,916	$ 686,220	$ 561,047
Aerospace	93,511	72,148	261,639	274,227
Intersegment sales	(1)	(5)	(13)	(8)
Total net sales	$ 325,059	$ 269,059	$ 947,846	$ 835,266
Operating profit				
Industrial	$ 30,067	$ 24,438	$ 78,635	$ 42,063
Aerospace	13,642	6,805	35,997	48,609
Total operating profit	43,709	31,243	114,632	90,672
Interest expense	4,027	3,701	12,443	11,924
Other expense (income), net	1,217	47	3,952	2,700
Income before income taxes	$ 38,465	$ 27,495	$ 98,237	$ 76,048

	September 30, 2021	December 31, 2020
Assets		
Industrial	$ 1,840,602	$ 1,908,389
Aerospace	590,251	623,547
Other [(A)]	155,736	144,290
Total assets	$ 2,586,589	$ 2,676,226

(A) "Other" assets include corporate-controlled assets, the majority of which are cash and cash equivalents and deferred tax assets.

16. Commitments and Contingencies

Product Warranties

The Company provides product warranties in connection with the sale of certain products. From time to time, the Company is subject to customer claims with respect to product warranties. The Company accrues its estimated exposure for warranty claims at the time of sale based upon the length of the warranty period, historical experience and other related information known to the Company. Liabilities related to product warranties and extended warranties were not material as of September 30, 2021 and December 31, 2020.

During the quarter ended September 30, 2021, a customer asserted breach of contract and contractual warranty claims regarding a part manufactured by the Company. While the Company disputes the asserted claims, the Company and the customer are in discussions seeking to resolve the matter. No litigation or other proceeding has been initiated. While it is currently not possible to determine the ultimate outcome of this matter, the Company intends to vigorously defend its position and believes that the ultimate resolution will not have a material adverse effect on the Company's consolidated financial position or liquidity, but could be material to the consolidated results of operations of any one period.

Litigation

The Company is subject to litigation from time to time in the ordinary course of business and various other suits, proceedings and claims are pending involving the Company and its subsidiaries. The Company records a loss contingency liability when a loss is considered probable and the amount can be reasonably estimated. While it is not possible to determine the ultimate disposition of each of these proceedings and whether they will be resolved consistent with the Company's beliefs, the Company expects that the outcome of such proceedings, individually or in the aggregate, will not have a material adverse effect on

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financial condition or results of operations.

17. Business Reorganizations

In June 2020, the Company announced restructuring and workforce reduction actions ("Actions") which were implemented across its businesses and functions in response to the macroeconomic disruption in global industrial and aerospace end markets arising from COVID-19. During 2020, a resulting pre-tax charge of $19,116 was recorded ($18,158 through operating profit), primarily related to employee severance and termination benefits (recorded largely during the second quarter of 2020). These actions were substantially complete as of December 31, 2020 and reduced the Company's global workforce by approximately 8%. A corresponding liability of $3,503, per below, was included within accrued liabilities as of September 30, 2021. The Company does not expect any additional costs related to the Actions to be significant.

The following table sets forth the change in the liability related to these actions:

December 31, 2020	$	13,151
Severance expense		(810)
Payments		(8,838)
September 30, 2021	$	3,503

In June 2021, the Company initiated additional restructuring actions ("Restructurings") at two locations. The Restructurings include a transfer of manufacturing capabilities to leverage existing capacity which is expected to reduce labor and infrastructure costs. The Restructurings resulted in pre-tax charges of $1,460, primarily related to employee severance and termination benefits, and have been recorded within Selling and Administrative Expenses in the accompanying Consolidated Statements of Income. The Company expects to incur additional charges of approximately $2,500 related to these actions through 2022.

With respect to the unaudited consolidated financial information of Barnes Group Inc. for the three-month periods ended September 30, 2021 and 2020, PricewaterhouseCoopers LLP reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate report dated October 29, 2021 appearing herein, states that they did not audit and they do not express an opinion on that unaudited consolidated financial information. Accordingly, the degree of reliance on their report should be restricted in light of the limited nature of the review procedures applied. PricewaterhouseCoopers LLP is not subject to the liability provisions of Section 11 of the Securities Act of 1933, as amended, for their report on the unaudited consolidated financial information because that report is not a "report" or a "part" of the registration statement prepared or certified by PricewaterhouseCoopers LLP within the meaning of Sections 7 and 11 of the Securities Act of 1933, as amended.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Barnes Group Inc.

Results of Review of Interim Financial Information

We have reviewed the accompanying consolidated balance sheet of Barnes Group Inc. and its subsidiaries (the "Company") as of September 30, 2021, and the related consolidated statements of income and of comprehensive income for the three-month and nine-month periods ended September 30, 2021 and 2020 and the consolidated statement of cash flows for the nine-month periods ended September 30, 2021 and 2020, including the related notes (collectively referred to as the "interim financial information"). Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim financial information for it to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of December 31, 2020, and the related consolidated statements of income, of comprehensive income, of changes in stockholders' equity, and of cash flows for the year then ended (not presented herein), and in our report dated February 22, 2021, which included a paragraph describing a change in the manner of accounting for leases in the 2019 financial statements, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet information as of December 31, 2020, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Basis for Review Results

This interim financial information is the responsibility of the Company's management. 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 review in accordance with the standards of the PCAOB. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the PCAOB, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

/s/ PricewaterhouseCoopers LLP

Hartford, Connecticut
October 29, 2021

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

Please refer to the Overview in the Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Annual Report on Form 10-K for the year ended December 31, 2020. The Annual Report on Form 10-K, along with the Company's other filings, can be found on the Securities and Exchange Commission's website, www.sec.gov, as well as on the Company's website: www.bginc.com.

Third Quarter Highlights

The Company reported net sales of $325.1 million in the third quarter of 2021, an increase of $56.0 million or 20.8%, from the third quarter of 2020. Organic sales increased by $54.3 million, or 20.2%, including increases of $32.9 million, or 16.7%, and $21.4 million, or 29.6%, at Industrial and Aerospace, respectively. Sequentially, sales increased approximately 1% in the third quarter of 2021 as compared with the second quarter of 2021, with an increase in Aerospace sales being partially offset by a slight decrease in Industrial sales. The year-over-year increase at Aerospace was driven by a volume increase within both the Aerospace Original Equipment Manufacturing ("OEM") and Aerospace Aftermarket businesses, reflecting improving Aerospace end markets. From an Industrial standpoint, end-markets improved on a year-over-year basis, however declined slightly on a sequential basis as pressures resulting from semiconductor shortages and global supply chain sourcing constraints impacted near-term automotive and broader industrial production. The weakening of the U.S. dollar against foreign currencies increased net sales within the Industrial segment by approximately $1.7 million. Operating margins increased from 11.6% in the 2020 period to 13.4% in the current period, largely a result of the profit impact of increased sales volumes, partially offset by an increase in employee related costs, including incentive compensation.

Impact of COVID-19

The COVID-19 pandemic resulted in a disruption in business activities worldwide and caused weakened economic conditions throughout the 2020 period, both in the United States and abroad. COVID-19 had a significant impact on order rates within Industrial and, on a more targeted basis, Aerospace end-markets. Industrial sales volumes gradually strengthened throughout the first six months of 2021, although recent signs of softness in orders during the third quarter of 2021 have been driven by broader supply chain constraints. Similar pressures also resulted in freight and raw material cost increases. The Aerospace Aftermarket business remains impacted by lower passenger traffic and the removal of aircraft from service. Although sales volumes have increased within the Aerospace OEM business, management anticipates continued sales pressure as the production of certain wide body aircraft has been lowered. COVID-19 may continue to have further negative impacts on the Company's operations, customers and supply chain despite preventative measures taken.

The Company currently maintains sufficient liquidity and continues to closely monitor its cash generation, usage and preservation including the management of working capital to generate cash. The Company took several actions in 2020 to better align costs with the current business environment, including restructuring and workforce reductions (the "Actions"). Resulting pre-tax charges of $18.2 million were recorded through operating profit in 2020 (primarily during the second quarter of 2020). See Note 17.

RESULTS OF OPERATIONS

Net Sales

	Three Months Ended September 30,				Nine Months Ended September 30,			
(in millions)	2021	2020	Change		2021	2020	Change	
Industrial	$ 231.5	$ 196.9	$ 34.6	17.6 %	$ 686.2	$ 561.0	$ 125.2	22.3 %
Aerospace	93.5	72.1	21.4	29.6 %	261.6	274.2	(12.6)	(4.6)%
Total	$ 325.1	$ 269.1	$ 56.0	20.8 %	$ 947.8	$ 835.3	$ 112.6	13.5 %

The Company reported net sales of $325.1 million in the third quarter of 2021, an increase of $56.0 million or 20.8%, from the third quarter of 2020. Organic sales increased by $54.3 million, or 20.2%, including increases of $32.9 million at Industrial and $21.4 million at Aerospace. Industrial sales declined slightly on a sequential basis whereas Aerospace sales improved 8% in the third quarter of 2021, as compared with the second quarter of 2021. The year-over-year increase at Aerospace was driven by improved sales within both the OEM business and Aftermarket businesses, resulting primarily from continuing global improvement in aerospace markets. OEM and Aftermarket sales improved sequentially by 5% and 16%, respectively, in the third quarter of 2021, as compared with the second quarter of 2021. From an Industrial standpoint, end-markets improved year-over-year and declined slightly on a sequential basis as continuing pressures resulting from semiconductor shortages and global supply chain sourcing constraints impacted near-term automotive and broader industrial production. Medical end markets in which the Company participates remain solid and order activity remains favorable. General industrial markets demonstrated significant strength in the year-over-year period, although sequential sales and orders rates have tapered. The Automation business experienced organic sales growth during the current period as a result of further penetration into end markets. The weakening of the U.S. dollar against foreign currencies increased net sales within the Industrial segment by approximately $1.7 million.

The Company reported net sales of $947.8 million in the first nine months of 2021, an increase of $112.6 million, or 13.5%, from the first nine months of 2020. Organic sales increased by $93.5 million driven by an increase of $106.1 million at Industrial, partially offset by a decrease of $12.6 million at Aerospace. The Company completed the sale of its Seeger business on February 1, 2020, reducing sales by $5.3 million during the first nine months of 2021 relative to the prior year period. The weakening of the U.S. dollar against foreign currencies increased net sales within the Industrial segment by approximately $24.4 million. The decrease at Aerospace was driven by organic sales declines within the Aftermarket businesses, due primarily to the effect of COVID-19 on airline travel, whereas improvements within Industrial were driven by recovering end-markets within each of the businesses.

Expenses and Operating Income

	Three Months Ended September 30,				Nine Months Ended September 30,			
(in millions)	**2021**	**2020**	**Change**		**2021**	**2020**	**Change**	
Cost of sales	$ 205.1	$ 176.9	$ 28.2	15.9 %	$ 602.9	$ 532.2	$ 70.7	13.3 %
% sales	63.1 %	65.8 %			63.6 %	63.7 %		
Gross profit [(1)]	$ 120.0	$ 92.2	$ 27.8	30.2 %	$ 344.9	$ 303.1	$ 41.9	13.8 %
% sales	36.9 %	34.2 %			36.4 %	36.3 %		
Selling and administrative expenses	$ 76.3	$ 60.9	$ 15.4	25.2 %	$ 230.3	$ 212.4	$ 17.9	8.4 %
% sales	23.5 %	22.6 %			24.3 %	25.4 %		
Operating income	$ 43.7	$ 31.2	$ 12.5	39.9 %	$ 114.6	$ 90.7	$ 24.0	26.4 %
% sales	13.4 %	11.6 %			12.1 %	10.9 %		

(1) Sales less cost of sales.

Cost of sales in the third quarter of 2021 increased 15.9% from the 2020 period and gross profit margin increased from 34.2% in the 2020 period to 36.9% in the 2021 period. Gross profit margins increased at both Aerospace and Industrial. Within Industrial, gross profit and gross profit margin increased primarily as a result of the profit contribution of higher sales volumes within each of the businesses, partially offset by increased global sourcing costs, including increased freight and raw material. Within Aerospace, higher volumes within both the Aftermarket and OEM businesses contributed to an increase in both gross profit and gross profit margin during the third quarter of 2021. Selling and administrative expenses in the third quarter of 2021 increased 25.2% from the 2020 period. Sales increased by 20.8% between the comparable 2020 and 2021 periods. As a percentage of sales, selling and administrative costs increased from 22.6% in the third quarter of 2020 to 23.5% in the 2021 period. The increase in selling and administrative costs as a percentage of sales was primarily driven by an increase in employee related costs, including incentive compensation within both segments, and investments in growth and innovation. Operating income in the third quarter of 2021 increased by 39.9% to $43.7 million compared with the third quarter of 2020 and operating income margin increased from 11.6% to 13.4%, driven by the items above.

Cost of sales in the first nine months of 2021 increased 13.3% from the 2020 period and gross profit margin increased slightly from 36.3% in the 2020 period to 36.4% in the 2021 period. Gross profit margins declined at Aerospace and increased slightly at Industrial. Within Aerospace, lower volumes within the Aftermarket business on a year to date basis contributed to a decrease in gross profit during the first nine months of 2021. Gross profit margin also decreased during the first nine months of 2021 at Aerospace, given the mix of products between the OEM and Aftermarket businesses. Within Industrial, gross profit increased primarily as a result of the profit contribution of increased sales volumes. Gross profit margins at Industrial between the 2021 and 2020 periods increased slightly as the profit contribution of increased sales volumes was partially offset by an increase in global sourcing costs. Within Aerospace, a reduction in gross profit in the first nine months of 2021 was driven by significantly

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lower volumes within the Aftermarket businesses as compared with the 2020 period. Selling and administrative expenses in the first nine months of 2021 increased 8.4% from the 2020 period. Sales, however, increased by 13.5% between the comparable 2021 and 2020 periods. As a percentage of sales, selling and administrative costs decreased from 25.4% in the first nine months of 2020 to 24.3% in the 2021 period. The decrease in selling and administrative costs as a percentage of sales was driven by the absence of $18.0 million of pre-tax charges related to restructuring and workforce actions and $2.4 million of divestiture charges related to the completion of the Seeger sale during the 2020 period. Partially offsetting this decrease were investments in growth and innovation, and an increase in employee related costs, including incentive compensation within both segments. Operating income in the first nine months of 2021 increased 26.4% to $114.6 million from the first nine months of 2020 and operating income margin increased from 10.9% in the 2020 period to 12.1% in the 2021 period, primarily driven by the items noted above.

Interest expense

Interest expense increased by $0.3 million in the third quarter of 2021 and by $0.5 million in the first nine months of 2021 as compared with the prior year periods, primarily as a result of higher interest rates, partially offset by decreased average borrowings during the period.

Other expense (income), net

Other expense (income), net in the third quarter of 2021 was $1.2 million compared to $0.0 million in the third quarter of 2020. Other expense (income), net in the first nine months of 2021 was $4.0 million compared to $2.7 million in the first nine months of 2020. This increase in expense was primarily caused by an increase in other components of net periodic benefit costs, from $0.8 million in the nine months ended September 30, 2020 to $1.7 million in the nine months ended September 30, 2021.

Income Taxes

During the second quarter of 2021, the Italian tax authorities released Tax Guidance related to the application of tax basis realignment rules for intangible property ("Realignment") which provides Italian taxpayers with the opportunity to step up the basis of goodwill and intangibles to their fair market value and amortize the step up over 18 years for tax purposes in exchange for paying a 3% tax on the step up, payable over a three year period. The Company opted to elect the Realignment in June 2021 and accordingly recorded a tax payable of $3.0 million and a long-term tax payable of $6.0 million. The Company subsequently made its first required installment payment of $3.0 million during the third quarter of 2021, reducing the long-term tax payable accordingly. The Company also recorded a deferred tax asset of $83.9 million related to the Realignment. Accounting guidance requires that when a deferred tax asset is realigned for tax purposes, a corresponding revaluation reserve also be recorded. Under Italian tax rules, any dividends paid out of this revaluation reserve are subject to tax at a 24% rate. Accordingly, the Company recorded a deferred tax liability of $72.2 million related to the potential 24% tax due on any dividends, paid out of the revaluation reserve. The deferred tax asset and liability balances have been presented on a net basis on the Consolidated Balance Sheets. The Company also recorded a one time $2.7 million benefit to the provision in the first nine months of 2021 related to this election and related accounting.

The Company's effective tax rate for the first nine months of 2021 was 27.0% compared with 40.0% in the first nine months of 2020 and 37.6% for the full year 2020. The decrease in the first nine months of 2021 effective tax rate from the full year 2020 rate is primarily due to the absence of tax expense related to the completed sale of the Seeger business in 2020, the benefit related to the tax basis of goodwill and intangibles (discussed above), a net benefit related to the resolution of a foreign tax matter and a favorable mix in earnings based on tax jurisdictions. The tax rate benefits were partially offset by tax expense related to the revaluation of UK deferred taxes resulting from a legislative increase in the corporate tax rate.

The Aerospace and Industrial segments have a number of multi-year tax holidays in Singapore and China. The tax holiday in China expired at the end of 2020. The Company has re-applied for approval of a potential three-year holiday in China which could reduce the tax rate effective January 1, 2021 (retroactively). The Company anticipates a decision on its application for the holiday in the fourth quarter of 2021. These holidays are subject to the Company meeting certain commitments in the respective jurisdictions. Aerospace was granted an income tax holiday for operations recently established in Malaysia. This holiday commenced effective November 2020 and remains effective for a period of ten years.

Income and Income per Share

(in millions, except per share)	Three Months Ended September 30, 2021	2020	Change		Nine Months Ended September 30, 2021	2020	Change	
Net income	$ 27.9	$ 15.4	$ 12.5	81.4 %	$ 71.7	$ 45.7	$ 26.1	57.1 %
Net income per common share:								
Basic	$ 0.55	$ 0.30	$ 0.25	83.3 %	$ 1.41	$ 0.90	$ 0.51	56.7 %
Diluted	0.55	0.30	0.25	83.3 %	1.40	0.89	0.51	57.3 %
Weighted average common shares outstanding:								
Basic	50.9	50.8	0.1	0.1 %	50.9	50.9	—	0.1 %
Diluted	51.1	50.9	0.1	0.2 %	51.1	51.1	—	(0.1)%

Basic and diluted net income per common share increased for the three and nine month periods ended September 30, 2021 as compared to 2020. The increases were due to the increases in net income for the periods. Basic and diluted weighted average common shares outstanding were largely consistent for the periods and were only slightly impacted by the repurchase of 396,000 and 100,000 shares during 2020 and 2021, respectively, as part of the Company's publicly announced Repurchase Program (as defined herein) as well as the issuance of additional shares for employee stock plans.

Financial Performance by Business Segment

Industrial

(in millions)	Three Months Ended September 30, 2021	2020	Change		Nine Months Ended September 30, 2021	2020	Change	
Sales	$ 231.5	$ 196.9	$ 34.6	17.6 %	$ 686.2	$ 561.0	$ 125.2	22.3 %
Operating profit	30.1	24.4	5.6	23.0 %	78.6	42.1	36.6	86.9 %
Operating margin	13.0 %	12.4 %			11.5 %	7.5 %		

Sales at Industrial were $231.5 million in the third quarter of 2021, a $34.6 million, or 17.6% increase from the third quarter of 2020. Organic sales increased by $32.9 million, or 16.7%, during the 2021 period, driven by improved volumes across each of the businesses. On a sequential basis, Industrial declined slightly in the third quarter of 2021, as compared with the second quarter of 2021, as pressures resulting from semiconductor shortages and global supply chain sourcing constraints impacted near-term automotive and broader industrial production. The Automation business saw strong year-over-year organic sales growth, although sequential sales and order rates both declined relative to the second quarter of 2021. Orders within the personal care and packaging markets demonstrated softness on both a year-over-year and sequential basis. Volumes within our medical markets remained solid, consistent with this market trend throughout the pandemic. Foreign currency increased sales on a year-over-year basis by approximately $1.7 million as the U.S. dollar weakened against foreign currencies. During the first nine months of 2021, this segment reported sales of $686.2 million, a 22.3% increase from the first nine months of 2020. Organic sales increased by $106.1 million, or 18.9%, during the 2021 period, primarily a result of recovering end-markets, the lessened impacts of COVID-19 and related sales improvements within each of the businesses. The Company completed the sale of its Seeger business in February 2020, reducing sales by $5.3 million during the first nine months of 2021 relative to the prior year period. Foreign currency increased sales by approximately $24.4 million as the U.S. dollar weakened against foreign currencies.

Operating profit at Industrial in the third quarter of 2021 increased 23.0% from the third quarter of 2020 to $30.1 million. Operating profit benefited from the impact of increased organic sales volumes, partially offset by an increase in employee related costs, including incentive compensation, and investments in growth and innovation. Global sourcing also impacted the current period as supply chain constraints drove freight and raw material cost increases across the broader industry. Operating margin increased from 12.4% in the 2020 period to 13.0% in the 2021 period, driven primarily by increased organic sales volumes. Operating profit in the first nine months of 2021 was $78.6 million, an increase of $36.6 million from the first nine months of 2020, driven by the profit impact of increased organic sales and the absence of $15.8 million of restructuring charges and $2.4 million of divestiture charges related to the completion of the Seeger sale during the 2020 period. Partially offsetting these benefits were the increase in employee related costs, global sourcing and investments in growth and innovation. Research and development costs increased in the first nine months of 2021 period as the Company continues to invest in innovation.

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Operating margin increased from 7.5% in the 2020 period to 11.5% in the 2021 period, primarily a result of the increased organic sales and the absence of the prior period restructuring costs.

Outlook: In Industrial, management remains focused on generating organic sales growth through the introduction of new products and services and by leveraging the benefits of its diversified products and global industrial end-markets. This being the case, our end markets continue to recover from the impacts of COVID-19 and increasing supply chain constraints. Markets within our key regions of North America, Europe and China, although having demonstrated recovery throughout the first half of the year, softened during the third quarter as supply chain disruptions impacted demand and shipments across most Industrial businesses and regions. General industrial end markets have shown significant year-over-year improvement, although order rates were sequentially flat as compared with the second quarter of 2021. For overall industrial end-markets, the manufacturing Purchasing Managers' Index ("PMI") are above 50 in most regions. PMI within the United States, Europe and China, however, have shown slight deterioration since the second quarter of 2021. Global forecasted production for light vehicles has continued to decline due to semiconductor shortages that have impacted, and may continue to impact, near-term automotive builds, tempering overall strength within the transportation markets during the first nine months of 2021. Management also continues to track closely the impact of pricing changes and lead times on raw materials and freight, given the increasing pressure of supply chain constraints, primarily during the back end of the current quarter. Within our Molding Solutions business, global medical markets remain healthy and are expected to remain favorable given the recent demands of COVID-19, an aging population and expanded medical applications. The automotive hot runner and tool and die markets remain strong following the release of projects with automotive original equipment manufacturers related to model launches, including new electric vehicles. Orders within the packaging market have declined on both a year-over-year and sequential basis. Proposed environmental regulations affecting product and packaging composition and disposability may impact future sales within these end markets. Automation end-markets continue to trend positively from a year-over-year standpoint. Although order activity declined sequentially during the third quarter of 2021, we continue to focus on further expansion into adjacent end-markets. Overall industrial end-markets may be impacted by uncertainty related to current and potential future tariffs. As noted above, our sales were positively impacted by $1.7 million from fluctuations in foreign currencies. To the extent that the U.S. dollar fluctuates relative to other foreign currencies, our sales may be impacted relative to the prior year periods. The relative impact on operating profit is not expected to be as significant as the impact on sales as most of our businesses have expenses primarily denominated in local currencies, where their revenues reside, however operating margins may be impacted. Management is focused on sales growth through innovation, acquisition and expanding geographic reach. Strategic investments in new technologies, manufacturing processes and product development are expected to provide benefits over the long term and management continues to evaluate such opportunities.

The Company is focused on the proactive management of costs to mitigate any residual impacts of COVID-19 and increasing risks of supply chain constraints on operating profit. Management also remains focused on strategic investments and new product and process introductions, as well as driving productivity by leveraging the Barnes Enterprise System ("BES"). Cost saving initiatives taken earlier, including discretionary spending initiatives, continue to provide benefit. The Company continues to manage its cost structure to align with the intake of orders and sales given remaining uncertainty within certain end-markets as we close out 2021. Management will continue to explore opportunities for additional cost savings, while working closely with vendors and customers as it relates to the timing of deliveries and pricing initiatives. It is anticipated that operating profit will continue to be impacted by changes in sales volume, mix and pricing, inflation, freight costs and the levels of investments made within each of the Industrial businesses. Operating profit may also be impacted by enactment of or changes in tariffs, trade agreements and trade policies that may affect the cost, lead times and/or availability of goods, including but not limited to, steel and aluminum. Costs associated with new product and process introductions, restructuring and other cost initiatives, strategic investments and the integration of acquisitions may negatively impact operating profit.

Aerospace

	Three Months Ended September 30,				Nine Months Ended September 30,			
(in millions)	2021	2020	Change		2021	2020	Change	
Sales	$ 93.5	$ 72.1	$ 21.4	29.6 %	$ 261.6	$ 274.2	$ (12.6)	(4.6)%
Operating profit	13.6	6.8	6.8	100.5 %	36.0	48.6	(12.6)	(25.9)%
Operating margin	14.6 %	9.4 %			13.8 %	17.7 %		

The Aerospace segment reported sales of $93.5 million in the third quarter of 2021, a 29.6% increase from the third quarter of 2020. Sales increased 23% within the OEM business and 46% within the Aftermarket business relative to the 2020 period. On a sequential basis, Aerospace sales improved 8% in the third quarter of 2021 relative to the second quarter of 2021, with OEM and Aftermarket sales improving by 5% and 16%, respectively, relative to the prior period. The year-over-year increase in

OEM sales was driven by growing narrow body airframe production including the return to flight of the Boeing 737 MAX. Sales within OEM, although having increased since the comparable 2020 period as well as sequentially since the second quarter of 2021, continued to experience the impact of earlier reductions in engine and airframe build schedules, in addition to higher levels of inventory within the supply chain. The order schedules of our OEM customers have continued to stabilize throughout 2021, although OEM orders declined sequentially in the current period as customers continue to normalize their aircraft production schedules. Sales within the Aftermarket Maintenance Repair and Overhaul ("MRO") and spare parts businesses improved during the third quarter of 2021 on a year-over-year basis. Airline traffic and aircraft utilization have improved significantly relative to the third quarter of 2020. The MRO business continued to demonstrate signs of a gradual recovery as the distribution of vaccines increased, certain domestic health and travel restrictions were lifted and passenger traffic improved. Sales within the segment are largely denominated in U.S. dollars and therefore were not significantly impacted by changes in foreign currency. During the first nine months of 2021, the Aerospace segment reported sales of $261.6 million, a 4.6% decrease from the first nine months of 2020, driven by declines within the Aftermarket businesses, partially offset by an increase within OEM. The sales decline during the first nine months of 2021 resulted from lower sales volumes, primarily during the first quarter of 2021, due to the impact of COVID-19. Aerospace segment sales during the first quarter of 2021 were down 38% relative to the comparable 2020 quarter, thereby weighing on the first nine months of 2021.

Operating profit at Aerospace in the third quarter of 2021 more than doubled since the third quarter of 2020 to $13.6 million. The increase in operating profit resulted from the profit contribution of higher volumes within the OEM and Aftermarket businesses, as discussed above, and favorable productivity. These benefits were partially offset by an increase in employee related costs, including incentive compensation. Operating margin increased from 9.4% in the the 2020 period to 14.6% in the 2021 period, driven primarily by the profit contribution of increased sales. Operating margin decreased from 17.7% in the first nine months of 2020 to 13.8% in the first nine months of 2021, a result of mix across the businesses and, more specifically, the comparably lower Aftermarket sales during the first nine months of 2021. Operating profit in the first nine months of 2021 decreased 25.9% from the first nine months of 2020 to $36.0 million, driven by lower Aftermarket performance within the current nine-month period, partially offset by the absence of $2.2 million of restructuring charges during the 2020 period.

Outlook: Sales in the Aerospace OEM business are based on the general state of the aerospace market driven by the worldwide economy and are supported by its order backlog through participation in certain strategic commercial and defense-related engine and airframe programs. OEM sales and orders grew modestly in the first nine months of 2021 relative to the similar 2020 period and management anticipates gradual order improvement over the remainder of 2021 as customer schedules continue to normalize, albeit at lower levels. The Company expects, however, that the OEM business will continue to see lingering softness in demand for its manufactured components relative to pre-pandemic levels as aircraft production rates at Boeing and Airbus have been reduced. Narrow body airframe production is beginning to ramp, whereas wide body airframe production remains under pressure given continued international travel restrictions. The duration and depth of the aerospace market disruptions remain uncertain at this time, however a recovery to pre-pandemic levels is expected to take several years. Aerospace management continues to work with customers to evaluate engine and airframe build schedules, giving management the ability to react timely to such changes. Management is also working closely with suppliers to align raw material schedules with production requirements. Management remains focused on executing long-term agreements while expanding our share of production on key programs. Backlog at OEM was $665.1 million at September 30, 2021, an increase of 16.3% since December 31, 2020, at which time backlog was $572.0 million. OEM orders increased backlog through the first six months of 2021, however levels declined in the current quarter, largely as Aerospace customers continued to adjust orders based on their changing aircraft production schedules. Approximately 40% of OEM backlog is expected to be recognized over the next 12 months. If COVID-19 continues to have a material impact on the aviation industry, including our more significant OEM customers, it will continue to materially affect our Aerospace business and results of operations. The Aerospace OEM business may also be impacted by changes in the content levels on certain platforms, changes in customer sourcing decisions, adjustments to customer inventory levels, commodity and labor availability and pricing, vendor sourcing capacity and the use of alternate materials. Additional impacts may include the redesign of parts, quantity of parts per engine, cost schedules agreed to under contract with the engine and airframe manufacturers, as well as the pursuit and duration of new programs.

COVID-19 continues to impact our Aerospace Aftermarket businesses. Reduced aircraft utilization, increased levels of aircraft removed from service and reduced airline profitability are expected to continue to negatively impact our business in the mid-term. The Aftermarket business has, however, showed signs of a gradual recovery during the first nine months of 2021 as domestic and international passenger traffic improved, the distribution of vaccines increased and certain domestic health and travel restrictions were lifted. Travel restrictions, especially on an international basis, continue to impact wide body aircraft utilization and corresponding Aftermarket orders, although freight-related air traffic remains strong. Sales in the Aerospace Aftermarket business may continue to be impacted by inventory management and changes in customer sourcing, deferred or limited maintenance activity during engine shop visits and the use of surplus (used) material during the engine repair and overhaul process. Management believes that its Aerospace Aftermarket business continues to be competitively positioned based on well-established long-term customer relationships, including maintenance and repair contracts in the MRO business and long-term Revenue Sharing Programs ("RSPs") and Component Repair Programs ("CRPs"). The MRO business may also be

impacted by airlines that closely manage their aftermarket costs as engine performance and quality improves. Fluctuations in fuel costs and their impact on airline profitability and behaviors within the aerospace industry could also impact levels and frequency of aircraft maintenance and overhaul activities, and airlines' decisions on maintaining, deferring or canceling new aircraft purchases, in part based on the economics associated with new fuel efficient technologies.

Given the pressures on sales growth resulting from COVID-19, the Company remains focused on the proactive management of costs and improved productivity as it takes action to mitigate continued pressure on operating profit. Certain cost savings actions taken in the prior year remain in effect and have been critical in partially offsetting the lower profit contribution of lower Aftermarket sales. Aerospace will continue to explore opportunities for additional productivity throughout 2021 and into 2022, including working closely with vendors and customers as it relates to the timing of deliveries and pricing initiatives. Management also remains focused on strategic investments and new product and process introductions. Driving productivity through the application of the Barnes Enterprise System continues as a key initiative. Operating profit is expected to be affected by the impact of the changes in sales volume noted above, mix and pricing, particularly as they relate to the higher profit Aftermarket RSP spare parts business, and investments made in each of its businesses. Operating profits may also be impacted by potential changes in tariffs, trade agreements and trade policies that may affect the cost and/or availability of goods and labor. Costs associated with new product and process introductions, the physical transfer of work to other global regions, additional productivity initiatives and restructuring activities may also negatively impact operating profit.

LIQUIDITY AND CAPITAL RESOURCES

Management assesses the Company's liquidity in terms of its overall ability to generate cash to fund its operating and investing activities. Of particular importance in the management of liquidity are cash flows generated from operating activities, capital expenditure levels, dividends, capital stock transactions, effective utilization of surplus cash positions overseas and adequate lines of credit. The Company currently maintains sufficient liquidity and will continue to evaluate ways to enhance its liquidity position as it navigates through the disrupted business environment that has resulted from COVID-19.

The Company believes that its ability to generate cash from operations in excess of its internal operating needs is one of its financial strengths. Management continues to focus on cash flow and working capital management, and anticipates that operating activities in 2021 will generate sufficient cash to fund operations. See additional discussion regarding currently available debt facilities below.

To better align costs with the current business environment, the Company has taken several actions. During 2020, the Company announced the Actions that were taken across the businesses and functions in response to the macroeconomic disruption in global industrial and aerospace end markets. A resulting pre-tax charge of $18.2 million was recorded through operating profit during 2020 (Note 17), primarily related to employee severance and other termination benefits. The Actions were substantially completed in 2020 and, at the time of the Actions being taken, reduced the Company’s global workforce by approximately 8%. The Company continues to invest within its businesses, with its estimate of 2021 capital spending to be approximately $40 million.

In October 2014, the Company entered into a Note Purchase Agreement (“Note Purchase Agreement”), among the Company and New York Life Insurance Company, New York Life Insurance and Annuity Corporation and New York Life Insurance and Annuity Corporation Institutionally Owned Life Insurance Separate Account, as purchasers, for the issuance of $100.0 million aggregate principal amount of 3.97% senior notes due October 17, 2024 (the “3.97% Senior Notes”). The 3.97% Senior Notes are senior unsecured obligations of the Company and pay interest semi-annually on April 17 and October 17 of each year at an annual rate of 3.97%. The 3.97% Senior Notes will mature on October 17, 2024 unless earlier prepaid in accordance with their terms. Subject to certain conditions, the Company may, at its option, prepay all or any part of the 3.97% Senior Notes in an amount equal to 100% of the principal amount of the 3.97% Senior Notes so prepaid, plus any accrued and unpaid interest to the date of prepayment, plus the Make-Whole Amount, as defined in the Note Purchase Agreement, with respect to such principal amount being prepaid. The Note Purchase Agreement contains customary affirmative and negative covenants that are similar to the covenants required under the Amended Credit Agreement, as discussed below. At September 30, 2021, the Company was in compliance with all covenants under the Note Purchase Agreement.

On October 8, 2020, the Company entered into the sixth amendment to its fifth amended and restated revolving credit agreement with Bank of America (the “Sixth Amendment”) and the first amendment to the Note Purchase Agreement with New York Life (the “First NPA Amendment”). The Sixth Amendment maintained the borrowing availability of $1,000.0 million along with access to request $200.0 million through an accordion feature. The Sixth Amendment and the First NPA Amendment provided for an increase in the Company’s maximum ratio of Consolidated Senior Debt, as defined, to Consolidated EBITDA, as defined, from 3.25 times (or, if a certain permitted acquisition above $150.0 million is consummated, 3.50 times) to 3.75 times in each case at the end of the four fiscal quarters, beginning with December 31, 2020, and regardless of whether a permitted acquisition, as defined, is consummated, providing additional financing flexibility and access to liquidity. Additionally, the Sixth Amendment requires the Company to maintain a maximum ratio of Consolidated Total Debt, as defined, to Consolidated EBITDA, of not more than 3.75 times in each case, at the end of the four fiscal quarters, beginning with December 31, 2020 and regardless of whether a permitted acquisition, as defined, is consummated. Furthermore, the First NPA Amendment provides for (i) adjustments to the ratio of Consolidated Total Debt, as defined, to Consolidated EBITDA, as defined, to conform to a more restrictive total leverage ratio that may be required under the Amended Credit Agreement, (ii) an increase in the amount of allowable add-back for restructuring charges when calculating Consolidated EBITDA from $15.0 million to $25.0 million and (iii) a required fee payment equal to 0.50% per annum times the daily outstanding principal amount of the note during each of the four fiscal quarters, following the quarter ended December 31, 2020, if the Company's Senior Leverage Ratio, as defined, exceeds 3.25 times. In October 2020, the Company paid fees and expenses of $1.4 million in conjunction with executing the Amendments; such fees have been deferred within Other Assets on the accompanying Consolidated Balance Sheet and are being amortized on the Consolidated Statements of Income.

On February 10, 2021, the Company and certain of its subsidiaries entered into the sixth amended and restated senior unsecured revolving credit agreement (the "Amended Credit Agreement") and retained Bank of America, N.A. as the Administrative Agent for the lenders. The Amended Credit Agreement maintains the $1,000.0 million of availability within the facility, while increasing the available borrowings under the accordion feature from $200.0 million to $250.0 million (aggregate availability of $1,250.0 million) and extends the maturity date through February 2026. The Amended Credit Agreement also adjusts the interest rate to either the Eurocurrency rate, as defined in the Amended Credit Agreement, plus a margin of 1.175% to 1.775% or the base rate, as defined in the Amended Agreement, plus a margin of 0.175% and 0.775%, depending on the Company's leverage ratio at the time of the borrowing. Multi-currency borrowings, pursuant to the Amended Credit Agreement, bear interest at their respective interbank offered rate (i.e. Euribor) or 0.00% (higher of the two rates) plus a margin of between 1.175% to 1.775%. As with the earlier facility, the Company's borrowing capacity is limited by various debt covenants in the Amended Credit Agreement, as described further below. The Amended Credit Agreement requires the Company to maintain a Senior Debt Ratio of not more than 3.75 times at the end of each fiscal quarter ending on or before September 30, 2021, after which the ratio will revert to 3.25 times (or, if a permitted acquisition above $150.0 million is consummated, 3.50 times at the end of each of the first four fiscal quarters ending after the consummation of any such acquisition). In addition, the Amended Credit Agreement requires the Company to maintain a Total Debt Ratio of not more than 3.75 for each fiscal quarter (or, if a permitted acquisition above $150.0 million is consummated, 4.25 times at the end of each of the first four fiscal quarters ending after the consummation of any such acquisition, however, such increase in the ratio will not be effective during any period prior to October 1, 2021. A ratio of Consolidated EBITDA to Consolidated Cash Interest Expense, as defined, of not less than 4.25, is required at the end of each fiscal quarter. The Amended Credit Agreement also contemplates the potential replacement of LIBOR (as defined below) with a successor financing rate, pursuant to the intent of the United Kingdom's Financial Conduct Authority to phase out use of LIBOR. See additional discussion immediately below regarding the Company's ongoing evaluation related to this potential change in financing rates. The Company paid fees and expenses of $4.2 million in conjunction with executing the Amended Credit Agreement; such fees will be deferred within Other assets on the Consolidated Balance Sheets and will be amortized into interest expense on the Consolidated Statements of Income through its maturity. The Company subsequently amended the Credit Agreement on October 11, 2021, defining certain applicable multi-currency borrowing rates that may be used as replacement rates for LIBOR, which is expected to be discontinued by reference rate reform. See Note 3 of the Consolidated Financial Statements, as well as discussion below.

The United Kingdom's Financial Conduct Authority, which regulates the London Interbank Offered Rate ("LIBOR"), announced its intent to phase out the use of LIBOR by December 31, 2021. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, a steering committee comprised of large U.S. financial institutions, identified the Secured Overnight Financing Rate ("SOFR") as its preferred benchmark alternative to U.S. dollar LIBOR. Published by the Federal Reserve Bank of New York, SOFR represents a measure of the cost of borrowing cash overnight, collateralized by U.S. Treasury securities, and is calculated based on directly observable U.S. Treasury-backed repurchase transactions. The Company's Amended Credit Agreement and corresponding interest rate Swap are tied to LIBOR, with each maturing in February 2026, as noted above. In March 2021, the ICE Benchmark Association announced that it will extend the publication of overnight, 1, 3, 6 and 12 month LIBOR rates until June 30, 2023, while ceasing publication of all other LIBOR rates including 1 week and 2 month rates. The Company's Credit Facility was amended in October 2021 to address the replacement of LIBOR, defining certain applicable multi-currency borrowing rates that may be used as a replacement. The Company is continuing to monitor the potential impact of the replacement of LIBOR, but does not anticipate a material impact on our business, financial condition, results of operations and cash flows.

At September 30, 2021, the Company was in compliance with all applicable covenants. The Company anticipates continued compliance under the Agreements in each of the next four quarters. The Company's most restrictive financial covenant is the Senior Debt Ratio, which required the Company to maintain a ratio of Consolidated Senior Debt to Consolidated EBITDA of not more than 3.75 times at September 30, 2021. The actual ratio at September 30, 2021 was 2.59 times, as defined. As noted

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above, the Amended Credit Agreement requires the Company to maintain a Senior Debt Ratio of not more than 3.75 times at the end of each fiscal quarter ending on or before September 30, 2021, after which the ratio will revert to 3.25 times in subsequent periods.

Management did not repurchase any shares during the third quarter of 2021. Management will continue to evaluate additional repurchases based on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. See "Part II - Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds".

Operating cash flow may be supplemented with external borrowings to meet near-term business expansion needs and the Company's current financial commitments. The Company has assessed its credit facilities in conjunction with the Amended Credit Facility and currently expects that its bank syndicate, comprised of 12 banks, will continue to support its recently executed Amended Credit Agreement which matures in February 2026. At September 30, 2021, the Company had $476.6 million unused and available for borrowings under its $1,000.0 million Amended Credit Facility, subject to covenants in the Company's revolving debt agreements. At September 30, 2021, additional borrowings of $282.8 million of Total Debt, as defined, including $282.8 million of Senior Debt would have been allowed under the financial covenants. The Company intends to use borrowings under its Amended Credit Agreement to support the Company's ongoing growth initiatives. The Company continues to analyze potential acquisition targets and end markets that meet its strategic criteria with an emphasis on proprietary, highly-engineered industrial technologies. The Company believes its credit facilities and access to capital markets, coupled with cash generated from operations, are adequate for its anticipated future requirements. The Company has not drawn on its debt agreements as a result of COVID-19, as it believes the availability of those funds are not at risk given the strength of the underlying bank syndicate. The Company maintains communication with its bank syndicate as it continues to monitor its cash requirements.

The Company had no borrowings under short-term bank credit lines at September 30, 2021.

On April 28, 2017, the Company entered into an interest rate swap agreement (the "2017 Swap") with one bank which converts the interest on the first $100.0 million of the Company's one-month LIBOR-based borrowings from a variable rate plus the borrowing spread to a fixed rate of 1.92% plus the borrowing spread. The 2017 Swap expires on January 31, 2022. On March 24, 2021, the Company entered into a new interest rate swap agreement (the "2021 Swap") with this same bank that will commence on January 31, 2022 and will convert the interest on the first $100.0 million of the Company's one-month LIBOR-based borrowings from a variable rate plus the borrowing spread to a fixed rate of 1.17% plus the borrowing spread. The 2021 Swap will expire on January 30, 2026. These interest rate swap agreements (the "Swaps") remained in place at September 30, 2021 and are accounted for as cash flow hedges. At September 30, 2021, the Company's total borrowings were comprised of 33% fixed rate debt and 67% variable rate debt. At December 31, 2020, the Company's total borrowings were comprised of 30% fixed rate debt and 70% variable rate debt.

The Company completed the sale of the Seeger business to KNG effective February 1, 2020. Gross proceeds received were 39.0 million Euros ($42.9 million) after consideration of post-closing adjustments, which were made during the fourth quarter of 2020, pursuant to the terms of the SPA. The Company yielded net cash proceeds of $36.1 million after consideration of cash sold and transaction costs. Resulting tax charges of $4.2 million were recognized in the first quarter of 2020 following the completion of the sale. The Company utilized the proceeds from the sale to reduce debt under the Amended Credit Facility.

At September 30, 2021, the Company held $93.5 million in cash and cash equivalents, the majority of which was held by foreign subsidiaries. These amounts have no material regulatory or contractual restrictions and are expected to primarily fund international investments.

The Company currently does not plan to make any additional discretionary contributions to its U.S. Qualified pension plans in 2021, however approximately $4.7 million is expected to be made into its U.S. Non-qualified and international pension plans throughout 2021.

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Cash Flow

(in millions)	Nine Months Ended September 30, 2021	2020	Change
Operating activities	$ 127.8	$ 163.8	$ (36.0)
Investing activities	(23.4)	7.3	(30.7)
Financing activities	(88.6)	(181.1)	92.5
Exchange rate effect	(2.9)	0.7	(3.6)
Increase (decrease) in cash	$ 12.9	$ (9.3)	$ 22.2

Operating activities provided $127.8 million in the first nine months of 2021 compared to $163.8 million in the first nine months of 2020. Operating cash flows in the 2021 period were positively impacted by improved operating results reflecting a recovery within our end-markets which was offset by a reduction in cash provided by working capital. The 2021 period included a use of cash for working capital of $3.4 million compared to $67.1 million of cash provided by working capital in the 2020 period which was driven by a reduction in accounts receivable due to the decline in sales in the period.

Investing activities used $23.4 million in the first nine months of 2021 and generated $7.3 million in the first nine months of 2020. Net cash proceeds of $36.9 million from the sale of the Seeger business were included in investing activities for the 2020 period. See Note 2 of the Consolidated Financial Statements. Investing activities in the 2021 period included capital expenditures of $26.7 million compared to $30.2 million in the 2020 period. The Company expects capital spending in 2021 to approximate $40 million.

Financing activities in the first nine months of 2021 included a net decrease in borrowings of $48.3 million compared to $137.5 million in the comparable 2020 period. During the first nine months of 2021 and 2020, the Company repurchased 0.1 million shares and 0.4 million shares, respectively, of the Company's stock at a cost of $5.2 million and $15.6 million, respectively. Total cash used to pay dividends was $24.3 million in both the 2021 and 2020 periods. Other financing cash flows during the first nine months of 2021 and 2020 include $1.1 million and $1.9 million, respectively, of net cash payments resulting from the settlement of foreign currency hedges related to intercompany financing. Other financing cash flows during the first nine months of 2021 also include $4.2 million of payments made in conjunction with executing the Amended Credit Agreement and $4.2 million of payments related to the residual interest in a subsidiary.

The Company maintains borrowing facilities with banks to supplement internal cash generation. At September 30, 2021, $523.4 million was borrowed at an average interest rate of 1.47% under the Company's $1,000.0 million Amended Credit Facility which matures in February 2026. As of September 30, 2021, the Company had no borrowings under short-term bank credit lines. At September 30, 2021, the Company's total borrowings were comprised of 33% fixed rate debt and 67% variable rate debt. The interest payments on $100.0 million of the variable rate interest debt have been converted into payment of fixed interest plus the borrowing spread under the terms of the respective interest rate swaps that were executed in April 2017 and March 2021.

Debt Covenants

As noted above, borrowing capacity is limited by various debt covenants in the Company's debt agreements. Following is a reconciliation of Consolidated EBITDA, a key metric in the debt covenants, to the Company's net income (in millions):

	Four Fiscal Quarters Ended September 30, 2021	
Net income	$	89.5
Add back:		
Interest expense		16.5
Income taxes		34.2
Depreciation and amortization		90.8
Adjustment for non-cash stock based compensation		11.4
Workforce reduction and restructuring charges		1.6
Other adjustments		0.2
Consolidated EBITDA, as defined within the Amended Credit Agreement	$	244.1
Consolidated Senior Debt, as defined, as of September 30, 2021	$	632.5
Ratio of Consolidated Senior Debt to Consolidated EBITDA		2.59
Maximum		3.75
Consolidated Total Debt, as defined, as of September 30, 2021	$	632.5
Ratio of Consolidated Total Debt to Consolidated EBITDA		2.59
Maximum		3.75
Consolidated Cash Interest Expense, as defined, as of September 30, 2021	$	16.5
Ratio of Consolidated EBITDA to Consolidated Cash Interest Expense		14.83
Minimum		4.25

The Amended Credit Agreement allows for certain adjustments within the calculation of the financial covenants. Other adjustments consist primarily of due diligence and transaction expenses as permitted under the Amended Credit Agreement. The Company's financial covenants are measured as of the end of each fiscal quarter. At September 30, 2021, additional borrowings of $282.8 million of Senior Debt would have been allowed under the covenants. Additional borrowings for Total Debt would also have been limited to $282.8 million at September 30, 2021. Senior Debt includes primarily the borrowings under the Amended Credit Agreement, the 3.97% Senior Notes and the borrowings under the lines of credit. The Company's unused committed credit facilities at September 30, 2021 were $476.6 million; however, the borrowing capacity was limited by the debt covenants to $282.8 million at September 30, 2021.

OTHER MATTERS

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant accounting policies are disclosed in Note 1 of the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2020. The most significant areas involving management judgments and estimates are described in Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Annual Report on Form 10-K for the year ended December 31, 2020. Actual results could differ from those estimates. There have been no material changes to such judgments and estimates.

Critical Accounting Policies

Goodwill and Indefinite-Lived Intangible Assets: Goodwill and indefinite-lived intangible assets are subject to impairment testing annually or earlier if an event or change in circumstances indicates that the fair value of a reporting unit has been reduced below its carrying value. Management completes their annual impairment assessments during the second quarter of each year as of April 1. The Company utilizes the option to first assess qualitative factors to determine whether it is necessary to perform the Step 1 quantitative goodwill impairment test in accordance with the applicable accounting standards. Under the qualitative assessment, management considers relevant events and circumstances including but not limited to macroeconomic conditions, industry and market considerations, overall unit performance and events directly affecting a unit. If the Company determines that the Step 1 quantitative impairment test is required, management estimates the fair value of the reporting unit primarily using the income approach, which reflects management’s cash flow projections, and also evaluates the fair value using the market approach. Inherent in management’s development of cash flow projections are assumptions and estimates,

including those related to future earnings and growth and the weighted average cost of capital. The Company compares the fair value of the reporting unit with the carrying value of the reporting unit. If the fair values were to fall below the carrying values, the Company would recognize a non-cash impairment charge to income from operations for the amount by which the carrying amount of any reporting unit exceeds the reporting unit's fair value, assuming the loss recognized does not exceed the total amount of goodwill for the reporting unit. Based on our second quarter assessment, the estimated fair value of the Automation reporting unit, which represents the 2018 acquisition of Gimatic, exceeded its carrying value while the estimated fair value of each of the remaining reporting units significantly exceeded their carrying values. There was no goodwill impairment at any reporting units. Many of the factors used in assessing fair value are outside the control of management, and these assumptions and estimates can change in future periods as a result of both Company-specific and overall economic conditions, including the impacts of the COVID-19 pandemic. Management's quantitative assessment includes a review of the potential impacts of current and projected market conditions from a market participant's perspective on reporting units' projected cash flows, growth rates and cost of capital to assess the likelihood of whether the fair value would be less than the carrying value. The Company also completed its annual impairment testing of its trade names, indefinite-lived intangible assets, in the second quarter of 2021 and determined that there were no impairments.

EBITDA

Earnings before interest expense, income taxes, and depreciation and amortization ("EBITDA") for the first nine months of 2021 was $178.7 million compared to $154.0 million in the first nine months of 2020. EBITDA is a measurement not in accordance with generally accepted accounting principles ("GAAP"). The Company defines EBITDA as net income plus interest expense, income taxes, and depreciation and amortization which the Company incurs in the normal course of business. The Company does not intend EBITDA to represent cash flows from operations as defined by GAAP, and the reader should not consider it as an alternative to net income, net cash provided by operating activities or any other items calculated in accordance with GAAP, or as an indicator of the Company's operating performance. The Company's definition of EBITDA may not be comparable with EBITDA as defined by other companies. The Company believes EBITDA is commonly used by financial analysts and others in the industries in which the Company operates and, thus, provides useful information to investors. Accordingly, the calculation has limitations depending on its use.

Following is a reconciliation of EBITDA to the Company's net income (in millions):

	Nine Months Ended September 30,	
	2021	2020
Net income	$ 71.7	$ 45.7
Add back:		
Interest expense	12.4	11.9
Income taxes	26.5	30.4
Depreciation and amortization	68.0	66.0
EBITDA	$ 178.7	$ 154.0

FORWARD-LOOKING STATEMENTS

Certain statements in this Quarterly Report on Form 10-Q are forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements often address our expected future operating and financial performance and financial condition, and often contain words such as "anticipate," "believe," "expect," "plan," "estimate," "project," "continue," "will," "should," "may," and similar terms. These forward-looking statements do not constitute guarantees of future performance and are subject to a variety of risks and uncertainties that may cause actual results to differ materially from those expressed in the forward-looking statements. These include, among others: difficulty maintaining relationships with employees, customers, distributors, suppliers, business partners or governmental entities; failure to successfully negotiate collective bargaining agreements or potential strikes, work stoppages or other similar events; difficulties leveraging market opportunities; changes in market demand for our products and services; rapid technological and market change; the ability to protect and avoid infringing upon intellectual property rights; introduction or development of new products or transfer of work; higher risks in global operations and markets; the impact of intense competition; acts of terrorism, cybersecurity attacks or intrusions that could adversely impact our businesses; the continuing impact of the COVID-19 pandemic on our business, including on demand, supply chains, operations and our ability to maintain sufficient liquidity; the failure to achieve anticipated cost savings and benefits associated with workforce reductions and restructuring actions; uncertainties relating to conditions in financial markets; currency fluctuations and foreign currency exposure; future financial performance of the industries or customers that we serve; our dependence upon revenues and earnings from a small number of significant customers; a major loss of customers; inability to realize expected sales or profits from existing backlog due to a range of factors, including

changes in customer sourcing decisions, material changes, production schedules and volumes of specific programs; the impact of government budget and funding decisions; government tariffs, trade agreements and trade policies; the impact of new or revised tax laws and regulations; the adoption of laws, directives or regulations that impact the materials processed by our products or their end markets; fluctuations in the pricing, quality or availability of raw materials, supplies, freight, transportation, utilities and other items required by operations; labor shortages or other business interruptions at transportation centers, shipping ports, our suppliers' facilities or our facilities; disruptions in information technology systems, including as a result of cybersecurity or data security breaches; the continuing impact of prior acquisitions and divestitures; and any other future strategic actions, including acquisitions, divestitures, restructurings, or strategic business realignments, and our ability to achieve the financial and operational targets set in connection with any such actions; the ability to achieve social and environmental performance goals; the outcome of pending and future legal, governmental, or regulatory proceedings and contingencies; the impact of actual, potential or alleged defects or failures of our products or third-party products within which our products are integrated, including product liabilities, product recall costs and uninsured claims; future repurchases of common stock; future levels of indebtedness; and numerous other matters of a global, regional or national scale, including those of a political, social, economic, business, competitive, environmental, regulatory and public health nature; and other risks and uncertainties described in documents filed with or furnished to the Securities and Exchange Commission ("SEC") by the Company, including, among others, those in the Management's Discussion and Analysis of Financial Condition and Results of Operations and Risk Factors sections of the Company's filings. The Company assumes no obligation to update its forward-looking statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For discussion of the Company's exposure to market risk, refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2020. There have been no material changes to such risk during the nine-months ended September 30, 2021.

Item 4. Controls and Procedures

Management, including the Company's President and Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based upon, and as of the date of, our evaluation, the President and Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective, in all material respects and designed to provide reasonable assurance that information required to be disclosed in the reports the Company files and submits under the Securities Exchange Act of 1934, as amended, is (i) recorded, processed, summarized and reported as and when required and (ii) is accumulated and communicated to the Company's management, including our President and Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting during the Company's third quarter of 2021 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are subject to litigation from time to time in the ordinary course of business and various other suits, proceedings and claims are pending against us and our subsidiaries. While it is not possible to determine the ultimate disposition of each of these proceedings and whether they will be resolved consistent with our beliefs, we expect that the outcome of these proceedings, individually or in the aggregate, will not have a material adverse effect on our consolidated financial position, cash flows or results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid Per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs[2]
July 1-31, 2021	6,812	$ 49.36	—	3,604,000
August 1-31, 2021	16,234	$ 50.18	—	3,604,000
September 1-30, 2021	334	$ 44.76	—	3,604,000
Total	23,380 [1]	$ 49.86	—	

(1) All acquisitions of equity securities during the third quarter of 2021 were the result of the operation of the terms of the Company's stockholder-approved equity compensation plans and the terms of the equity rights granted pursuant to those plans to pay for the related income tax upon issuance of shares. The purchase price of a share of stock used for tax withholding is the market price on the date of issuance.

(2) At March 31, 2019, 1.5 million shares of common stock had not been purchased under the publicly announced Repurchase Program (the “Program”). On April 25, 2019, the Board of Directors of the Company increased the number of shares authorized for repurchase under the Program by 3.5 million shares of common stock (5.0 million authorized, in total). The Program permits open market purchases, purchases under a Rule 10b5-1 trading plan and privately negotiated transactions.

Item 6. Exhibits

Exhibit 10.1	LIBOR Transition Amendment, dated as of October 11, 2021.
Exhibit 15	Letter regarding unaudited interim financial information.
Exhibit 31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32	Certification pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 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.
Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document.
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
Exhibit 101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Barnes Group Inc.
(Registrant)

Date: October 29, 2021

/s/ JULIE K. STREICH

Julie K. Streich
Senior Vice President, Finance
Chief Financial Officer
(Principal Financial Officer)

Date: October 29, 2021

/s/ MARIAN ACKER

Marian Acker
Vice President, Controller
(Principal Accounting Officer)

EXHIBIT INDEX

Barnes Group Inc.

Quarterly Report on Form 10-Q
For the Quarter ended September 30, 2021

Exhibit No.	Description	Reference
10.1	LIBOR Transition Amendment, dated as of October 11, 2021.	Filed with this report.
15	Letter regarding unaudited interim financial information.	Filed with this report.
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed with this report.
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed with this report.
32	Certification pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Furnished with this report.
Exhibit 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 with this report.
Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document.	Filed with this report.
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.	Filed with this report.
Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.	Filed with this report.
Exhibit 101.LAB	XBRL Taxonomy Extension Label Linkbase Document.	Filed with this report.
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.	Filed with this report.

Exhibit 99.1

Curtiss-Wright Reports First Quarter 2022 Financial Results and Reaffirms Full-Year 2022 Guidance

DAVIDSON, N.C.--(BUSINESS WIRE)--May 4, 2022--Curtiss-Wright Corporation (NYSE: CW) reports financial results for the first quarter ended March 31, 2022.

First Quarter 2022 Highlights:

- Reported sales of $559 million, reflecting timing of defense revenues;
- Reported diluted earnings per share (EPS) of $1.05;
- Adjusted diluted EPS of $1.31;
- New orders of $634 million, up 12%, reflecting strong demand within our Aerospace & Defense (A&D) and Commercial markets; and
- Share repurchases of approximately $12 million.

"Curtiss-Wright delivered solid Adjusted diluted EPS of $1.31 in the first quarter, exceeding our expectations, as the benefits of our combined portfolio of businesses enabled us to partially mitigate the headwinds of continued global supply chain disruption and the delayed signing of the FY22 Defense budget," said Lynn M. Bamford, President and CEO of Curtiss-Wright Corporation. "We are greatly encouraged by the double-digit order growth in the first quarter, which builds upon our already strong backlog and provides further confidence in our full-year outlook."

“Looking ahead to the remainder of the year, we anticipate steady, sequential improvement in sales, operating margin, diluted EPS and free cash flow, with a greater percentage of our full-year sales weighted to the second half of the year due to the timing of revenue within our defense markets. Overall, we are maintaining our full-year 2022 guidance for total sales growth of 3% to 5% driven by growth in all of our A&D and Commercial markets, continued operating margin expansion, and double-digit Adjusted diluted EPS growth of 10% to 12%, as we continue to successfully execute on our Pivot to Growth strategy to drive long-term shareholder value.”

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First Quarter 2022 Operating Results

(In millions)	Q1-2022	Q1-2021	Change
Reported			
Sales	$ 559	$ 597	(6%)
Operating income	$ 61	$ 85	(29%)
Operating margin	10.8%	14.2%	(340 bps)
Adjusted *(1)*			
Sales	$ 559	$ 590	(5%)
Operating income	$ 71	$ 89	(20%)
Operating margin	12.7%	15.0%	(230 bps)

(1) Reconciliations of Reported to Adjusted operating results are available in the Appendix.

- Adjusted sales of $559 million, down $30 million, or 5%;
- Total Aerospace & Defense (A&D) market sales decreased 10%, while total Commercial market sales increased 5%;
- In our A&D markets, strong double-digit growth in the commercial aerospace market was more than offset by reductions in our defense markets due to the timing of sales, ongoing supply chain headwinds and the delayed signing of the FY22 defense budget;
- In our Commercial markets, we experienced solid demand in the general industrial market, as well as higher sales within the power & process markets, despite the wind down on the China Direct AP1000 program; and
- Adjusted operating income of $71 million decreased 20%, while Adjusted operating margin decreased 230 basis points to 12.7%, principally driven by unfavorable overhead absorption on lower revenues and mix in our Defense Electronics and Naval & Power segments. These decreases were partially offset by higher revenues and increased profitability in the Aerospace & Industrial segment, as well as the benefits of our ongoing company-wide operational excellence initiatives.

First Quarter 2022 Segment Performance

Aerospace & Industrial

(In millions)	Q1-2022	Q1-2021	Change
Reported			
Sales	$ 191	$ 180	6%
Operating income	$ 25	$ 19	31%
Operating margin	13.0%	10.6%	240 bps
Adjusted [(1)]			
Sales	$ 191	$ 178	8%
Operating income	$ 25	$ 19	34%
Operating margin	13.0%	10.4%	260 bps

(1) Reconciliations of Reported to Adjusted operating results are available in the Appendix.

- Adjusted sales of $191 million, up $13 million, or 8%;
- Higher commercial aerospace market revenue reflected strong demand for actuation and sensors products, as well as surface treatment services, primarily on narrowbody platforms;
- Higher general industrial market revenue was principally driven by increased sales of industrial vehicle products, most notably serving off-highway platforms;
- Aerospace defense market revenue growth reflected higher sales of actuation products and surface treatment services on the F-35 program, mainly offset by lower sales of sensors equipment on various programs; and
- Adjusted operating income was $25 million, up 34% from the prior year, while Adjusted operating margin increased 260 basis points to 13.0%, reflecting strong absorption on higher sales and the benefits of our ongoing operational excellence and prior year restructuring initiatives.

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Defense Electronics

(In millions)	Q1-2022	Q1-2021	Change
Reported			
Sales	$ 143	$ 181	(21%)
Operating income	$ 23	$ 37	(36%)
Operating margin	16.3%	20.2%	(390 bps)
***Adjusted* (1)**			
Sales	$ 143	$ 182	(22%)
Operating income	$ 23	$ 38	(39%)
Operating margin	16.3%	20.9%	(460 bps)

(1) Reconciliations of Reported to Adjusted operating results are available in the Appendix.

- Adjusted sales of $143 million, down $39 million, or 22%, principally reflected the timing of sales within our aerospace and ground defense markets as certain revenues shifted out of the first quarter of 2022 due to ongoing supply chain headwinds and the delayed signing of the FY22 defense budget;
- Naval defense market revenue declines primarily reflected the timing of revenues on the Virginia-class submarine program and various surface ships; and
- Adjusted operating income was $23 million, down 39% from the prior year, while adjusted operating margin decreased 460 basis points to 16.3%, primarily reflecting reduced absorption and unfavorable mix on lower defense sales, which more than offset the benefits of our ongoing operational excellence initiatives.

Naval & Power

(In millions)	Q1-2022	Q1-2021	Change
Reported			
Sales	$ 225	$ 236	(4%)
Operating income	$ 27	$ 38	(28%)
Operating margin	12.1%	16.2%	(410 bps)
Adjusted (1)			
Sales	$ 225	$ 230	(2%)
Operating income	$ 33	$ 41	(20%)
Operating margin	14.5%	17.7%	(320 bps)

(1) Reconciliations of Reported to Adjusted operating results are available in the Appendix.

- Adjusted sales of $225 million, down $5 million, or 2%;
- Naval defense market revenue declines primarily reflected lower revenues on the CVN-80 aircraft carrier and Virginia-class submarine programs, partially offset by higher revenues on the CVN-81 aircraft carrier and Columbia-class submarine programs;
- Higher power & process market sales reflected strong growth in nuclear aftermarket revenues supporting the maintenance of existing operating reactors and strong industrial valve demand in the process market; Those increases were mainly offset by the timing of production on the China Direct AP1000 program; and
- Adjusted operating income was $33 million, down 20% from the prior year, while adjusted operating margin decreased 320 basis points to 14.5%, driven by unfavorable absorption on lower naval defense market revenues and unfavorable mix in the power & process market.

Free Cash Flow

(In millions)	Q1-2022	Q1-2021	Change
Net cash used for operating activities	$ (124)	$ (27)	(367%)
Capital expenditures	(11)	(9)	(28%)
Reported free cash flow	$ (135)	$ (35)	(285%)
Adjusted free cash flow (1)	$ (112)	$ (35)	(219%)

(1) A reconciliation of Reported to Adjusted free cash flow is available in the Appendix.

- Reported free cash flow of ($135) million decreased approximately $100 million, primarily due to higher working capital and the Westinghouse legal settlement payment;
- Adjusted free cash flow of ($112) million decreased $77 million; and
- Capital expenditures increased $2 million compared with the prior year, primarily due to higher capital investments within the Aerospace & Industrial segment.

New Orders and Backlog

- New orders of $634 million increased 12% and generated an overall book-to-bill that exceeded 1.1x, principally driven by solid demand for naval defense and commercial aerospace products within our A&D markets, and for industrial vehicle products within our Commercial markets; and
- Backlog of $2.3 billion, up 3% from December 31, 2021, reflects higher demand in both our A&D and commercial markets.

Share Repurchase and Dividends

- During the first quarter, the Company repurchased 87,303 shares of its common stock for approximately $12 million; and
- The Company also declared a quarterly dividend of $0.18 a share, unchanged from the previous quarter.

Other Items – Westinghouse Legal Settlement

- In February 2022, the Company and Westinghouse reached an agreement to settle all open claims and counterclaims under the AP1000 U.S. and China contracts;
- The Company's 2021 and 2022 non-GAAP results have been adjusted for this legal matter;
- The Company recorded full-year charges of approximately $13 million in 2021 related to this matter; and
- The terms of the settlement require a $25 million cash payment, with $15 million paid in the first quarter of 2022 and $10 million to be paid in the first quarter of 2023.

Full-Year 2022 Guidance

The Company maintains its full-year 2022 Adjusted financial guidance (1) as follows:

(In millions, except EPS)	2022 Adjusted Non-GAAP Guidance	% Chg vs 2021
Total Sales	\$2,530 - \$2,580	Up 3% - 5%
Operating Income	\$432 - \$446	Up 3% - 6%
Operating Margin	17.1% - 17.3%	Up 10 - 30 bps
Diluted EPS	\$8.05 - \$8.25	Up 10% - 12%
Free Cash Flow (2)	\$345 - \$365	Up 0% - 5%

(1) Reconciliations of Reported to Adjusted 2021 operating results and 2022 financial guidance are available in the Appendix.

(2) 2022 Adjusted Free Cash Flow includes \$50 - \$60 million in capital expenditures, compared with \$41 million in 2021.

A more detailed breakdown of the Company's 2022 financial guidance by segment and by market, as well as all reconciliations of Reported GAAP amounts to Adjusted non-GAAP amounts can be found in the accompanying schedules. Historical financial results are available in the Investor Relations section of Curtiss-Wright's website.

Conference Call & Webcast Information

The Company will host a conference call to discuss first quarter 2022 financial results and updates to 2022 guidance at 10:00 a.m. ET on Thursday, May 5, 2022. A live webcast of the call and the accompanying financial presentation, as well as a replay of the call, will be made available on the internet by visiting the Investor Relations section of the Company's website at www.curtisswright.com.

(Tables to Follow)

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (UNAUDITED)
($'s in thousands, except per share data)

	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
Product sales	$ 453,421	$ 508,975
Service sales	106,040	88,084
Total net sales	559,461	597,059
Cost of product sales	294,527	329,454
Cost of service sales	63,532	57,848
Total cost of sales	358,059	387,302
Gross profit	201,402	209,757
Research and development expenses	20,549	21,863
Selling expenses	28,092	29,596
General and administrative expenses	87,600	73,232
Loss on divestiture	4,651	—
Operating income	60,510	85,066
Interest expense	9,530	9,959
Other income, net	2,997	4,843
Earnings before income taxes	53,977	79,950
Provision for income taxes	(13,292)	(20,481)
Net earnings	$ 40,685	$ 59,469
Net earnings per share:		
Basic earnings per share	$ 1.06	$ 1.45
Diluted earnings per share	$ 1.05	$ 1.45
Dividends per share	$ 0.18	$ 0.17
Weighted average shares outstanding:		
Basic	38,456	40,933
Diluted	38,668	41,103

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CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
($'s in thousands, except par value)

	March 31, 2022	December 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	$ 136,682	$ 171,004
Receivables, net	661,129	647,148
Inventories, net	448,122	411,567
Assets held for sale	—	10,988
Other current assets	63,942	67,101
Total current assets	1,309,875	1,307,808
Property, plant, and equipment, net	355,363	360,031
Goodwill	1,458,899	1,463,026
Other intangible assets, net	523,913	538,077
Operating lease right-of-use assets, net	147,224	143,613
Prepaid pension asset	260,238	256,422
Other assets	33,855	34,568
Total assets	**$ 4,089,367**	**$ 4,103,545**
Liabilities		
Current liabilities:		
Current portion of long-term and short term debt	$ 202,500	$ —
Accounts payable	168,772	211,640
Accrued expenses	109,077	144,466
Income taxes payable	1,478	3,235
Deferred revenue	224,679	260,157
Liabilities held for sale	—	12,655
Other current liabilities	93,745	102,714
Total current liabilities	800,251	734,867
Long-term debt, net	967,744	1,050,610
Deferred tax liabilities	150,085	147,349
Accrued pension and other postretirement benefit costs	84,610	91,329
Long-term operating lease liability	128,897	127,152
Long-term portion of environmental reserves	13,924	13,656
Other liabilities	94,436	112,092
Total liabilities	2,239,947	2,277,055
Stockholders' equity		
Common stock, $1 par value	$ 49,187	$ 49,187
Additional paid in capital	122,603	127,104
Retained earnings	2,942,580	2,908,827
Accumulated other comprehensive loss	(191,524)	(190,465)
Less: cost of treasury stock	(1,073,426)	(1,068,163)
Total stockholders' equity	1,849,420	1,826,490
Total liabilities and stockholders' equity	**$ 4,089,367**	**$ 4,103,545**

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Use and Definitions of Non-GAAP Financial Information (Unaudited)

The Corporation supplements its financial information determined under U.S. generally accepted accounting principles (GAAP) with certain non-GAAP financial information. Curtiss-Wright believes that these Adjusted (non-GAAP) measures provide investors with improved transparency in order to better measure Curtiss-Wright's ongoing operating and financial performance and better comparisons of our key financial metrics to our peers. These non-GAAP measures should not be considered in isolation or as a substitute for the related GAAP measures, and other companies may define such measures differently. Curtiss-Wright encourages investors to review its financial statements and publicly filed reports in their entirety and not to rely on any single financial measure. Reconciliations of "Reported" GAAP amounts to "Adjusted" non-GAAP amounts are furnished within this release.

The following definitions are provided:

Adjusted Sales, Operating Income, Operating Margin, Net Earnings and Diluted EPS

These Adjusted financials are defined as Reported Sales, Operating Income, Operating Margin, Net Earnings and Diluted Earnings per Share under GAAP excluding: (i) the impact of first year purchase accounting costs associated with acquisitions in the prior year, specifically one-time inventory step-up, backlog amortization, deferred revenue adjustments and transaction costs; (ii) the sale or divestiture of a business or product line; (iii) pension settlement charges; and (iv) significant legal settlements, impairment costs, and costs associated with shareholder activism, as applicable.

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
RECONCILIATION OF AS REPORTED TO ADJUSTED (UNAUDITED)
($'s in thousands)

	Three Months Ended March 31, 2022			Three Months Ended March 31, 2021			% Change	
	As Reported	Adjustments	Adjusted	As Reported	Adjustments	Adjusted	Reported	Adjusted
Sales:								
Aerospace & Industrial (1)	$ 191,112	$ —	$ 191,112	$ 180,331	$ (2,599)	$ 177,732	6%	8%
Defense Electronics (2)	143,069	—	143,069	181,212	1,080	182,292	(21)%	(22)%
Naval & Power (3)	225,280	—	225,280	235,516	(5,583)	229,933	(4)%	(2)%
Total sales	**$ 559,461**	**$ —**	**$ 559,461**	**$ 597,059**	**$ (7,102)**	**$ 589,957**	**(6)%**	**(5)%**
Operating income (expense):								
Aerospace & Industrial (1)	$ 24,853	$ —	$ 24,853	$ 19,025	$ (476)	$ 18,549	31%	34%
Defense Electronics (2)	23,290	—	23,290	36,623	1,560	38,183	(36)%	(39)%
Naval & Power (3)	27,288	5,427	32,715	38,057	2,589	40,646	(28)%	(20) %
Total segments								
Corporate and other (4)	(14,921)	4,876	(10,045)	(8,639)	45	(8,594)	(73)%	(17)%
Total operating income	**$ 60,510**	**$ 10,303**	**$ 70,813**	**$ 85,066**	**$ 3,718**	**$ 88,784**	**(29)%**	**(20)%**
Operating margins:	**As Reported**		**Adjusted**	**As Reported**		**Adjusted**	**Reported**	**Adjusted**
Aerospace & Industrial	13.0%		13.0%	10.6%		10.4%	240 bps	260 bps
Defense Electronics	16.3%		16.3%	20.2%		20.9%	(390 bps)	(460 bps)
Naval & Power	12.1%		14.5%	16.2%		17.7%	(410 bps)	(320 bps)
Total Curtiss-Wright	**10.8%**		**12.7%**	**14.2%**		**15.0%**	**(340 bps)**	**(230 bps)**
Segment margins	13.5%		14.5%	15.7%		16.5%	(220 bps)	(200 bps)

(1) Excludes our build-to-print actuation product line supporting the Boeing 737 Max program, which we substantially exited in the fourth quarter of 2020.
(2) Excludes first year purchase accounting adjustments in the prior period.
(3) Excludes the results of operations from our German valves business, which was sold in January 2022, and the loss on divestiture in the current period.
(4) Excludes costs associated with shareholder activism in the current period.

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CURTISS-WRIGHT CORPORATION and SUBSIDIARIES

RECONCILIATION OF AS REPORTED SALES TO ADJUSTED SALES BY END MARKET (UNAUDITED)

($'s in thousands)

	Three Months Ended March 31, 2022			Three Months Ended March 31, 2021			2022 vs. 2021	
	Reported Sales	Adjustments	Adjusted Sales	Reported Sales	Adjustments	Adjusted Sales	Change in Reported Sales	Change in Adjusted Sales
Aerospace & Defense markets:								
Aerospace Defense	$ 98,004	$ —	$ 98,004	$111,016	$ —	$ 111,016	(12%)	(12%)
Ground Defense (1)	39,108	—	39,108	55,746	1,080	56,826	(30%)	(31%)
Naval Defense	162,967	—	162,967	177,905	—	177,905	(8%)	(8%)
Commercial Aerospace (2)	60,892	—	60,892	57,269	(2,599)	54,670	6%	11%
Total Aerospace & Defense	**$360,971**	**$ —**	**$ 360,971**	**$401,936**	**$ (1,519)**	**$ 400,417**	**(10%)**	**(10%)**
Commercial markets:								
Power & Process (3)	104,788	—	104,788	105,504	(5,583)	99,921	(1%)	5%
General Industrial	93,702	—	93,702	89,619	—	89,619	5%	5%
Total Commercial	**$198,490**	**$ —**	**$ 198,490**	**$195,123**	**$ (5,583)**	**$ 189,540**	**2%**	**5%**
Total Curtiss-Wright	**$559,461**	**$ —**	**$ 559,461**	**$597,059**	**$ (7,102)**	**$ 589,957**	**(6%)**	**(5%)**

(1) Excludes first year purchase accounting adjustments in the prior period.

(2) Excludes our build-to-print actuation product line supporting the Boeing 737 MAX program, which we substantially exited in the fourth quarter of 2020.

(3) Excludes the prior period results of our German valves business, which was sold in January 2022.

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CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
RECONCILIATION OF AS REPORTED TO ADJUSTED DILUTED EARNINGS PER SHARE
(UNAUDITED)

	Three Months Ended March 31,	
	2022	**2021**
Diluted earnings per share - As Reported	**$ 1.05**	**$ 1.45**
Divested German valves business	0.11	0.04
Costs associated with shareholder activism	0.10	—
Former executive pension settlement expense	0.05	—
First year purchase accounting adjustments	—	0.03
Exit of build-to-print actuation product line	—	(0.01)
Diluted earnings per share - Adjusted [1]	**$ 1.31**	**$ 1.51**

[1] All adjustments are presented net of income taxes.

Organic Sales and Organic Operating Income

The Corporation discloses organic sales and organic operating income because the Corporation believes it provides investors with insight as to the Company's ongoing business performance. Organic sales and organic operating income are defined as sales and operating income, excluding contributions from acquisitions made during the last twelve months, loss on divestiture of the German valves business, and foreign currency fluctuations.

	Three Months Ended March 31, 2022 vs. 2021							
	Aerospace & Industrial		**Defense Electronics**		**Naval & Power**		**Total Curtiss-Wright**	
	Sales	Operating income	Sales	Operating income	Sales	Operating income	Sales	Operating income
As Reported	6%	31%	(21%)	(36%)	(4%)	(28%)	(6%)	(29%)
Less: Acquisitions	0%	0%	0%	0%	0%	0%	0%	0%
Loss on divestiture	0%	0%	0%	0%	0%	14%	0%	6%
Foreign Currency	1%	2%	0%	(1%)	0%	0%	0%	1%
Organic	7%	33%	(21%)	(37%)	(4%)	(14%)	(6%)	(22%)

Free Cash Flow and Free Cash Flow Conversion

The Corporation discloses free cash flow because it measures cash flow available for investing and financing activities. Free cash flow represents cash available to repay outstanding debt, invest in the business, acquire businesses, return capital to shareholders and make other strategic investments. Free cash flow is defined as net cash provided by operating activities less capital expenditures. Adjusted free cash flow for 2022 excludes: (i) payments associated with the Westinghouse legal settlement and (ii) executive pension payments. The Corporation discloses adjusted free cash flow conversion because it measures the proportion of net earnings converted into free cash flow and is defined as adjusted free cash flow divided by adjusted net earnings.

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
NON-GAAP FINANCIAL DATA (UNAUDITED)
($'s in thousands)

	Three Months Ended March 31,	
	2022	**2021**
Net cash used for operating activities	$ (124,315)	$ (26,603)
Capital expenditures	(10,896)	(8,537)
Free cash flow	$ (135,211)	$ (35,140)
Westinghouse legal settlement	15,000	—
Pension payment to former executive	8,214	—
Adjusted free cash flow	$ (111,997)	$ (35,140)
Adjusted free cash flow conversion	(221%)	(56%)

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CURTISS-WRIGHT CORPORATION
2022 Guidance
As of May 4, 2022
($'s in millions, except per share data)

	2021 Reported (GAAP)	2021 Adjustments[1] (Non-GAAP)	2021 Adjusted[1] (Non-GAAP)	2022 Reported Guidance (GAAP)		2022 Adjustments[2,3] (Non-GAAP)	2022 Adjusted Guidance[1,2,3] (Non-GAAP)		
				Low	High		Low	High	2022 Chg vs 2021 Adjusted
Sales:									
Aerospace & Industrial	$ 786	$ (11)	$ 775	$ 805	$ 825	$ —	$ 805	$ 825	4 - 6%
Defense Electronics	724	4	728	745	760	—	745	760	2 - 4%
Naval & Power	995	(30)	965	980	995	—	980	995	2 - 3%
Total sales	**$ 2,506**	**$ (37)**	**$ 2,468**	**$ 2,530**	**$ 2,580**	**$ —**	**$2,530**	**$2,580**	**3 to 5%**
Operating income:									
Aerospace & Industrial	$ 122	$ (2)	$ 120	$ 131	$ 135	$ —	$ 131	$ 135	9 - 12%
Defense Electronics	159	5	164	164	169	—	164	169	0 - 3%
Naval & Power	142	34	176	172	176	6	177	182	1 - 4%
Total segments	**423**	**38**	**460**	**466**	**480**	6	**472**	**486**	
Corporate and other	(40)	—	(40)	(44)	(45)	5	(39)	(40)	
Total operating income	**$ 383**	**$ 38**	**$ 420**	**$ 422**	**$ 435**	**$ 11**	**$ 432**	**$ 446**	**3 to 6%**
Interest expense	$ (40)	$ —	$ (40)	$ (40)	$ (41)	$ —	$ (40)	$ (41)	
Other income, net	12	3	15	8	9	9	17	18	
Earnings before income taxes	**355**	**41**	**395**	**390**	**403**	**20**	**409**	**422**	
Provision for income taxes	(87)	(10)	(97)	(95)	(97)	(5)	(98)	(101)	
Net earnings	**$ 267**	**$ 31**	**$ 298**	**$ 296**	**$ 306**	**$ 15**	**$ 311**	**$ 321**	
Diluted earnings per share	**$ 6.58**	**$ 0.76**	**$ 7.34**	**$ 7.67**	**$ 7.87**	**$ 0.38**	**$ 8.05**	**$ 8.25**	**10 to 12%**
Diluted shares outstanding	40.6		40.6	38.6	38.8		38.6	38.8	
Effective tax rate	24.6%		24.6%	24.0%	24.0%		24.0%	24.0%	

Operating margins:

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Aerospace & Industrial	15.5%	15.5%	16.2%	16.4%		16.2%	16.4%	70 to 90 bps
Defense Electronics	22.0%	22.6%	22.0%	22.2%		22.0%	22.2%	(40 to 60 bps)
Naval & Power	14.2%	18.2%	17.5%	17.7%		18.1%	18.3%	(10) to 10 bps
Total operating margin	**15.3%**	**17.0%**	**16.7%**	**16.9%**		**17.1%**	**17.3%**	**10 to 30 bps**
Free cash flow	**$ 347**	**$ 347**	**$ 306**	**$ 326**	**$ 39**	**$ 345**	**$ 365**	

Notes: Full year amounts may not add due to rounding.

(1) 2021 Adjusted financials excludes the impact of first year purchase accounting adjustments; our build-to-print actuation product line supporting the Boeing 737 Max program; the results of operations and related impairments from our German valves business; pension settlement charges related to the retirement of two former executives (within non-operating income); and one-time legal settlement costs.

(2) 2022 Adjusted financials exclude the loss on sale of our German valves business, costs associated with shareholder activism and pension settlement charges related to the retirement of two former executives.

(3) Free Cash Flow is defined as cash flow from operations less capital expenditures. 2022 Adjusted Free Cash Flow guidance excludes executive pension settlement payments of $24 million and a legal settlement payment of $15 million.

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CURTISS-WRIGHT CORPORATION
2022 Sales Growth Guidance by End Market
As of May 4, 2022

	2022 % Change vs 2021 Adjusted[(1)]	% Total Sales
Aerospace & Defense Markets		
Aerospace Defense	0 - 2%	18%
Ground Defense	2 - 4%	9%
Naval Defense	1 - 3%	28%
Commercial Aerospace	9 - 11%	11%
Total Aerospace & Defense	**2 - 4%**	**66%**
Commercial Markets		
Power & Process	1 - 3%	18%
General Industrial	6 - 8%	16%
Total Commercial	**4 - 6%**	**34%**
Total Curtiss-Wright Sales	**3 - 5%**	**100%**

(1) 2021 Adjusted Sales exclude the impact of first year purchase accounting adjustments; our build-to-print actuation product line supporting the Boeing 737 Max programs; and the results of operations from our German valves business.

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About Curtiss-Wright Corporation

Curtiss-Wright Corporation (NYSE:CW) is a global integrated business that provides highly engineered products, solutions and services mainly to Aerospace & Defense markets, as well as critical technologies in demanding Commercial Power, Process and Industrial markets. We leverage a workforce of 7,800 highly skilled employees who develop, design and build what we believe are the best engineered solutions to the markets we serve. Building on the heritage of Glenn Curtiss and the Wright brothers, Curtiss-Wright has a long tradition of providing innovative solutions through trusted customer relationships. For more information, visit www.curtisswright.com.

Certain statements made in this press release, including statements about future revenue, financial performance guidance, quarterly and annual revenue, net income, operating income growth, future business opportunities, cost saving initiatives, the successful integration of the Company's acquisitions, and future cash flow from operations, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements present management's expectations, beliefs, plans and objectives regarding future financial performance, and assumptions or judgments concerning such performance. Any discussions contained in this press release, except to the extent that they contain historical facts, are forward-looking and accordingly involve estimates, assumptions, judgments and uncertainties. Such forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those expressed or implied. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Such risks and uncertainties include, but are not limited to: a reduction in anticipated orders; an economic downturn; changes in the competitive marketplace and/or customer requirements; a change in government spending; an inability to perform customer contracts at anticipated cost levels; and other factors that generally affect the business of aerospace, defense contracting, electronics, marine, and industrial companies. Such factors are detailed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2021, and subsequent reports filed with the Securities and Exchange Commission.

This press release and additional information are available at www.curtisswright.com.

Contacts

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Exhibit 99.1

Curtiss-Wright Reports Second Quarter 2022 Financial Results and Raises Full-year 2022 Guidance

DAVIDSON, N.C.--(BUSINESS WIRE)--August 3, 2022--Curtiss-Wright Corporation (NYSE: CW) reports financial results for the second quarter ended June 30, 2022.

Second Quarter 2022 Highlights:

- Reported sales of $609 million, operating income of $98 million, operating margin of 16.1%, and diluted earnings per share (EPS) of $1.83;
- Adjusted operating margin of 16.1%, up 50 basis points;
- Adjusted diluted EPS of $1.83, up 18%;
- New orders of $776 million, up 13%, reflecting strong Aerospace & Defense (A&D) market demand, and book-to-bill of 1.27;
- Backlog of $2.4 billion, up 9% year-to-date;
- Reported free cash flow (FCF) of $22 million; and
- Share repurchases of approximately $12 million.

Full-Year 2022 Adjusted Guidance:

- Full-year 2022 guidance updated to include the acquisition of the Safran aerospace arresting systems business (SAA) that was completed on June 30, 2022; the business is expected to generate partial year sales of approximately $40 million within the Naval & Power segment and also be accretive to full-year Adjusted diluted EPS;
- Sales increased to new range of 4% to 6% growth (previously 3% to 5%);
- Adjusted operating income increased to new range of 5% to 7% growth (previously 3% to 6%) to reflect organic improvements and the contribution from SAA;
- Maintained Adjusted operating margin range of 17.1% to 17.3%, up 10 to 30 basis points compared with the prior year;
- Adjusted diluted EPS increased by $0.05 to new range of $8.10 to $8.30, up 10% to 13%; and
- Maintained free cash flow range of $345 to $365 million, reflecting greater than 110% FCF conversion.

"Curtiss-Wright delivered solid second quarter results, as overall sales were in-line with our expectations and our ongoing focus on operational execution enabled us to generate 50 basis points in operating margin expansion. As a result, Adjusted diluted EPS of $1.83 exceeded our expectations in the second quarter," said Lynn M. Bamford, Chair and CEO of Curtiss-Wright Corporation. "We also experienced strong order activity, as bookings increased 13% year over year, yielding a book-to-bill of 1.27, driven by increased demand in our defense and commercial aerospace markets."

"Looking ahead to the remainder of 2022, although near-term headwinds from ongoing supply chain disruption continue to impact the timing of revenue within our defense markets, we are encouraged by the improving trends in our commercial markets which provides confidence in achieving our full-year outlook. We raised our full-year 2022 guidance for total sales growth to a new range of 4% to 6% to reflect the contribution of the recently completed SAA acquisition, and we continue to anticipate solid organic growth of 3% to 5% in our A&D and Commercial markets. We also expect continued operating margin expansion and double-digit Adjusted diluted EPS growth of 10% to 13%, as we successfully execute on our Pivot to Growth strategy to drive long-term shareholder value."

Financing of $300 Million in Senior Notes:

- On July 29, 2022, the Company priced a private placement debt offering of $300 million for senior notes, consisting of $200 million 4.49% notes due 2032 and $100 million 4.64% notes due 2034; The offering is expected to close in the fourth quarter; and
- Curtiss-Wright maintains a flexible and conservative capital structure, and has significant capacity for acquisitions, returns to shareholders and other corporate needs.

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Second Quarter 2022 Operating Results

(In millions)	Q2-2022	Q2-2021	Change
Reported			
Sales	$ 609	$ 621	(2%)
Operating income	$ 98	$ 95	4%
Operating margin	16.1%	15.2%	90 bps
Adjusted (1)			
Sales	$ 609	$ 609	0%
Operating income	$ 98	$ 95	3%
Operating margin	16.1%	15.6%	50 bps

(1) *Reconciliations of Reported to Adjusted operating results are available in the Appendix.*

- Adjusted sales of $609 million were flat compared with the prior year;
- Total A&D market sales decreased 3%, while total Commercial market sales increased 6%;
- In our A&D markets, we experienced reduced sales in our defense markets due to ongoing supply chain headwinds principally for defense electronics components and the timing of naval defense revenues, which were partially offset by modest growth in the commercial aerospace market;
- In our Commercial markets, we experienced solid sales growth within the power & process market, despite the wind down on the China Direct AP1000 program, as well as solid mid-single-digit growth in the general industrial market; and
- Adjusted operating income of $98 million increased 3%, while Adjusted operating margin increased 50 basis points to 16.1%, principally driven by increased profitability in the Naval & Power segment, as well as the benefits of our ongoing company-wide operational excellence initiatives; These increases were partially offset by unfavorable overhead absorption on lower revenues in our Defense Electronics segment.

Second Quarter 2022 Segment Performance

Aerospace & Industrial

(In millions)	Q2-2022	Q2-2021	Change
Reported			
Sales	$ 209	$ 200	4%
Operating income	$ 32	$ 32	2%
Operating margin	15.6%	16.0%	(40 bps)
Adjusted (1)			
Sales	$ 209	$ 194	8%
Operating income	$ 32	$ 30	7%
Operating margin	15.6%	15.7%	(10 bps)

(1) *Reconciliations of Reported to Adjusted operating results are available in the Appendix.*

- Adjusted sales of $209 million, up $15 million, or 8%;
- Higher commercial aerospace market revenue reflected strong demand for actuation and sensors products, as well as surface treatment services, on numerous narrowbody and widebody platforms;
- Higher general industrial market revenue was driven by increased sales of industrial vehicle products, principally serving off-highway and specialty platforms;
- Lower aerospace defense market revenue principally reflected reduced sales of actuation and sensors products on various fighter jet programs; and
- Adjusted operating income was $32 million, up 7% from the prior year, while Adjusted operating margin decreased 10 basis points to 15.6%, as favorable absorption on strong Commercial market sales and the benefits of our ongoing operational excellence initiatives were offset by higher research and development investments.

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Defense Electronics

(In millions)	**Q2-2022**	**Q2-2021**	**Change**
Reported			
Sales	$ 150	$ 162	(8%)
Operating income	$ 24	$ 29	(16%)
Operating margin	16.4%	18.0%	(160 bps)
Adjusted (1)			
Sales	$ 150	$ 163	(8%)
Operating income	$ 24	$ 31	(21%)
Operating margin	16.4%	18.9%	(250 bps)

(1) *Reconciliations of Reported to Adjusted operating results are available in the Appendix.*

- Adjusted sales of $150 million, down $14 million, or 8%, principally reflected the timing of sales within our aerospace and ground defense markets due to ongoing supply chain headwinds and the delayed signing of the FY22 defense budget;
- Higher naval defense market revenue primarily reflected increased revenues on the Virginia-class submarine program;
- Lower commercial aerospace market revenue reflected decreased sales of avionics and flight test equipment on various domestic and international platforms; and
- Adjusted operating income was $24 million, down 21% from the prior year, while adjusted operating margin decreased 250 basis points to 16.4%, primarily reflecting unfavorable absorption on lower A&D revenues.

Naval & Power

(In millions)	Q2-2022	Q2-2021	Change
Reported			
Sales	$ 251	$ 259	(3%)
Operating income	$ 50	$ 43	16%
Operating margin	19.9%	16.6%	330 bps
Adjusted [(1)]			
Sales	$ 251	$ 252	0%
Operating income	$ 50	$ 43	15%
Operating margin	19.9%	17.2%	270 bps

[(1)] *Reconciliations of Reported to Adjusted operating results are available in the Appendix.*

- Adjusted sales of $251 million were essentially flat compared with the prior year period;
- Naval defense market revenue declines primarily reflected lower revenues on the CVN-80 aircraft carrier and Virginia-class submarine programs, partially offset by higher revenues on the CVN-81 aircraft carrier and Columbia-class submarine programs;
- Higher power & process market revenues reflected strong growth in industrial valve sales in the process market as well as higher nuclear aftermarket revenues supporting the maintenance of existing operating reactors; Those increases were partially offset by the timing of production on the China Direct AP1000 program; and
- Adjusted operating income was $50 million, up 15% from the prior year, while adjusted operating margin increased 270 basis points to 19.9%, primarily driven by favorable mix in the naval defense and process markets, as well as the benefits of our ongoing operational excellence initiatives.

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Free Cash Flow

(In millions)	Q2-2022	Q2-2021	Change
Net cash provided by operating activities	$ 31	$ 75	(59%)
Capital expenditures	(9)	(9)	(7%)
Reported free cash flow	$ 22	$ 66	(66%)
Adjusted free cash flow (1)	$ 22	$ 66	(66%)

(1) A reconciliation of Reported to Adjusted free cash flow is available in the Appendix.

- Reported free cash flow of $22 million decreased $43 million, primarily due to the timing of defense revenues and higher working capital;
- Adjusted free cash flow of $22 million; and
- Capital expenditures were essentially flat compared with the prior year.

New Orders and Backlog

- New orders of $776 million increased 13% and generated a strong book-to-bill of 1.27, principally driven by strong demand for naval defense and commercial aerospace products within our A&D markets, and for nuclear aftermarket and process products within our Commercial markets; and
- Backlog of $2.4 billion, up 9% from December 31, 2021, reflects higher demand in both our A&D and commercial markets.

Share Repurchase and Dividends

- During the second quarter, the Company repurchased 87,412 shares of its common stock for approximately $12 million; and
- The Company also declared and paid a quarterly dividend of $0.19 a share, an increase of 6% from the previous quarter.

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Full-Year 2022 Guidance

The Company is updating its full-year 2022 Adjusted financial guidance(1) as follows:

($ in millions, except EPS)	2022 Adjusted Non-GAAP Guidance (Prior)	2022 Adjusted Non-GAAP Guidance (Current)	% Chg vs 2021
Total Sales	$2,530 - $2,580	$2,570 - $2,620	Up 4% - 6%
Operating Income	$432 - $446	$439 - $452	Up 5% - 7%
Operating Margin	17.1% - 17.3%	17.1% - 17.3%	Up 10 - 30 bps
Diluted EPS	$8.05 - $8.25	$8.10 - $8.30	Up 10% - 13%
Free Cash Flow	$345 - $365	$345 - $365	Up 0% - 5%

(1) *Reconciliations of Reported to Adjusted 2021 operating results and 2022 financial guidance are available in the Appendix. Adjusted guidance includes the contribution from the SAA acquisition to the Company's second half 2022 performance.*

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A more detailed breakdown of the Company's 2022 financial guidance by segment and by market, as well as all reconciliations of Reported GAAP amounts to Adjusted non-GAAP amounts, can be found in the accompanying schedules. Historical financial results are available in the Investor Relations section of Curtiss-Wright's website.

Conference Call & Webcast Information

The Company will host a conference call to discuss second quarter 2022 financial results and updates to 2022 guidance at 10:00 a.m. ET on Thursday, August 4, 2022. A live webcast of the call and the accompanying financial presentation, as well as a replay of the call, will be made available on the internet by visiting the Investor Relations section of the Company's website at www.curtisswright.com.

(Tables to Follow)

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CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (UNAUDITED)
($'s in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Product sales	$ 505,416	$ 515,392	$ 958,837	$ 1,024,367
Service sales	103,941	106,103	209,981	194,187
Total net sales	609,357	621,495	1,168,818	1,218,554
Cost of product sales	316,389	331,881	610,916	661,335
Cost of service sales	64,454	64,895	127,986	122,743
Total cost of sales	380,843	396,776	738,902	784,078
Gross profit	228,514	224,719	429,916	434,476
Research and development expenses	23,868	23,194	44,417	45,057
Selling expenses	30,407	29,564	58,499	59,160
General and administrative expenses	76,134	77,378	163,734	150,610
Loss on divestiture	—	—	4,651	—
Operating income	98,105	94,583	158,615	179,649
Interest expense	9,788	10,180	19,318	20,139
Other income, net	4,555	440	7,552	5,283
Earnings before income taxes	92,872	84,843	146,849	164,793
Provision for income taxes	(22,000)	(23,435)	(35,292)	(43,916)
Net earnings	$ 70,872	$ 61,408	$ 111,557	$ 120,877
Net earnings per share:				
Basic earnings per share	$ 1.84	$ 1.50	$ 2.90	$ 2.95
Diluted earnings per share	$ 1.83	$ 1.49	$ 2.89	$ 2.94
Dividends per share	$ 0.19	$ 0.18	$ 0.37	$ 0.35
Weighted-average shares outstanding:				
Basic	38,429	40,915	38,438	40,921
Diluted	38,654	41,088	38,657	41,092

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CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
($'s in thousands, except par value)

	June 30, 2022	December 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	$ 171,414	$ 171,004
Receivables, net	699,632	647,148
Inventories, net	482,790	411,567
Assets held for sale	—	10,988
Other current assets	84,584	67,101
Total current assets	1,438,420	1,307,808
Property, plant, and equipment, net	348,062	360,031
Goodwill	1,531,999	1,463,026
Other intangible assets, net	638,873	538,077
Operating lease right-of-use assets, net	145,325	143,613
Prepaid pension asset	263,719	256,422
Other assets	36,130	34,568
Total assets	**$ 4,402,528**	**$ 4,103,545**
Liabilities		
Current liabilities:		
Current portion of long-term debt	$ 202,500	$ —
Accounts payable	171,589	211,640
Accrued expenses	133,706	147,701
Deferred revenue	215,188	260,157
Liabilities held for sale	—	12,655
Due to seller	247,215	—
Other current liabilities	89,009	102,714
Total current liabilities	1,059,207	734,867
Long-term debt	1,006,577	1,050,610
Deferred tax liabilities, net	149,213	147,349
Accrued pension and other postretirement benefit costs	84,404	91,329
Long-term operating lease liability	126,006	127,152
Long-term portion of environmental reserves	13,100	13,656
Other liabilities	96,382	112,092
Total liabilities	2,534,889	2,277,055
Stockholders' equity		
Common stock, $1 par value	$ 49,187	$ 49,187
Additional paid in capital	126,316	127,104
Retained earnings	3,006,164	2,908,827
Accumulated other comprehensive loss	(227,872)	(190,465)
Less: cost of treasury stock	(1,086,156)	(1,068,163)
Total stockholders' equity	1,867,639	1,826,490
Total liabilities and stockholders' equity	**$ 4,402,528**	**$ 4,103,545**

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Use and Definitions of Non-GAAP Financial Information (Unaudited)

The Corporation supplements its financial information determined under U.S. generally accepted accounting principles (GAAP) with certain non-GAAP financial information. Curtiss-Wright believes that these Adjusted (non-GAAP) measures provide investors with improved transparency in order to better measure Curtiss-Wright's ongoing operating and financial performance and better comparisons of our key financial metrics to our peers. These non-GAAP measures should not be considered in isolation or as a substitute for the related GAAP measures, and other companies may define such measures differently. Curtiss-Wright encourages investors to review its financial statements and publicly filed reports in their entirety and not to rely on any single financial measure. Reconciliations of "Reported" GAAP amounts to "Adjusted" non-GAAP amounts are furnished within this release.

The following definitions are provided:

Adjusted Sales, Operating Income, Operating Margin, Net Earnings and Diluted EPS

These Adjusted financials are defined as Reported Sales, Operating Income, Operating Margin, Net Earnings and Diluted Earnings per Share under GAAP excluding: (i) the impact of first year purchase accounting costs associated with acquisitions, specifically one-time inventory step-up, backlog amortization, deferred revenue adjustments and transaction costs; (ii) the sale or divestiture of a business or product line; (iii) pension settlement charges; and (iv) significant legal settlements, impairment costs, and costs associated with shareholder activism, as applicable.

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
RECONCILIATION OF AS REPORTED TO ADJUSTED (UNAUDITED)
($'s in thousands)

	Three Months Ended June 30, 2022			Three Months Ended June 30, 2021			% Change	
	As Reported	**Adjustments**	**Adjusted**	**As Reported**	**Adjustments**	**Adjusted**	**As Reported**	**Adjusted**
Sales:								
Aerospace & Industrial (1)	$ 208,572	$ —	$208,572	$ 199,713	$ (5,784)	$193,929	4%	8%
Defense Electronics (2)	149,549	—	149,549	162,351	1,080	163,431	(8)%	(8)%
Naval & Power (3)	251,236	—	251,236	259,431	(7,413)	252,018	(3)%	—%
Total sales	**$ 609,357**	**$ —**	**$609,357**	**$ 621,495**	**$ (12,117)**	**$609,378**	**(2)%**	**—%**
Operating income (expense):								
Aerospace & Industrial (1)	$ 32,464	$ —	$ 32,464	$ 31,977	$ (1,506)	$ 30,471	2%	7%
Defense Electronics (2)	24,460	—	24,460	29,271	1,592	30,863	(16)%	(21)%
Naval & Power (3)	50,001	—	50,001	43,095	366	43,461	16%	15%
Total segments	**$ 106,925**	**$ —**	**$106,925**	**$ 104,343**	**$ 452**	**$104,795**	**2%**	**2%**
Corporate and other	(8,820)	—	(8,820)	(9,760)	—	(9,760)	10%	10%
Total operating income	**$ 98,105**	**$ —**	**$ 98,105**	**$ 94,583**	**$ 452**	**$ 95,035**	**4%**	**3%**
Operating margins:	**As Reported**		**Adjusted**	**As Reported**		**Adjusted**	**As Reported**	**Adjusted**
Aerospace & Industrial	15.6%		15.6%	16.0%		15.7%	(40 bps)	(10 bps)
Defense Electronics	16.4%		16.4%	18.0%		18.9%	(160 bps)	(250 bps)
Naval & Power	19.9%		19.9%	16.6%		17.2%	330 bps	270 bps
Total Curtiss-Wright	**16.1%**		**16.1%**	**15.2%**		**15.6%**	**90 bps**	**50 bps**
Segment margins	17.5%		17.5%	16.8%		17.2%	70 bps	30 bps

(1) Excludes our build-to-print actuation product line supporting the Boeing 737 Max program, which we substantially exited in the fourth quarter of 2020.
(2) Excludes first year purchase accounting adjustments in the prior period.
(3) Excludes the results of operations from our German valves business, which was sold in January 2022.

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CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
RECONCILIATION OF AS REPORTED TO ADJUSTED (UNAUDITED)
($'s in thousands)

	Six Months Ended June 30, 2022			Six Months Ended June 30, 2021			% Change	
	As Reported	**Adjustments**	**Adjusted**	**As Reported**	**Adjustments**	**Adjusted**	**As Reported**	**Adjusted**
Sales:								
Aerospace & Industrial (1)	$ 399,684	$ —	$ 399,684	$ 380,044	$ (8,383)	$ 371,661	5%	8%
Defense Electronics (2)	292,618	—	292,618	343,563	2,160	345,723	(15)%	(15)%
Naval & Power (3)	476,516	—	476,516	494,947	(12,996)	481,951	(4)%	(1)%
Total sales	**$1,168,818**	**$ —**	**$1,168,818**	**$1,218,554**	**$ (19,219)**	**$1,199,335**	**(4)%**	**(3)%**
Operating income (expense):								
Aerospace & Industrial (1)	$ 57,317	$ —	$ 57,317	$ 51,002	$ (1,982)	$ 49,020	12%	17%
Defense Electronics (2)	47,750	—	47,750	65,894	3,197	69,091	(28)%	(31)%
Naval & Power (3)	77,289	5,427	82,716	81,152	2,955	84,107	(5)%	(2)%
Total segments	**$ 182,356**	**$ 5,427**	**$ 187,783**	**$ 198,048**	**$ 4,170**	**$ 202,218**	**(8)%**	**(7)%**
Corporate and other (4)	(23,741)	4,876	(18,865)	(18,399)	—	(18,399)	(29)%	(3)%
Total operating income	**$ 158,615**	**$ 10,303**	**$ 168,918**	**$ 179,649**	**$ 4,170**	**$ 183,819**	**(12)%**	**(8)%**
Operating margins:	**As Reported**		**Adjusted**	**As Reported**		**Adjusted**	**As Reported**	**Adjusted**
Aerospace & Industrial	14.3%		14.3%	13.4%		13.2%	90 bps	110 bps
Defense Electronics	16.3%		16.3%	19.2%		20.0%	(290 bps)	(370 bps)
Naval & Power	16.2%		17.4%	16.4%		17.5%	(20 bps)	(10 bps)
Total Curtiss-Wright	**13.6%**		**14.5%**	**14.7%**		**15.3%**	**(110 bps)**	**(80 bps)**
Segment margins	15.6%		16.1%	16.3%		16.9%	(70 bps)	(80 bps)

(1) Excludes our build-to-print actuation product line supporting the Boeing 737 Max program, which we substantially exited in the fourth quarter of 2020.

(2) Excludes first year purchase accounting adjustments in the prior period.

(3) Excludes the results of operations from our German valves business, which was sold in January 2022, and the loss on divestiture in the current period.

(4) Excludes costs associated with shareholder activism in the current period.

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CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
RECONCILIATION OF AS REPORTED SALES TO ADJUSTED SALES BY END MARKET (UNAUDITED)
($'s in thousands)

	Three Months Ended June 30, 2022			Three Months Ended June 30, 2021			% Change	
	As Reported	Adjustments	Adjusted Sales	As Reported	Adjustments	Adjusted Sales	Change in As Reported Sales	Change in Adjusted Sales
Aerospace & Defense markets:								
Aerospace Defense	$ 94,545	$ —	$ 94,545	$ 99,977	$ —	$ 99,977	(5%)	(5%)
Ground Defense (1)	44,393	—	44,393	48,221	1,080	49,301	(8%)	(10%)
Naval Defense	172,786	—	172,786	177,724	—	177,724	(3%)	(3%)
Commercial Aerospace (2)	68,192	—	68,192	71,555	(5,784)	65,771	(5%)	4%
Total Aerospace & Defense	**$ 379,916**	**$ —**	**$ 379,916**	**$ 397,477**	**$ (4,704)**	**$ 392,773**	**(4%)**	**(3%)**
Commercial markets:								
Power & Process (3)	125,355	—	125,355	125,333	(7,414)	117,919	0%	6%
General Industrial	104,086	—	104,086	98,685	—	98,685	5%	5%
Total Commercial	**$ 229,441**	**$ —**	**$ 229,441**	**$ 224,018**	**$ (7,414)**	**$ 216,604**	**2%**	**6%**
Total Curtiss-Wright	**$ 609,357**	**$ —**	**$ 609,357**	**$ 621,495**	**$ (12,118)**	**$ 609,377**	**(2%)**	**0%**

	Six Months Ended June 30, 2022			Six Months Ended June 30, 2021			% Change	
	As Reported	Adjustments	Adjusted Sales	As Reported	Adjustments	Adjusted Sales	Change in As Reported Sales	Change in Adjusted Sales
Aerospace & Defense markets:								
Aerospace Defense	$ 192,549	$ —	$ 192,549	$ 210,993	$ —	$ 210,993	(9%)	(9%)
Ground Defense (1)	83,501	—	83,501	103,967	2,160	106,127	(20%)	(21%)
Naval Defense	335,753	—	335,753	355,629	—	355,629	(6%)	(6%)
Commercial Aerospace (2)	129,084	—	129,084	128,824	(8,383)	120,441	0%	7%
Total Aerospace & Defense	**$ 740,887**	**$ —**	**$ 740,887**	**$ 799,413**	**$ (6,223)**	**$ 793,190**	**(7%)**	**(7%)**
Commercial markets:								
Power & Process (3)	230,143	—	230,143	230,837	(12,996)	217,841	0%	6%
General Industrial	197,788	—	197,788	188,304	—	188,304	5%	5%
Total Commercial	**$ 427,931**	**$ —**	**$ 427,931**	**$ 419,141**	**$ (12,996)**	**$ 406,145**	**2%**	**5%**
Total Curtiss-Wright	**$ 1,168,818**	**$ —**	**$1,168,818**	**$ 1,218,554**	**$ (19,219)**	**$1,199,335**	**(4%)**	**(3%)**

(1) Excludes first year purchase accounting adjustments in the prior period.
(2) Excludes our build-to-print actuation product line supporting the Boeing 737 MAX program, which we substantially exited in the fourth quarter of 2020.
(3) Excludes the prior period results of our German valves business, which was sold in January 2022.

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CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
RECONCILIATION OF AS REPORTED TO ADJUSTED DILUTED EARNINGS PER SHARE
(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	**2021**	**2022**	**2021**
Diluted earnings per share - As Reported	**$ 1.83**	**$ 1.49**	**$ 2.89**	**$ 2.94**
Divested German valves business	—	—	0.11	0.04
Costs associated with shareholder activism	—	—	0.10	—
Former executive pension settlement expense	—	0.06	0.04	0.06
First year purchase accounting adjustments	—	0.03	—	0.06
Exit of build-to-print actuation product line	—	(0.02)	—	(0.03)
Diluted earnings per share - Adjusted (1)	**$ 1.83**	**$ 1.56**	**$ 3.14**	**$ 3.07**

(1) All adjustments are presented net of income taxes.

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Organic Sales and Organic Operating Income

The Corporation discloses organic sales and organic operating income because the Corporation believes it provides investors with insight as to the Company's ongoing business performance. Organic sales and organic operating income are defined as sales and operating income, excluding contributions from acquisitions made during the last twelve months, loss on divestiture of the German valves business, and foreign currency fluctuations.

Three Months Ended June 30, 2022 vs. 2021

	Aerospace & Industrial		**Defense Electronics**		**Naval & Power**		**Total Curtiss-Wright**	
	Sales	Operating income	Sales	Operating income	Sales	Operating income	Sales	Operating income
As Reported	4%	2%	(8%)	(16%)	(3%)	16%	(2%)	4%
Less:								
Acquisitions	0%	0%	0%	0%	0%	0%	0%	0%
Foreign Currency	3%	0%	1%	(5%)	0%	(1%)	1%	(2%)
Organic	7%	2%	(7%)	(21%)	(3%)	15%	(1%)	2%

Six Months Ended June 30, 2022 vs. 2021

	Aerospace & Industrial		**Defense Electronics**		**Naval & Power**		**Total Curtiss-Wright**	
	Sales	Operating income	Sales	Operating income	Sales	Operating income	Sales	Operating income
As Reported	5%	12%	(15%)	(28%)	(4%)	(5%)	(4%)	(12%)
Less:								
Acquisitions	0%	0%	0%	0%	0%	0%	0%	0%
Loss on divestiture	0%	0%	0%	0%	0%	7%	0%	4%
Foreign Currency	2%	2%	1%	(1%)	0%	0%	1%	(1%)
Organic	7%	14%	(14%)	(29%)	(4%)	2%	(3%)	(9%)

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Free Cash Flow and Free Cash Flow Conversion

The Corporation discloses free cash flow because it measures cash flow available for investing and financing activities. Free cash flow represents cash available to repay outstanding debt, invest in the business, acquire businesses, return capital to shareholders and make other strategic investments. Free cash flow is defined as net cash provided by operating activities less capital expenditures. Adjusted free cash flow for 2022 excludes: (i) payments associated with the Westinghouse legal settlement and (ii) executive pension payments. The Corporation discloses adjusted free cash flow conversion because it measures the proportion of net earnings converted into free cash flow and is defined as adjusted free cash flow divided by adjusted net earnings.

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
NON-GAAP FINANCIAL DATA (UNAUDITED)
($'s in thousands)

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2022	**2021**	**2022**	**2021**
Net cash provided by (used for) operating activities	$31,044	$75,079	$ (93,271)	$ 48,476
Capital expenditures	(8,596)	(9,234)	(19,492)	(17,771)
Free cash flow	$22,448	$65,845	$(112,763)	$ 30,705
Westinghouse legal settlement	—	—	15,000	—
Pension payment to former executive	—	—	8,214	—
Adjusted free cash flow	$22,448	$65,845	$ (89,549)	$ 30,705
Adjusted free cash flow conversion	32%	101%	(74%)	24%

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CURTISS-WRIGHT CORPORATION

2022 Guidance

As of August 3, 2022

($'s in millions, except per share data)

	2021 Reported (GAAP)	2021 Adjustments (Non-GAAP)(1)	2021 Adjusted (Non-GAAP) (1)	2022 Reported Guidance (GAAP)		2022 Adjustments (Non-GAAP)(2,3)	2022 Adjusted Guidance (Non-GAAP)(1,2,3)		
				Low	High		Low	High	2022 Chg vs 2021 Adjusted
Sales:									
Aerospace & Industrial	$ 786	$ (11)	$ 775	$ 820	$ 840	$ —	$ 820	$ 840	6 - 8%
Defense Electronics	724	4	728	720	735	—	720	735	(1) - 1%
Naval & Power	995	(30)	965	1,030	1,045	—	1,030	1,045	7 - 8%
Total sales	**$ 2,506**	**$ (37)**	**$ 2,468**	**$2,570**	**$2,620**	**$ —**	**$2,570**	**$2,620**	**4 to 6%**
Operating income:									
Aerospace & Industrial	$ 122	$ (2)	$ 120	$ 133	$ 137	$ —	$ 133	$ 137	11 - 14%
Defense Electronics	159	5	164	160	165	—	160	165	(3) - 0%
Naval & Power	142	34	176	171	175	15	186	190	6 - 8%
Total segments	**423**	**38**	**460**	**464**	**477**	15	**479**	**492**	
Corporate and other	(40)	—	(40)	(44)	(45)	5	(39)	(40)	
Total operating income	**$ 383**	**$ 38**	**$ 420**	**$ 420**	**$ 432**	**$ 20**	**$ 439**	**$ 452**	**5 to 7%**
Interest expense	$ (40)	$ —	$ (40)	$ (44)	$ (45)	$ —	$ (44)	$ (45)	
Other income, net	12	3	15	8	9	9	17	18	
Earnings before income taxes	**355**	**41**	**395**	**384**	**396**	**29**	**412**	**424**	
Provision for income taxes	(87)	(10)	(97)	(92)	(95)	(7)	(99)	(102)	
Net earnings	**$ 267**	**$ 31**	**$ 298**	**$ 291**	**$ 301**	**$ 22**	**$ 313**	**$ 323**	
Diluted earnings per share	**$ 6.58**	**$ 0.76**	**$ 7.34**	**$ 7.54**	**$ 7.74**	**$ 0.56**	**$ 8.10**	**$ 8.30**	**10 to 13%**
Diluted shares outstanding	40.6		40.6	38.6	38.8		38.6	38.8	
Effective tax rate	24.6%		24.6%	24.0%	24.0%		24.0%	24.0%	
Operating margins:									
Aerospace & Industrial	15.5%		15.5%	16.2%	16.4%		16.2%	16.4%	70 to 90 bps
Defense Electronics	22.0%		22.6%	22.2%	22.4%		22.2%	22.4%	(20 to 40 bps)
Naval & Power	14.2%		18.2%	16.6%	16.7%		18.0%	18.2%	(20) to 0 bps
Total operating margin	**15.3%**		**17.0%**	**16.3%**	**16.5%**		**17.1%**	**17.3%**	**10 to 30 bps**
Free cash flow	**$ 347**		**$ 347**	**$ 306**	**$ 326**	**$ 39**	**$ 345**	**$ 365**	

Notes: Full year amounts may not add due to rounding.

(1) 2021 Adjusted financials excludes the impact of first year purchase accounting adjustments; our build-to-print actuation product line supporting the Boeing 737 Max program; the results of operations and related impairments from our German valves business; pension settlement charges related to the retirement of two former executives (within non-operating income); and one-time legal settlement costs.

(2) 2022 Adjusted financials exclude the impact of first year purchase accounting adjustments, the loss on sale of our German valves business, costs associated with shareholder activism and pension settlement charges related to the retirement of two

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former executives.

(3) Free Cash Flow is defined as cash flow from operations less capital expenditures. 2022 Adjusted Free Cash Flow guidance excludes executive pension settlement payments of $24 million and a legal settlement payment of $15 million.

CURTISS-WRIGHT CORPORATION
2022 Sales Growth Guidance by End Market
As of August 3, 2022

	2022 % Change vs. 2021 Adjusted[1][2]		
	Prior	**Current**	**% Total Sales**
Aerospace & Defense Markets			
Aerospace Defense	0 - 2%	9 - 11%	19%
Ground Defense	2 - 4%	(1 - 3%)	8%
Naval Defense	1 - 3%	1 - 3%	28%
Commercial Aerospace	9 - 11%	9 - 11%	11%
Total Aerospace & Defense	**2 - 4%**	**4 - 6%**	**66%**
Commercial Markets			
Power & Process	1 - 3%	4 - 6%	18%
General Industrial	6 - 8%	6 - 8%	16%
Total Commercial	**4 - 6%**	**5 - 7%**	**34%**
Total Curtiss-Wright Sales	**3 - 5%**	**4 - 6%**	**100%**

[1] 2021 Adjusted Sales exclude the impact of first year purchase accounting adjustments; our build-to-print actuation product line supporting the Boeing 737 Max programs; and the results of operations from our German valves business.

[2] 2022 Sales include the contribution from the SAA acquisition to the Company's second half 2022 performance.

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About Curtiss-Wright Corporation

Curtiss-Wright Corporation (NYSE:CW) is a global integrated business that provides highly engineered products, solutions and services mainly to Aerospace & Defense markets, as well as critical technologies in demanding Commercial Power, Process and Industrial markets. We leverage a workforce of approximately 8,000 highly skilled employees who develop, design and build what we believe are the best engineered solutions to the markets we serve. Building on the heritage of Glenn Curtiss and the Wright brothers, Curtiss-Wright has a long tradition of providing innovative solutions through trusted customer relationships. For more information, visit www.curtisswright.com.

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Certain statements made in this press release, including statements about future revenue, financial performance guidance, quarterly and annual revenue, net income, operating income growth, future business opportunities, cost saving initiatives, the successful integration of the Company's acquisitions, and future cash flow from operations, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements present management's expectations, beliefs, plans and objectives regarding future financial performance, and assumptions or judgments concerning such performance. Any discussions contained in this press release, except to the extent that they contain historical facts, are forward-looking and accordingly involve estimates, assumptions, judgments and uncertainties. Such forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those expressed or implied. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Such risks and uncertainties include, but are not limited to: a reduction in anticipated orders; an economic downturn; changes in the competitive marketplace and/or customer requirements; a change in government spending; an inability to perform customer contracts at anticipated cost levels; and other factors that generally affect the business of aerospace, defense contracting, electronics, marine, and industrial companies. Such factors are detailed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2021, and subsequent reports filed with the Securities and Exchange Commission.

This press release and additional information are available at www.curtisswright.com.

Contacts

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UCC-112

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

FORM 10-Q

☒ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2022

or

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _________ to _______

Commission File Number 1-134

CURTISS-WRIGHT CORPORATION
(Exact name of Registrant as specified in its charter)

Delaware	13-0612970
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
130 Harbour Place Drive, Suite 300 Davidson, North Carolina	28036
(Address of principal executive offices)	(Zip Code)

(704) 869-4600
(Registrant's telephone number, including area code)

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	CW	New York Stock Exchange

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 of time 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 check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§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 the 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. ☐

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

Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, par value $1.00 per share: 38,307,674 shares as of October 31, 2022.

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES

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PART 1- FINANCIAL INFORMATION
Item 1. Financial Statements

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(UNAUDITED)

(In thousands, except per share data)	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Net sales				
Product sales	$ 530,782	$ 528,339	$ 1,489,619	$ 1,552,706
Service sales	99,760	92,280	309,741	286,467
Total net sales	630,542	620,619	1,799,360	1,839,173
Cost of sales				
Cost of product sales	338,264	328,424	949,180	989,759
Cost of service sales	60,069	55,187	188,055	177,930
Total cost of sales	398,333	383,611	1,137,235	1,167,689
Gross profit	232,209	237,008	662,125	671,484
Research and development expenses	17,387	21,618	61,804	66,675
Selling expenses	31,888	30,067	90,387	89,227
General and administrative expenses	75,351	78,998	239,085	229,608
Loss on divestiture	—	—	4,651	—
Impairment of assets held for sale	—	8,656	—	8,656
Operating income	107,583	97,669	266,198	277,318
Interest expense	13,997	9,955	33,315	30,094
Other income, net	3,746	3,627	11,298	8,910
Earnings before income taxes	97,332	91,341	244,181	256,134
Provision for income taxes	(23,564)	(21,638)	(58,856)	(65,554)
Net earnings	$ 73,768	$ 69,703	$ 185,325	$ 190,580
Net earnings per share:				
Basic earnings per share	$ 1.92	$ 1.71	$ 4.82	$ 4.66
Diluted earnings per share	$ 1.91	$ 1.70	$ 4.79	$ 4.64
Dividends per share	0.19	0.18	0.56	0.53
Weighted-average shares outstanding:				
Basic	38,368	40,769	38,416	40,865
Diluted	38,647	40,950	38,655	41,040

See notes to condensed consolidated financial statements

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)
(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	**2021**	**2022**	**2021**
Net earnings	$ 73,768	$ 69,703	$ 185,325	$ 190,580
Other comprehensive income (loss)				
Foreign currency translation adjustments, net of tax [(1)]	$ (50,098)	$ (16,273)	$ (97,259)	$ (12,990)
Pension and postretirement adjustments, net of tax [(2)]	3,856	4,994	13,610	15,036
Other comprehensive income (loss), net of tax	(46,242)	(11,279)	(83,649)	2,046
Comprehensive income	$ 27,526	$ 58,424	$ 101,676	$ 192,626

[(1)] The tax expense included in foreign currency translation adjustments for the three months ended September 30, 2022 was immaterial. The tax expense included in foreign currency translation adjustments for the nine months ended September 30, 2022 was $1.7 million. The tax benefit included in foreign currency translation adjustments for the three and nine months ended September 30, 2021 was immaterial.

[(2)] The tax expense included in pension and postretirement adjustments for the three and nine months ended September 30, 2022 was $1.2 million and $3.1 million, respectively. The tax expense included in pension and postretirement adjustments for the three and nine months ended September 30, 2021 was $2.0 million and $5.1 million, respectively.

See notes to condensed consolidated financial statements

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(In thousands, except per share data)

	September 30, 2022	December 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	$ 113,552	$ 171,004
Receivables, net	713,592	647,148
Inventories, net	503,064	411,567
Assets held for sale	—	10,988
Other current assets	84,468	67,101
Total current assets	1,414,676	1,307,808
Property, plant, and equipment, net	338,549	360,031
Goodwill	1,512,231	1,463,026
Other intangible assets, net	618,563	538,077
Operating lease right-of-use assets, net	145,252	143,613
Prepaid pension asset	267,262	256,422
Other assets	45,629	34,568
Total assets	**$ 4,342,162**	**$ 4,103,545**
Liabilities		
Current liabilities:		
Current portion of long-term debt	202,500	—
Accounts payable	182,621	211,640
Accrued expenses	139,982	147,701
Deferred revenue	220,259	260,157
Liabilities held for sale	—	12,655
Other current liabilities	95,002	102,714
Total current liabilities	840,364	734,867
Long-term debt	1,141,211	1,050,610
Deferred tax liabilities, net	150,721	147,349
Accrued pension and other postretirement benefit costs	85,865	91,329
Long-term operating lease liability	125,493	127,152
Long-term portion of environmental reserves	13,186	13,656
Other liabilities	101,079	112,092
Total liabilities	2,457,919	2,277,055
Contingencies and commitments (Note 14)		
Stockholders' equity		
Common stock, $1 par value, 100,000,000 shares authorized as of September 30, 2022 and December 31, 2021; 49,187,378 shares issued as of September 30, 2022 and December 31, 2021; outstanding shares were 38,334,223 as of September 30, 2022 and 38,469,778 as of December 31, 2021	49,187	49,187
Additional paid in capital	131,230	127,104
Retained earnings	3,072,639	2,908,827
Accumulated other comprehensive loss	(274,114)	(190,465)
Common treasury stock, at cost (10,853,155 shares as of September 30, 2022 and 10,717,600 shares as of December 31, 2021)	(1,094,699)	(1,068,163)
Total stockholders' equity	1,884,243	1,826,490
Total liabilities and stockholders' equity	**$ 4,342,162**	**$ 4,103,545**

See notes to condensed consolidated financial statements

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CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(In thousands)	Nine Months Ended September 30, 2022	2021
Cash flows from operating activities:		
Net earnings	$ 185,325	$ 190,580
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation and amortization	83,520	86,240
Loss on divestiture	4,651	—
Impairment of assets held for sale	—	8,656
Gain on sale/disposal of long-lived assets	(4,241)	(604)
Deferred income taxes	5,759	4,480
Share-based compensation	12,027	10,861
Change in operating assets and liabilities, net of business acquired:		
Receivables, net	(70,548)	(81,498)
Inventories, net	(89,318)	(5,045)
Progress payments	(1,330)	(3,960)
Accounts payable and accrued expenses	(42,360)	(51,702)
Deferred revenue	(39,230)	115
Pension and postretirement liabilities, net	(3,913)	2,406
Other current and long-term assets and liabilities	(37,955)	(4,768)
Net cash provided by operating activities	2,387	155,761
Cash flows from investing activities:		
Proceeds from sale/disposal of long-lived assets	9,110	3,389
Purchases of investments	(10,000)	—
Additions to property, plant, and equipment	(28,789)	(27,858)
Acquisition of business, net of cash acquired	(247,215)	—
Additional consideration paid on prior year acquisitions	(5,062)	(5,340)
Net cash used for investing activities	(281,956)	(29,809)
Cash flows from financing activities:		
Borrowings under revolving credit facilities	1,332,219	166,771
Payments of revolving credit facilities	(1,038,019)	(166,771)
Repurchases of common stock	(44,434)	(79,092)
Proceeds from share-based compensation	9,997	9,705
Dividends paid	(14,220)	(14,320)
Other	(755)	(699)
Net cash (used for)/provided by financing activities	244,788	(84,406)
Effect of exchange-rate changes on cash	(22,671)	(5,378)
Net increase (decrease) in cash and cash equivalents	(57,452)	36,168
Cash and cash equivalents at beginning of period	171,004	198,248
Cash and cash equivalents at end of period	$ 113,552	$ 234,416

See notes to condensed consolidated financial statements

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)
(In thousands)

	For the nine months ended September 30, 2022				
	Common Stock	**Additional Paid in Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Income (Loss)**	**Treasury Stock**
December 31, 2021	$ 49,187	$ 127,104	$ 2,908,827	$ (190,465)	$ (1,068,163)
Net earnings	—	—	185,325	—	—
Other comprehensive loss, net of tax	—	—	—	(83,649)	—
Dividends declared	—	—	(21,513)	—	—
Restricted stock	—	(8,523)	—	—	8,523
Employee stock purchase plan	—	1,273	—	—	8,724
Share-based compensation	—	11,882	—	—	145
Repurchase of common stock [(1)]	—	—	—	—	(44,434)
Other	—	(506)	—	—	506
September 30, 2022	$ 49,187	$ 131,230	$ 3,072,639	$ (274,114)	$ (1,094,699)

	For the three months ended September 30, 2022				
	Common Stock	**Additional Paid in Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Income (Loss)**	**Treasury Stock**
June 30, 2022	$ 49,187	$ 126,316	$ 3,006,164	$ (227,872)	$ (1,086,156)
Net earnings	—	—	73,768	—	—
Other comprehensive loss, net of tax	—	—	—	(46,242)	—
Dividends declared	—	—	(7,293)	—	—
Employee stock purchase plan	—	459	—	—	4,254
Share-based compensation	—	4,455	—	—	(8)
Repurchase of common stock [(1)]	—	—	—	—	(12,789)
September 30, 2022	$ 49,187	$ 131,230	$ 3,072,639	$ (274,114)	$ (1,094,699)

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)
(In thousands)

	For the nine months ended September 30, 2021				
	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock
December 31, 2020	$ 49,187	$ 122,535	$ 2,670,328	$ (310,856)	$ (743,620)
Net earnings	—	—	190,580	—	—
Other comprehensive income, net of tax	—	—	—	2,046	—
Dividends declared	—	—	(21,614)	—	—
Restricted stock	—	(9,007)	—	—	9,007
Employee stock purchase plan	—	877	—	—	8,828
Share-based compensation	—	10,724	—	—	137
Repurchase of common stock [(1)]	—	—	—	—	(79,092)
Other	—	(597)	—	—	597
September 30, 2021	$ 49,187	$ 124,532	$ 2,839,294	$ (308,810)	$ (804,143)

	For the three months ended September 30, 2021				
	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock
June 30, 2021	$ 49,187	$ 119,946	$ 2,776,884	$ (297,531)	$ (753,782)
Net earnings	—	—	69,703	—	—
Other comprehensive loss, net of tax	—	—	—	(11,279)	—
Dividends declared	—	—	(7,293)	—	—
Employee stock purchase plan	—	466	—	—	4,320
Share-based compensation	—	4,120	—	—	16
Repurchase of common stock [(1)]	—	—	—	—	(54,697)
September 30, 2021	$ 49,187	$ 124,532	$ 2,839,294	$ (308,810)	$ (804,143)

See notes to condensed consolidated financial statements

[(1)] For the three and nine months ended September 30, 2022, the Corporation repurchased approximately 0.1 million and 0.3 million shares of its common stock, respectively. For the three and nine months ended September 30, 2021, the Corporation repurchased approximately 0.4 million and 0.6 million shares of its common stock, respectively.

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
NOTES to CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. BASIS OF PRESENTATION

Curtiss-Wright Corporation and its subsidiaries (the "Corporation" or the "Company") is a global integrated business that provides highly engineered products, solutions, and services mainly to aerospace & defense (A&D) markets, as well as critical technologies in demanding commercial power, process, and industrial markets.

The unaudited condensed consolidated financial statements include the accounts of Curtiss-Wright and its majority-owned subsidiaries. All intercompany transactions and accounts have been eliminated.

The unaudited condensed consolidated financial statements of the Corporation have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in annual financial statements have been condensed or omitted as permitted by such rules and regulations. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments necessary for a fair presentation of these financial statements.

Management is required to make estimates and judgments that affect the reported amount of assets, liabilities, revenue, and expenses and disclosure of contingent assets and liabilities in the accompanying financial statements. Actual results may differ from these estimates. The most significant of these estimates includes the estimate of costs to complete using the over-time revenue recognition accounting method, pension plan and postretirement obligation assumptions, estimates for inventory obsolescence, fair value estimates around assets and assumed liabilities from acquisitions, estimates for the valuation and useful lives of intangible assets, legal reserves, and the estimate of future environmental costs. Changes in estimates of contract sales, costs, and profits are recognized using the cumulative catch-up method of accounting. This method recognizes in the current period the cumulative effect of the changes on current and prior periods. Accordingly, the effect of the changes on future periods of contract performance is recognized as if the revised estimate had been the original estimate. During the three and nine months ended September 30, 2022 and 2021, there were no significant changes in estimated contract costs. In the opinion of management, all adjustments considered necessary for a fair presentation have been reflected in these financial statements.

The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Corporation’s 2021 Annual Report on Form 10-K. The results of operations for interim periods are not necessarily indicative of trends or of the operating results for a full year.

2. REVENUE

The Corporation recognizes revenue when control of a promised good and/or service is transferred to a customer in an amount that reflects the consideration that the Corporation expects to be entitled to in exchange for that good and/or service.

<u>Performance Obligations</u>

The Corporation identifies a performance obligation for each promise in a contract to transfer a distinct good or service to the customer. As part of its assessment, the Corporation considers all goods and/or services promised in the contract, regardless of whether they are explicitly stated or implied by customary business practices. The Corporation’s contracts may contain either a single performance obligation, including the promise to transfer individual goods or services that are not separately distinct within the context of the respective contracts, or multiple performance obligations. For contracts with multiple performance obligations, the Corporation allocates the overall transaction price to each performance obligation using standalone selling prices, where available, or utilizes estimates for each distinct good or service in the contract where standalone prices are not available.

The Corporation’s performance obligations are satisfied either at a point-in-time or on an over-time basis. Typically, over-time revenue recognition is based on the utilization of an input measure used to measure progress, such as costs incurred to date relative to total estimated costs. If a performance obligation does not qualify for over-time revenue recognition, revenue is then recognized at the point-in-time in which control of the distinct good or service is transferred to the customer, typically based upon the terms of delivery.

The following table illustrates the approximate percentage of revenue recognized for performance obligations satisfied over-time versus at a point-in-time for the three and nine months ended September 30, 2022 and 2021:

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
NOTES to CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Over-time	50 %	48 %	52 %	51 %
Point-in-time	50 %	52 %	48 %	49 %

Contract backlog represents the remaining performance obligations that have not yet been recognized as revenue. Backlog includes deferred revenue and amounts that will be invoiced and recognized as revenue in future periods. Total backlog was approximately $2.6 billion as of September 30, 2022, of which the Corporation expects to recognize approximately 90% as net sales over the next 36 months. The remainder will be recognized thereafter.

Disaggregation of Revenue

The following table presents the Corporation's total net sales disaggregated by end market and customer type:

Total Net Sales by End Market and Customer Type	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2022	2021	2022	2021
Aerospace & Defense				
Aerospace Defense	$ 114,431	$ 116,853	$ 306,980	$ 327,847
Ground Defense	54,890	55,124	138,391	159,090
Naval Defense	174,844	175,800	510,597	531,429
Commercial Aerospace	70,257	67,461	199,341	196,285
Total Aerospace & Defense	$ 414,422	$ 415,238	$ 1,155,309	$ 1,214,651
Commercial				
Power & Process	$ 110,559	$ 112,736	$ 340,702	$ 343,573
General Industrial	105,561	92,645	303,349	280,949
Total Commercial	$ 216,120	$ 205,381	$ 644,051	$ 624,522
Total	$ 630,542	$ 620,619	$ 1,799,360	$ 1,839,173

Contract Balances

Timing of revenue recognition and cash collection may result in billed receivables, unbilled receivables (contract assets), and deferred revenue (contract liabilities) on the Condensed Consolidated Balance Sheet. The Corporation's contract assets primarily relate to its rights to consideration for work completed but not billed as of the reporting date. Contract assets are transferred to billed receivables when the rights to consideration become unconditional. This is typical in situations where amounts are billed as work progresses in accordance with agreed-upon contractual terms or upon achievement of contractual milestones. The Corporation's contract liabilities primarily consist of customer advances received prior to revenue being earned. Revenue recognized during the three and nine months ended September 30, 2022 included in the contract liabilities balance as of January 1, 2022 was approximately $54 million and $189 million, respectively. Revenue recognized during the three and nine months ended September 30, 2021 included in the contract liabilities balance as of January 1, 2021 was approximately $46 million and $188 million, respectively. Contract assets and contract liabilities are reported in the "Receivables, net" and "Deferred revenue" lines, respectively, within the Condensed Consolidated Balance Sheet.

3. ACQUISITIONS

The Corporation continually evaluates potential acquisitions that either strategically fit within the Corporation's existing portfolio or expand the Corporation's portfolio into new product lines or adjacent markets. The Corporation has completed numerous acquisitions that have been accounted for as business combinations and have resulted in the recognition of goodwill in the Corporation's financial statements. This goodwill arises because the acquisition purchase price reflects the future

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
NOTES to CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

earnings and cash flow potential in excess of the earnings and cash flows attributable to the current product and customer set at the time of acquisition. Thus, goodwill inherently includes the know-how of the assembled workforce, the ability of the workforce to further improve the technology and product offerings, and the expected cash flows resulting from these efforts. Goodwill may also include expected synergies resulting from the complementary strategic fit these businesses bring to existing operations.

The Corporation allocates the purchase price at the date of acquisition based upon its understanding of the fair value of the acquired assets and assumed liabilities. In the months after closing, as the Corporation obtains additional information about these assets and liabilities, including through tangible and intangible asset appraisals, and as the Corporation learns more about the newly acquired business, it is able to refine the estimates of fair value and more accurately allocate the purchase price. Only items identified as of the acquisition date are considered for subsequent adjustment. The Corporation will make appropriate adjustments to the purchase price allocation prior to completion of the measurement period, as required.

During the nine months ended September 30, 2022, the Corporation acquired one business for an aggregate purchase price of $247 million, which is described in more detail below. The Condensed Consolidated Statement of Earnings for the nine months ended September 30, 2022 includes $14 million of total net sales and $6 million of net losses from the Corporation's 2022 acquisition. During the nine months ended September 30, 2021, the Corporation did not complete any acquisitions.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition for the acquisition consummated during the nine months ended September 30, 2022.

(In thousands)	2022
Accounts receivable	$ 9,970
Inventory	22,790
Property, plant, and equipment	1,683
Other current and non-current assets	1,872
Intangible assets	130,500
Operating lease right-of-use assets, net	1,197
Current and non-current liabilities	(9,607)
Net tangible and intangible assets	158,405
Goodwill	88,810
Total purchase price	$ 247,215
Goodwill deductible for tax purposes	$ 88,810

<u>2022 Acquisition</u>

<u>Safran Aerosystems Arresting Company ("arresting systems acquisition")</u>

On June 30, 2022, the Corporation completed its arresting systems acquisition for $247 million. The Purchase Agreement contains a purchase price adjustment mechanism and representations and warranties customary for a transaction of this type. The acquired business is a designer and manufacturer of mission-critical, fixed-wing aircraft emergency arresting system, and operates within the Naval & Power segment. The acquisition is subject to post-closing adjustments with the purchase price allocation not yet complete.

4. ASSETS HELD FOR SALE

In January 2022, the Corporation completed the sale of its industrial valve business in Germany, which was presented as held for sale in the Corporation's Consolidated Balance Sheet as of December 31, 2021, for gross cash proceeds of $3 million. The Corporation recorded a loss of $5 million upon sale closing during the first quarter of 2022.

5. RECEIVABLES

Receivables primarily include amounts billed to customers, unbilled charges on long-term contracts consisting of amounts recognized as sales but not billed, and other receivables. Substantially all amounts of unbilled receivables are expected to be

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
NOTES to CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

billed and collected within one year. An immaterial amount of unbilled receivables are subject to retainage provisions. The amount of claims and unapproved change orders within our receivables balances are immaterial.

The composition of receivables is as follows:

(In thousands)	September 30, 2022	December 31, 2021
Billed receivables:		
Trade and other receivables	$ 403,998	$ 362,007
Unbilled receivables (contract assets):		
Recoverable costs and estimated earnings not billed	314,692	291,758
Less: Progress payments applied	(559)	(1,297)
Net unbilled receivables	314,133	290,461
Less: Allowance for doubtful accounts	(4,539)	(5,320)
Receivables, net	$ 713,592	$ 647,148

6. INVENTORIES

Inventoried costs contain amounts relating to long-term contracts and programs with long production cycles, a portion of which will not be realized within one year. Long-term contract inventory includes an immaterial amount of claims or other similar items subject to uncertainty concerning their determination or realization. Inventories are valued at the lower of cost or net realizable value.

The composition of inventories is as follows:

(In thousands)	September 30, 2022	December 31, 2021
Raw materials	$ 249,272	$ 191,066
Work-in-process	90,288	78,221
Finished goods	126,093	98,944
Inventoried costs related to U.S. Government and other long-term contracts [1]	41,764	48,619
Inventories, net of reserves	507,417	416,850
Less: Progress payments applied	(4,353)	(5,283)
Inventories, net	$ 503,064	$ 411,567

[1] This caption includes capitalized development costs of $18.4 million as of September 30, 2022 related to certain aerospace and defense programs. These capitalized costs will be liquidated as units are produced under contract. As of September 30, 2022, capitalized development costs of $11.7 million are not currently supported by existing firm orders.

7. GOODWILL

The changes in the carrying amount of goodwill for the nine months ended September 30, 2022 are as follows:

(In thousands)	Aerospace & Industrial	Defense Electronics	Naval & Power	Consolidated
December 31, 2021	$ 316,147	$ 714,014	$ 432,865	$ 1,463,026
Acquisitions	—	—	88,810	88,810
Adjustments	—	967	—	967
Foreign currency translation adjustment	(10,984)	(20,047)	(9,541)	(40,572)
September 30, 2022	$ 305,163	$ 694,934	$ 512,134	$ 1,512,231

8. OTHER INTANGIBLE ASSETS, NET

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The following tables present the cumulative composition of the Corporation's intangible assets:

	September 30, 2022			December 31, 2021		
(In thousands)	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Technology	$ 299,444	$ (170,266)	$ 129,178	$ 274,615	$ (164,077)	$ 110,538
Customer related intangibles	650,987	(286,790)	364,197	568,720	(270,816)	297,904
Programs [(1)]	144,000	(32,400)	111,600	144,000	(27,000)	117,000
Other intangible assets	52,875	(39,287)	13,588	49,559	(36,924)	12,635
Total	$ 1,147,306	$ (528,743)	$ 618,563	$ 1,036,894	$ (498,817)	$ 538,077

[(1)] Programs include values assigned to major programs of acquired businesses and represent the aggregate value associated with the customer relationships, contracts, technology, and trademarks underlying the associated program.

During the nine months ended September 30, 2022, the Corporation acquired intangible assets of $130.5 million, which included Customer-related intangibles of $94.6 million, Technology of $31.5 million, and Other intangible assets of $4.4 million. The weighted average amortization periods for these aforementioned intangible assets are 15.9 years, 15.0 years, and 10.0 years, respectively.

Total intangible amortization expense for the nine months ended September 30, 2022 was $46 million, as compared to $45 million in the comparable prior year period. The estimated future amortization expense of intangible assets over the next five years is as follows:

(In millions)	
2022	$ 62
2023	$ 66
2024	$ 55
2025	$ 52
2026	$ 51

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

Forward Foreign Exchange and Currency Option Contracts

The Corporation has foreign currency exposure primarily in the United Kingdom, Europe, and Canada. The Corporation uses financial instruments, such as forward and option contracts, to hedge a portion of existing and anticipated foreign currency denominated transactions. The purpose of the Corporation's foreign currency risk management program is to reduce volatility in earnings caused by exchange rate fluctuations. Guidance on accounting for derivative instruments and hedging activities requires companies to recognize all of the derivative financial instruments as either assets or liabilities at fair value in the Condensed Consolidated Balance Sheets based upon quoted market prices for comparable instruments.

Interest Rate Risks and Related Strategies

The Corporation's primary interest rate exposure results from changes in U.S. dollar interest rates. The Corporation's policy is to manage interest cost using a mix of fixed and variable rate debt.

Effects on Condensed Consolidated Balance Sheets

As of September 30, 2022 and December 31, 2021, the fair values of the asset and liability derivative instruments were immaterial.

Effects on Condensed Consolidated Statements of Earnings

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Undesignated hedges

The gains and losses on forward exchange derivative contracts not designated for hedge accounting are recognized to general and administrative expenses within the Condensed Consolidated Statements of Earnings. The losses for the three and nine months ended September 30, 2022 were $6 million and $12 million, respectively. The losses for both the three and nine months ended September 30, 2021 were $2 million, respectively.

Debt

The estimated fair value amounts were determined by the Corporation using available market information that is primarily based on quoted market prices for the same or similar issuances as of September 30, 2022. Accordingly, all of the Corporation's debt is valued as a Level 2 financial instrument. The fair values described below may not be indicative of net realizable value or reflective of future fair values. Furthermore, the use of different methodologies to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

	September 30, 2022		December 31, 2021	
(In thousands)	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Revolving credit agreement, due 2027	$ 388,100	$ 388,100	$ 93,900	$ 93,900
3.70% Senior notes due 2023	202,500	201,714	202,500	208,086
3.85% Senior notes due 2025	90,000	86,827	90,000	95,246
4.24% Senior notes due 2026	200,000	190,933	200,000	218,421
4.05% Senior notes due 2028	67,500	62,919	67,500	73,783
4.11% Senior notes due 2028	90,000	83,520	90,000	98,854
3.10% Senior notes due 2030	150,000	126,071	150,000	154,832
3.20% Senior notes due 2032	150,000	121,677	150,000	154,875
Total debt	1,338,100	1,261,761	1,043,900	1,097,997
Debt issuance costs, net	(827)	(827)	(949)	(949)
Unamortized interest rate swap proceeds	6,438	6,438	7,659	7,659
Total debt, net	$ 1,343,711	$ 1,267,372	$ 1,050,610	$ 1,104,707

Revolving Credit Agreement

In May 2022, the Corporation terminated its existing credit agreement, which was set to expire in October 2023, and entered into a new credit agreement ("Credit Agreement") with a syndicate of financial institutions. The Credit Agreement, which is set to expire in May 2027, increases the size of the Corporation's revolving credit facility to $750 million, and expands the accordion feature to $250 million. The Corporation plans to use the Credit Agreement for general corporate purposes, which may include the funding of possible future acquisitions or supporting internal growth initiatives.

Senior Notes

On October 27, 2022, the Corporation announced that it formally closed its private placement debt offering of $300 million for senior notes, consisting of $200 million 4.49% notes due 2032 and $100 million 4.64% notes due 2034.

10. PENSION PLANS

Defined Benefit Pension Plans

The following table is a consolidated disclosure of all domestic and foreign defined benefit pension plans as described in the Corporation's 2021 Annual Report on Form 10-K.

The components of net periodic pension cost for the three and nine months ended September 30, 2022 and 2021 were as follows:

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	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2022	2021	2022	2021
Service cost	$ 5,770	$ 6,931	$ 17,803	$ 20,921
Interest cost	5,442	4,585	16,148	13,402
Expected return on plan assets	(13,525)	(15,177)	(41,240)	(45,548)
Amortization of prior service cost	155	(216)	(18)	(648)
Amortization of unrecognized actuarial loss	4,785	6,988	12,636	21,705
Cost of settlements	—	235	1,842	3,310
Net periodic pension cost	$ 2,627	$ 3,346	$ 7,171	$ 13,142

The Corporation did not make any contributions to the Curtiss-Wright Pension Plan during 2021, and does not expect to do so in 2022. Contributions to the foreign benefit plans are not expected to be material in 2022.

During the nine months ended September 30, 2022, as well as during the three and nine months ended September 30, 2021, the Company recognized settlement charges related to the retirement of former executives. The settlement charges represent events that are accounted for under guidance on employers' accounting for settlements and curtailments of defined benefit pension plans.

Defined Contribution Retirement Plan

The Company also maintains a defined contribution plan for all non-union employees who are not currently receiving final or career average pay benefits for its U.S. subsidiaries. The employer contributions include both employer match and non-elective contribution components up to a maximum employer contribution of 7% of eligible compensation. During the three and nine months ended September 30, 2022, the expense relating to the plan was $5.5 million and $15.8 million, respectively. During the three and nine months ended September 30, 2021, the expense relating to the plan was $4.6 million and $14.2 million, respectively.

11. EARNINGS PER SHARE

Diluted earnings per share was computed based on the weighted-average number of shares outstanding plus all potentially dilutive common shares. A reconciliation of basic to diluted shares used in the earnings per share calculation is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2022	2021	2022	2021
Basic weighted-average shares outstanding	38,368	40,769	38,416	40,865
Dilutive effect of deferred stock compensation	279	181	239	175
Diluted weighted-average shares outstanding	38,647	40,950	38,655	41,040

For the three and nine months ended September 30, 2022, approximately 49,000 and 37,000 shares, respectively, issuable under equity-based awards were excluded from the calculation of diluted earnings per share as they were anti-dilutive based on the average stock price during the period.

There were no anti-dilutive equity-based awards for the three months ended September 30, 2021. For the nine months ended September 30, 2021, approximately 41,000 shares issuable under equity-based awards were excluded from the calculation of diluted earnings per share as they were anti-dilutive based on the average stock price during the period.

12. SEGMENT INFORMATION

The Corporation's measure of segment profit or loss is operating income. Interest expense and income taxes are not reported on an operating segment basis as they are not considered in the segments' performance evaluation by the Corporation's chief operating decision-maker, its Chief Executive Officer.

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Net sales and operating income by reportable segment were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2022	2021	2022	2021
Net sales				
Aerospace & Industrial	$ 213,656	$ 197,060	$ 614,817	$ 578,452
Defense Electronics	162,233	182,314	456,575	528,080
Naval & Power	256,277	242,891	732,905	737,967
Less: Intersegment revenues	(1,624)	(1,646)	(4,937)	(5,326)
Total consolidated	$ 630,542	$ 620,619	$ 1,799,360	$ 1,839,173
Operating income (expense)				
Aerospace & Industrial	$ 39,080	$ 30,872	$ 96,397	$ 81,874
Defense Electronics	36,588	40,762	84,338	106,656
Naval & Power	41,576	35,483	118,865	116,635
Corporate and other [1]	(9,661)	(9,448)	(33,402)	(27,847)
Total consolidated	$ 107,583	$ 97,669	$ 266,198	$ 277,318

[1] Includes pension and other postretirement benefit expense, certain environmental costs related to remediation at legacy sites, foreign currency transactional gains and losses, and certain other expenses.

Adjustments to reconcile operating income to earnings before income taxes are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2022	2021	2022	2021
Total operating income	$ 107,583	$ 97,669	$ 266,198	$ 277,318
Interest expense	13,997	9,955	33,315	30,094
Other income, net	3,746	3,627	11,298	8,910
Earnings before income taxes	$ 97,332	$ 91,341	$ 244,181	$ 256,134

(In thousands)	September 30, 2022	December 31, 2021
Identifiable assets		
Aerospace & Industrial	$ 994,691	$ 991,508
Defense Electronics	1,503,767	1,536,369
Naval & Power	1,518,691	1,270,099
Corporate and Other	325,013	294,581
Assets held for sale	—	10,988
Total consolidated	$ 4,342,162	$ 4,103,545

13. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The cumulative balance of each component of accumulated other comprehensive income (AOCI), net of tax, is as follows:

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(In thousands)	Foreign currency translation adjustments, net	Total pension and postretirement adjustments, net	Accumulated other comprehensive income (loss)
December 31, 2020	$ (88,737)	$ (222,119)	$ (310,856)
Other comprehensive income (loss) before reclassifications [1]	(10,829)	107,211	96,382
Amounts reclassified from accumulated other comprehensive income [1]	—	24,009	24,009
Net current period other comprehensive income (loss)	(10,829)	131,220	120,391
December 31, 2021	$ (99,566)	$ (90,899)	$ (190,465)
Other comprehensive income (loss) before reclassifications [1]	(97,259)	2,203	(95,056)
Amounts reclassified from accumulated other comprehensive income [1]	—	11,407	11,407
Net current period other comprehensive income (loss)	(97,259)	13,610	(83,649)
September 30, 2022	$ (196,825)	$ (77,289)	$ (274,114)

[1] All amounts are after tax.

Details of amounts reclassified from accumulated other comprehensive income (loss) are below:

(In thousands)	Amount reclassified from AOCI	Affected line item in the statement where net earnings is presented
Defined benefit pension and other postretirement benefit plans		
Amortization of prior service costs	$ 18	Other income, net
Amortization of actuarial losses	(12,636)	Other income, net
Settlements	(1,842)	Other income, net
	(14,460)	Earnings before income taxes
	3,053	Provision for income taxes
Total reclassifications	$ (11,407)	Net earnings

14. CONTINGENCIES AND COMMITMENTS

From time to time, the Corporation and its subsidiaries are involved in legal proceedings that are incidental to the operation of our business. Some of these proceedings allege damages relating to asbestos and environmental exposures, intellectual property matters, copyright infringement, personal injury claims, employment and employee benefit matters, government contract issues, commercial or contractual disputes, and acquisitions or divestitures. The Corporation continues to defend vigorously against all claims. Although the ultimate outcome of any legal matter cannot be predicted with certainty, based on present information, including assessment of the merits of the particular claim, as well as current accruals and insurance coverage, the Corporation does not expect that such legal proceedings will have a material adverse impact on its condensed consolidated financial statements.

Legal Proceedings

The Corporation has been named in a number of lawsuits that allege injury from exposure to asbestos. To date, the Corporation has not been found liable for or paid any material sum of money in settlement in any asbestos-related case. The Corporation believes its minimal use of asbestos in its past operations as well as its acquired businesses' operations and the relatively non-friable condition of asbestos in its historical products makes it unlikely that it will face material liability in any asbestos litigation, whether individually or in the aggregate. The Corporation maintains insurance coverage and indemnification agreements for these potential liabilities and believes adequate coverage exists to cover any unanticipated asbestos liability.

Letters of Credit and Other Financial Arrangements

The Corporation enters into standby letters of credit agreements and guarantees with financial institutions and customers primarily relating to guarantees of repayment, future performance on certain contracts to provide products and services, and to

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secure advance payments from certain international customers. As of September 30, 2022 and December 31, 2021, there were $14.7 million and $21.1 million of stand-by letters of credit outstanding, respectively, and $2.4 million and $4.5 million of bank guarantees outstanding, respectively. In addition, the Corporation is required to provide the Nuclear Regulatory Commission financial assurance demonstrating its ability to cover the cost of decommissioning its Cheswick, Pennsylvania facility upon closure, though the Corporation does not intend to close this facility. The Corporation has provided this financial assurance in the form of a $35.2 million surety bond.

AP1000 Program

In February 2022, the Corporation and Westinghouse Electric Company (WEC) executed a settlement agreement to resolve all open claims and counterclaims under the AP1000 U.S. and China contracts. Under the terms of the settlement agreement, the Corporation paid WEC $15 million in March 2022 and is required to pay WEC a final amount of $10 million in the first quarter of 2023 in exchange for the Corporation's full release from all open claims under such contracts, whether known or unknown. Under the settlement, the parties also negotiated and executed a right of first refusal for all future AP1000 projects. As of December 31, 2021, the Corporation was adequately accrued regarding this matter.

15. SUBSEQUENT EVENTS

On October 27, 2022, the Corporation announced that it formally closed its private placement debt offering of $300 million for senior notes, consisting of $200 million 4.49% notes due 2032 and $100 million 4.64% notes due 2034.

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CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
PART I- ITEM 2
MANAGEMENT'S DISCUSSION and ANALYSIS of
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FORWARD-LOOKING STATEMENTS

Except for historical information, this Quarterly Report on Form 10-Q may be deemed to contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Examples of forward-looking statements include, but are not limited to: (a) projections of or statements regarding return on investment, future earnings, interest income, sales, volume, other income, earnings or loss per share, growth prospects, capital structure, and other financial terms, (b) statements of plans and objectives of management, (c) statements of future economic performance and potential impacts from COVID-19, including the impacts to supply and demand, the impact of significant inflation, higher interest rates or deflation, and measures taken by governments and private industry in response, (d) statements of future economic performance and potential impacts due to the conflict between Russia and Ukraine, and (e) statements of assumptions, such as economic conditions underlying other statements. Such forward-looking statements can be identified by the use of forward-looking terminology such as "anticipates," "believes," "continue," "could," "estimate," "expects," "intend," "may," "might," "outlook," "potential," "predict," "should," "will," as well as the negative of any of the foregoing or variations of such terms or comparable terminology, or by discussion of strategy. No assurance may be given that the future results described by the forward-looking statements will be achieved. While we believe these forward-looking statements are reasonable, they are only predictions and are subject to known and unknown risks, uncertainties, and other factors, many of which are beyond our control, which could cause actual results, performance, or achievement to differ materially from anticipated future results, performance, or achievement expressed or implied by such forward-looking statements. These risks and uncertainties include, but are not limited to, those described in "Item 1A. Risk Factors" of our 2021 Annual Report on Form 10-K, and elsewhere in that report, those described in this Quarterly Report on Form 10-Q, and those described from time to time in our future reports filed with the Securities and Exchange Commission. Such forward-looking statements in this Quarterly Report on Form 10-Q include, without limitation, those contained in Item 1. Financial Statements and Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Given these risks and uncertainties, you are cautioned not to place undue reliance on such forward-looking statements. These forward-looking statements speak only as of the date they were made, and we assume no obligation to update forward-looking statements to reflect actual results or changes in or additions to the factors affecting such forward-looking statements.

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MANAGEMENT'S DISCUSSION and ANALYSIS of
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COMPANY ORGANIZATION

Curtiss-Wright Corporation is a global integrated business that provides highly engineered products, solutions, and services mainly to aerospace & defense markets, as well as critical technologies in demanding commercial power, process, and industrial markets. We report our operations through our Aerospace & Industrial, Defense Electronics, and Naval & Power segments. We operate across a diversified array of niche markets through engineering and technological leadership, precision manufacturing, and strong relationships with our customers. Approximately 66% of our 2022 revenues are expected to be generated from A&D-related markets.

COVID-19

In March 2020, the World Health Organization characterized the outbreak of COVID-19 as a pandemic. The pandemic has adversely affected certain elements of our business, including our supply chain, transportation networks, and production levels. The extent to which COVID-19 continues to adversely impact our operations depends on future developments, including the impact of the global rollout of COVID-19 vaccines, the emergence and impact of any new COVID-19 variants, as well as the issuance of vaccine mandates by the Biden administration. However, given the diversified breadth of our company, we believe that we are well-positioned to mitigate any material risks arising as a result of COVID-19 or any of its variants. From an operational perspective, our current cash balance, coupled with expected cash flows from operating activities for the remainder of the year as well as our current borrowing capacity under the Credit Agreement, are expected to be more than sufficient to meet operating cash requirements, planned capital expenditures, principal payments on the current portion of long-term debt obligations, interest payments on long-term debt obligations, payments on lease obligations, pension and postretirement funding requirements, and dividend payments through the current year and beyond.

Business Environment

During the current period, we have experienced supply chain challenges, including increased lead times, as well as heightened levels of inflation in material and transportation costs due to availability constraints and high demand. Certain parts of our business have been adversely affected by disruptions that have hindered our ability to timely obtain raw materials and components from our suppliers in the required quantities, or on favorable terms. In certain instances, these disruptions have delayed our ability to convert backlog into net sales in line with historical performance. We expect inflationary and supply chain constraint trends to continue throughout at least the remainder of 2022. While the long-term impact of these factors remains uncertain, we will continue to closely monitor the extent to which these factors will impact our business, financial condition, and results of operations.

Inflation Reduction Act of 2022 (IRA)

On August 16, 2022, the IRA was enacted into law. The statute includes a 15% corporate alternative minimum tax on adjusted financial statement income which is effective for the fiscal year ended February 2, 2024. The new law also imposes a 1% excise tax on share repurchases, effective for repurchases made after December 31, 2022. We are currently assessing the potential impact of this law as it pertains to excise taxes, which will be dependent on the extent of share repurchases made in future periods.

RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to help the reader understand the results of operations and financial condition of the Corporation for the three and nine month periods ended September 30, 2022. The financial information as of September 30, 2022 should be read in conjunction with the financial statements for the year ended December 31, 2021 contained in our Form 10-K.

The MD&A is organized into the following sections: Condensed Consolidated Statements of Earnings, Results by Business Segment, and Liquidity and Capital Resources. Our discussion will be focused on the overall results of operations followed by a more detailed discussion of those results within each of our reportable segments.

Our three reportable segments are generally concentrated in a few end markets; however, each may have sales across several end markets. An end market is defined as an area of demand for products and services. The sales for the relevant markets will be discussed throughout the MD&A.

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CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
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Analytical Definitions

Throughout management's discussion and analysis of financial condition and results of operations, the terms "incremental" and "organic" are used to explain changes from period to period. The term "incremental" is used to highlight the impact acquisitions and divestitures had on the current year results. The results of operations for acquisitions are incremental for the first twelve months from the date of acquisition. Additionally, the results of operations of divested businesses are removed from the comparable prior year period for purposes of calculating "organic" and "incremental" results. The definition of "organic" excludes the impairment of assets held for sale and corresponding loss from sale of our industrial valves business in Germany as well as the effects of foreign currency translation.

Condensed Consolidated Statements of Earnings

	Three Months Ended September 30,			Nine Months Ended September 30,		
(In thousands)	2022	2021	% change	2022	2021	% change
Sales						
Aerospace & Industrial	$ 213,093	$ 196,296	9 %	$ 612,777	$ 576,340	6 %
Defense Electronics	161,188	181,504	(11 %)	453,806	525,067	(14 %)
Naval & Power	256,261	242,819	6 %	732,777	737,766	(1 %)
Total sales	$ 630,542	$ 620,619	2 %	$ 1,799,360	$ 1,839,173	(2 %)
Operating income						
Aerospace & Industrial	$ 39,080	$ 30,872	27 %	$ 96,397	$ 81,874	18 %
Defense Electronics	36,588	40,762	(10 %)	84,338	106,656	(21 %)
Naval & Power	41,576	35,483	17 %	118,865	116,635	2 %
Corporate and other	(9,661)	(9,448)	(2 %)	(33,402)	(27,847)	(20 %)
Total operating income	$ 107,583	$ 97,669	10 %	$ 266,198	$ 277,318	(4 %)
Interest expense	13,997	9,955	(41 %)	33,315	30,094	(11 %)
Other income, net	3,746	3,627	3 %	11,298	8,910	27 %
Earnings before income taxes	97,332	91,341	7 %	244,181	256,134	(5 %)
Provision for income taxes	(23,564)	(21,638)	(9 %)	(58,856)	(65,554)	10 %
Net earnings	$ 73,768	$ 69,703	6 %	$ 185,325	$ 190,580	(3 %)
New orders	$ 818,067	$ 629,046	30 %	$ 2,228,495	$ 1,900,903	17 %

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Components of sales and operating income increase (decrease):

	Three Months Ended September 30, 2022 vs. 2021		Nine Months Ended September 30, 2022 vs. 2021	
	Sales	Operating Income	Sales	Operating Income
Organic	1 %	8 %	(2 %)	(3 %)
Acquisitions	2 %	(7 %)	1 %	(3 %)
Loss on divestiture/impairment of assets held for sale	— %	9 %	— %	2 %
Foreign currency	(1 %)	— %	(1 %)	— %
Total	2 %	10 %	(2 %)	(4 %)

Sales in the third quarter increased $10 million, or 2%, to $631 million, compared with the prior year period. On a segment basis, sales from the Aerospace & Industrial and Naval & Power segments increased $17 million and $13 million, respectively, with sales from the Defense Electronics segment decreasing $20 million.

Sales during the nine months ended September 30, 2022 decreased $40 million, or 2%, to $1,799 million, compared with the prior year period. On a segment basis, sales from the Defense Electronics and Naval & Power segments decreased $71 million and $5 million, respectively, with sales from the Aerospace & Industrial segment increasing $36 million. Changes in sales by segment are discussed in further detail in the results by business segment section below.

Operating income in the third quarter increased $10 million, or 10%, to $108 million, and operating margin increased 140 basis points to 17.1% compared with the same period in 2021. In the Aerospace & Industrial segment, operating income and operating margin benefited from favorable absorption on higher sales in the general industrial and commercial aerospace markets, as well as our ongoing operational excellence initiatives. Operating income and operating margin in the Naval & Power segment increased primarily due to a prior year impairment loss on assets held for sale in our industrial valves business in Germany, favorable absorption on higher organic sales, as well as the benefits of our ongoing operational excellence initiatives. These increases were partially offset by a decrease in operating income in the Defense Electronics segment, primarily due to unfavorable overhead absorption on lower sales.

Operating income during the nine months ended September 30, 2022 decreased $11 million, or 4%, to $266 million and operating margin decreased 30 basis points to 14.8%, compared with the same period in 2021. In the Defense Electronics segment, decreases in operating income and operating margin were primarily due to unfavorable overhead absorption on lower sales. These decreases were partially offset by increases in operating income and operating margin in the Aerospace & Industrial segment, primarily due to favorable absorption on higher sales in the general industrial and commercial aerospace markets, as well as the benefits of our ongoing operational excellence initiatives. In the Naval & Power segment, operating income was essentially flat while operating margin improved slightly, as favorable absorption on higher organic sales as well as lower current period losses associated with our industrial valves business in Germany were partially offset by first year purchase accounting costs from our arresting systems acquisition.

Non-segment operating expense in the third quarter of $10 million was essentially flat against the comparable prior year period. Non-segment operating expense during the nine months ended September 30, 2022 increased $6 million, or 20%, to $33 million, primarily due to costs associated with shareholder activism in the current period.

Interest expense in the third quarter and nine months ended September 30, 2022 increased $4 million, or 41%, to $14 million, and $3 million, or 11%, to $33 million, primarily due to higher current period borrowings under our Credit Agreement.

Other income, net in the third quarter of $4 million was essentially flat against the comparable prior year period. Other income, net during the nine months ended September 30, 2022 increased $2 million, or 27%, to $11 million, primarily due to lower overall pension costs against the comparable prior year period.

The effective tax rate of 24.2% in the third quarter increased compared to an effective tax rate of 23.7% in the prior year period, primarily due to provisional tax expense in the current period to record a valuation allowance on unused foreign tax credits. The effective tax rate of 24.1% for the nine months ended September 30, 2022 decreased as compared to an effective

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tax rate of 25.6%, primarily due to a favorable state rate change on deferred tax liabilities in the current year versus an unfavorable foreign rate change on deferred tax liabilities in the prior year.

Comprehensive income in the third quarter was $28 million, compared to comprehensive income of $58 million in the prior year period. The change was primarily due to the following:

- Foreign currency translation adjustments in the third quarter resulted in a $50 million comprehensive loss, compared to a $16 million comprehensive loss in the prior year period. The comprehensive loss during the current period was primarily attributed to decreases in the British Pound and Canadian dollar.
- Net earnings increased $4 million, primarily due to higher operating income.

Comprehensive income during the nine months ended September 30, 2022 was $102 million, compared to comprehensive income of $193 million in the prior year period. The change was primarily due to the following:

- Foreign currency translation adjustments for the nine months ended September 30, 2022 resulted in a $97 million comprehensive loss, compared to a $13 million comprehensive loss in the prior period. The comprehensive loss during the current period was primarily attributed to decreases in the British Pound and Canadian dollar.
- Net earnings decreased $5 million, primarily due to lower operating income and higher interest expense.

New orders in the third quarter and nine months ended September 30, 2022 increased $189 million and $328 million, respectively, from the comparable prior year periods, primarily due to the timing of naval defense orders and the incremental impact from our arresting systems acquisition in the Naval & Power segment, as well as an increase in new orders for ground defense and aerospace defense equipment in the Defense Electronics segment. New orders in both periods also benefited from an increase in new orders for commercial aerospace equipment in the Aerospace & Industrial segment.

RESULTS BY BUSINESS SEGMENT

Aerospace & Industrial

The following tables summarize sales, operating income and margin, and new orders within the Aerospace & Industrial segment.

	Three Months Ended September 30,			Nine Months Ended September 30,		
(In thousands)	2022	2021	% change	2022	2021	% change
Sales	$ 213,093	$ 196,296	9%	$ 612,777	$ 576,340	6%
Operating income	39,080	30,872	27%	96,397	81,874	18%
Operating margin	18.3 %	15.7 %	260 bps	15.7 %	14.2 %	150 bps
New orders	$ 216,997	$ 206,066	5%	$ 660,590	$ 628,006	5%

Components of sales and operating income increase (decrease):

	Three Months Ended September 30, 2022 vs. 2021		Nine Months Ended September 30, 2022 vs. 2021	
	Sales	Operating Income	Sales	Operating Income
Organic	12 %	28 %	9 %	19 %
Acquisitions	— %	— %	— %	— %
Foreign currency	(3 %)	(1 %)	(3 %)	(1 %)
Total	9 %	27 %	6 %	18 %

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Sales in the Aerospace & Industrial segment are primarily generated from the commercial aerospace and general industrial markets, and to a lesser extent the defense and power & process markets.

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Sales in the third quarter increased $17 million, or 9%, to $213 million from the prior year period, primarily due to higher sales in the general industrial and commercial aerospace markets. Sales in the general industrial market increased $11 million primarily due to higher demand for industrial vehicle products. In the commercial aerospace market, sales increased $5 million due to higher demand for sensors products as well as surface treatment services on various narrowbody and widebody platforms.

Sales during the nine months ended September 30, 2022 increased $36 million, or 6%, to $613 million from the prior year period, primarily due to higher sales in the general industrial and commercial aerospace markets. Sales in the general industrial market increased $20 million primarily due to higher demand for industrial vehicle products. In the commercial aerospace market, sales increased $15 million primarily due to higher demand for actuation and sensors products as well as surface treatment services.

Operating income in the third quarter increased $8 million, or 27%, to $39 million from the prior year period, and operating margin increased 260 basis points to 18.3%. Operating income during the nine months ended September 30, 2022 increased $15 million, or 18%, to $96 million from the prior year period, and operating margin increased 150 basis points to 15.7%. Increases in operating income and operating margin for each of the respective periods were primarily due to favorable absorption on higher sales in the general industrial and commercial aerospace markets, as well as the benefits of our ongoing operational excellence initiatives.

New orders in the third quarter and nine months ended September 30, 2022 increased $11 million and $33 million, respectively, from the comparable prior year periods, as an increase in new orders for commercial aerospace equipment was partially offset by the timing of new orders for industrial vehicles.

Defense Electronics

The following tables summarize sales, operating income and margin, and new orders within the Defense Electronics segment.

	Three Months Ended September 30,			Nine Months Ended September 30,		
(In thousands)	2022	2021	% change	2022	2021	% change
Sales	$ 161,188	$ 181,504	(11%)	$ 453,806	$ 525,067	(14%)
Operating income	36,588	40,762	(10%)	84,338	106,656	(21%)
Operating margin	22.7 %	22.5 %	20 bps	18.6 %	20.3 %	(170 bps)
New orders	$ 249,223	$ 172,802	44%	$ 604,353	$ 532,575	13%

Components of sales and operating income increase (decrease):

	Three Months Ended September 30, 2022 vs. 2021		Nine Months Ended September 30, 2022 vs. 2021	
	Sales	Operating Income	Sales	Operating Income
Organic	(10 %)	(11 %)	(13 %)	(22 %)
Acquisitions	— %	— %	— %	— %
Foreign currency	(1 %)	1 %	(1 %)	1 %
Total	(11 %)	(10 %)	(14 %)	(21 %)

Sales in the Defense Electronics segment are primarily to the defense markets and, to a lesser extent, the commercial aerospace market.

Sales in the third quarter decreased $20 million, or 11%, to $161 million from the prior year period. In the aerospace defense market, sales decreased $14 million primarily due to ongoing supply chain headwinds, which contributed to lower sales of

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embedded computing and flight test equipment. In the ground defense market, we experienced lower sales of tactical communications equipment, primarily due to the aforementioned supply chain headwinds.

Sales during the nine months ended September 30, 2022 decreased $71 million, or 14%, to $454 million from the prior year period. In the aerospace defense market, sales decreased $30 million primarily due to ongoing supply chain headwinds as well as the delayed signing of the FY22 defense budget, which contributed to lower sales of embedded computing equipment on various programs. The ground defense market was also negatively impacted by ongoing supply chain headwinds, which resulted in lower sales of $27 million, primarily on embedded computing and tactical communications equipment on various programs. In the commercial aerospace market, sales decreased $12 million primarily due to lower sales of electronic systems and flight test equipment on various domestic and international platforms.

Operating income in the third quarter decreased $4 million, or 10%, to $37 million compared to the prior year period, and operating margin increased 20 basis points from the prior year period to 22.7%. Operating income was negatively impacted by unfavorable overhead absorption on lower sales, while operating margin benefited from our ongoing operational excellence initiatives.

Operating income during the nine months ended September 30, 2022 decreased $22 million, or 21%, to $84 million, and operating margin decreased 170 basis points from the prior year period to 18.6%, primarily due to unfavorable overhead absorption on lower sales.

New orders in the third quarter and nine months ended September 30, 2022 increased $76 million and $72 million, respectively, against the comparable prior year periods, primarily due to an increase in new orders for ground defense and aerospace defense equipment.

Naval & Power

The following tables summarize sales, operating income and margin, and new orders within the Naval & Power segment.

	Three Months Ended September 30,			Nine Months Ended September 30,		
(In thousands)	2022	2021	% change	2022	2021	% change
Sales	$ 256,261	$ 242,819	6%	$ 732,777	$ 737,766	(1%)
Operating income	41,576	35,483	17%	118,865	116,635	2%
Operating margin	16.2 %	14.6 %	160 bps	16.2 %	15.8 %	40 bps
New orders	$ 351,847	$ 250,178	41%	$ 963,552	$ 740,322	30%

Components of sales and operating income increase (decrease):

	Three Months Ended September 30, 2022 vs. 2021		Nine Months Ended September 30, 2022 vs. 2021	
	Sales	Operating Income	Sales	Operating Income
Organic	— %	12 %	(2 %)	5 %
Acquisitions	6 %	(20 %)	1 %	(6 %)
Loss on divestiture/impairment of assets held for sale	— %	24 %	— %	3 %
Foreign currency	— %	1 %	— %	— %
Total	6 %	17 %	(1 %)	2 %

Sales in the Naval & Power segment are primarily to the naval defense and power & process markets, and to a lesser extent, the aerospace defense market.

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Sales in the third quarter increased $13 million, or 6%, to $256 million from the prior year period, primarily due to the impact of our arresting systems acquisition in the aerospace defense market, which contributed incremental sales of $14 million. In the power & process market, higher nuclear aftermarket sales were more than offset by the wind-down on the China Direct AP1000 program.

Sales during the nine months ended September 30, 2022 decreased $5 million, or 1%, to $733 million from the prior year period. Sales decreased $13 million in the naval defense market, as higher demand on the Columbia-class submarine and CVN-81 aircraft carrier programs was more than offset by lower sales on the CVN-80 aircraft carrier and Virginia-class submarine programs. In the power & process market, higher nuclear aftermarket sales were more than offset by the wind-down on the China Direct AP1000 program. These decreases were partially offset by the impact of our arresting systems acquisition in the aerospace defense market, which contributed incremental sales of $14 million.

Operating income in the third quarter increased $6 million, or 17%, to $42 million, and operating margin increased 160 basis points from the prior year period to 16.2%, primarily due to a prior year impairment loss on assets held for sale related to our industrial valves business in Germany, favorable absorption on higher organic sales, as well as the benefits of our ongoing operational excellence initiatives. These increases were partially offset by unfavorable mix in the power & process market, as well as first year purchase accounting costs from our arresting systems acquisition.

Operating income during the nine months ended September 30, 2022 increased $2 million, or 2%, to $119 million, and operating margin increased 40 basis points from the prior year period to 16.2%, primarily due to favorable absorption on higher organic sales, as well as lower current period losses associated with our industrial valves business in Germany, which was sold in the current period. These increases were partially offset by first year purchase accounting costs from our arresting systems acquisition.

New orders in the third quarter and nine months ended September 30, 2022 increased $102 million and $223 million, respectively, from the comparable prior year periods, primarily due to the timing of naval defense orders, the incremental impact from our arresting systems acquisition, as well as an increase in new orders for nuclear aftermarket and process products.

SUPPLEMENTARY INFORMATION

The table below depicts sales by end market and customer type, as it helps provide an enhanced understanding of our businesses and the markets in which we operate. The table has been included to supplement the discussion of our consolidated operating results.

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Total Net Sales by End Market and Customer Type	Three Months Ended September 30,			Nine Months Ended September 30,		
(In thousands)	2022	2021	% change	2022	2021	% change
Aerospace & Defense markets:						
Aerospace Defense	$ 114,431	$ 116,853	(2 %)	$ 306,980	$ 327,847	(6 %)
Ground Defense	54,890	55,124	— %	138,391	159,090	(13 %)
Naval Defense	174,844	175,800	(1 %)	510,597	531,429	(4 %)
Commercial Aerospace	70,257	67,461	4 %	199,341	196,285	2 %
Total Aerospace & Defense	$ 414,422	$ 415,238	— %	$ 1,155,309	$ 1,214,651	(5 %)
Commercial markets:						
Power & Process	$ 110,559	$ 112,736	(2 %)	$ 340,702	$ 343,573	(1 %)
General Industrial	105,561	92,645	14 %	303,349	280,949	8 %
Total Commercial	$ 216,120	$ 205,381	5 %	$ 644,051	$ 624,522	3 %
Total Curtiss-Wright	$ 630,542	$ 620,619	2 %	$ 1,799,360	$ 1,839,173	(2 %)

Aerospace & Defense markets
Sales in the third quarter decreased $1 million, or less than 1%, to $414 million against the comparable prior year period. In the aerospace defense market, the incremental impact from our arresting systems acquisition was more than offset by lower sales of embedded computing and flight test equipment, primarily due to ongoing supply chain headwinds. Sales in the commercial aerospace market benefited from higher demand for sensors products as well as surface treatment services on various narrowbody and widebody platforms. Sales in the ground defense and naval defense markets were essentially flat.

Sales during the nine months ended September 30, 2022 decreased $59 million, or 5%, to $1,155 million, primarily due to lower sales in the aerospace defense, ground defense, and naval defense markets. Sales in the aerospace defense and ground defense markets decreased primarily due to ongoing supply chain headwinds and the delayed signing of the FY22 defense budget. Sales decreases in the naval defense market were primarily due to lower sales on the CVN-80 aircraft carrier and Virginia-class submarine programs, partially offset by higher demand on the Columbia-class submarine and CVN-81 aircraft carrier programs.

Commercial markets
Sales in the third quarter increased $11 million, or 5%, to $216 million primarily due to higher demand for our industrial vehicle products in the general industrial market.

Sales during the nine months ended September 30, 2022 increased $20 million, or 3%, to $644 million primarily due to higher demand for our industrial vehicle products in the general industrial market. In the power & process market, higher nuclear aftermarket sales were offset by the wind-down on the China Direct AP1000 program.

LIQUIDITY AND CAPITAL RESOURCES

Sources and Use of Cash

We derive the majority of our operating cash inflow from receipts on the sale of goods and services and cash outflow for the procurement of materials and labor; cash flow is therefore subject to market fluctuations and conditions. Most of our long-term contracts allow for several billing points (progress or milestone) that provide us with cash receipts as costs are incurred throughout the project rather than upon contract completion, thereby reducing working capital requirements. In some cases, these payments can exceed the costs incurred on a project. Management continually evaluates cash utilization alternatives, including share repurchases, acquisitions, increased dividends, capital expenditures, and paying down debt, to determine the most beneficial use of available capital resources. We believe that our cash and cash equivalents, cash flow from operations,

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available borrowings under the credit facility, and ability to raise additional capital through the credit markets, are sufficient to meet both the short-term and long-term capital needs of the organization.

Condensed Consolidated Statements of Cash Flows	Nine Months Ended	
(In thousands)	September 30, 2022	September 30, 2021
Cash provided by (used for):		
Operating activities	$ 2,387	$ 155,761
Investing activities	(281,956)	(29,809)
Financing activities	244,788	(84,406)
Effect of exchange-rate changes on cash	(22,671)	(5,378)
Net increase (decrease) in cash and cash equivalents	(57,452)	36,168

Net cash provided by operating activities decreased $153 million from the prior year period, primarily due to lower defense revenues, higher inventory purchases, lower advanced cash receipts, and a legal settlement payment made to WEC during the current period.

Net cash used for investing activities increased $252 million from the prior year period, primarily due to our arresting systems acquisition for $247 million.

Net cash provided by financing activities increased $329 million from the prior year period, primarily due to higher current period net borrowings under our Credit Agreement. Refer to the "Financing Activities" section below for further details.

Financing Activities

Debt

The Corporation's debt outstanding had an average interest rate of 3.6% and 3.3% for the three and nine months ended September 30, 2022, respectively and 3.6% for both the three and nine months ended September 30, 2021, respectively. The Corporation's average debt outstanding was $1.4 billion and $1.2 billion for the three and nine months ended September 30, 2022, and $1.1 billion for both the three and nine months ended September 30, 2021, respectively.

On October 27, 2022, the Corporation announced that it formally closed its private placement debt offering of $300 million for senior notes, consisting of $200 million 4.49% notes due 2032 and $100 million 4.64% notes due 2034.

Revolving Credit Agreement

In May 2022, the Corporation terminated its existing credit agreement, which was set to expire in October 2023, and entered into a new Credit Agreement with a syndicate of financial institutions. The Credit Agreement, which is set to expire in May 2027, increases the size of the Corporation's revolving credit facility to $750 million, and expands the accordion feature to $250 million.

As of September 30, 2022, the Corporation had $388 million of outstanding borrowings under the Credit Agreement, and $15 million in letters of credit supported by the Credit Agreement. The unused credit available under the Credit Agreement as of September 30, 2022 was $347 million, which could be borrowed without violating any of our debt covenants.

Repurchase of common stock

During the nine months ended September 30, 2022, the Corporation used $44 million of cash to repurchase approximately 0.3 million outstanding shares under its share repurchase program. During the nine months ended September 30, 2021, the Corporation used $79 million of cash to repurchase approximately 0.6 million outstanding shares under its share repurchase program.

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Cash Utilization

Management continually evaluates cash utilization alternatives, including share repurchases, acquisitions, increased dividends, capital expenditures, and repaying debt to determine the most beneficial use of available capital resources. We believe that our cash and cash equivalents, cash flow from operations, available borrowings under the credit facility, and ability to raise additional capital through the credit markets are sufficient to meet both the short-term and long-term capital needs of the organization.

Dividends

The Corporation made dividend payments of $14 million during both the nine months ended September 30, 2022 and September 30, 2021, respectively. Additionally, beginning in the second quarter, the Corporation increased its quarterly dividend 6% to $0.19 per share.

In the third quarter, the Corporation declared dividends of $7 million, which was paid to shareholders of record in October 2022.

Debt Compliance

As of the date of this report, we were in compliance with all debt agreements and credit facility covenants, including our most restrictive covenant, which is our debt to capitalization limit of 60%. The debt to capitalization limit is a measure of our indebtedness (as defined per the notes purchase agreement and credit facility) to capitalization, where capitalization equals debt plus equity, and is the same for and applies to all of our debt agreements and credit facility.

As of September 30, 2022, we had the ability to borrow additional debt of $1.4 billion without violating our debt to capitalization covenant.

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CRITICAL ACCOUNTING POLICIES

Our condensed consolidated financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America. Preparation of these statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. These estimates and assumptions are affected by the application of our accounting policies. Critical accounting policies are those that require application of management's most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain and may change in subsequent periods. A summary of significant accounting policies and a description of accounting policies that are considered critical may be found in our 2021 Annual Report on Form 10-K, filed with the U.S. Securities and Exchange Commission on February 24, 2022, in the Notes to the Consolidated Financial Statements, Note 1, and the Critical Accounting Policies section of Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our market risk during the nine months ended September 30, 2022. Information regarding market risk and market risk management policies is more fully described in "Item 7A. Quantitative and Qualitative Disclosures about Market Risk" of our 2021 Annual Report on Form 10-K.

Item 4. CONTROLS AND PROCEDURES

As of September 30, 2022, our management, including our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on such evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective as of September 30, 2022 insofar as they are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms, and they include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

During the quarter ended September 30, 2022, there have been no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

From time to time, we are involved in legal proceedings that are incidental to the operation of our business. Some of these proceedings allege damages relating to asbestos and environmental exposures, intellectual property matters, copyright infringement, personal injury claims, employment and employee benefit matters, government contract issues, commercial or contractual disputes, and acquisitions or divestitures. We continue to defend vigorously against all claims. Although the ultimate outcome of any legal matter cannot be predicted with certainty, based on present information, including assessment of the merits of the particular claim, as well as current accruals and insurance coverage, we do not believe that the disposition of any of these matters, individually or in the aggregate, will have a material adverse effect on our condensed consolidated financial condition, results of operations, and cash flows.

We have been named in pending lawsuits that allege injury from exposure to asbestos. To date, we have not been found liable or paid any material sum of money in settlement in any asbestos-related case. We believe that the minimal use of asbestos in our past operations and the relatively non-friable condition of asbestos in our products make it unlikely that we will face material liability in any asbestos litigation, whether individually or in the aggregate. We maintain insurance coverage for these potential liabilities and we believe adequate coverage exists to cover any unanticipated asbestos liability.

Item 1A. RISK FACTORS

There have been no material changes in our Risk Factors during the nine months ended September 30, 2022. Information regarding our Risk Factors is more fully described in "Item 1A. Risk Factors" of our 2021 Annual Report on Form 10-K.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table provides information about our repurchase of equity securities that are registered by us pursuant to Section 12 of the Securities Exchange Act of 1934, as amended, during the quarter ended September 30, 2022.

	Total Number of shares purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program	Maximum Dollar amount of shares that may yet be Purchased Under the Program
July 1 - July 31	29,944	$133.48	254,126	$ 221,365,223
August 1 - August 31	31,321	$146.74	285,447	$ 216,769,319
September 1 - September 30	29,042	$144.49	314,489	$ 212,573,057
For the quarter ended September 30, 2022	90,307	$141.62	314,489	$ 212,573,057

In December 2021, the Corporation adopted two written trading plans in connection with its previously authorized share repurchase program, which allowed for the purchase of its outstanding common stock up to $550 million, of which $213 million remains available for repurchase as of September 30, 2022. The first trading plan includes share repurchases of $50 million, to be executed equally throughout the 2022 calendar year. The second trading plan, which included opportunistic share repurchases up to $100 million to be executed through a 10b5-1 plan, was completed as of December 31, 2021.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

There have been no material changes in our procedures by which our security holders may recommend nominees to our board of directors during the nine months ended September 30, 2022. Information regarding security holder recommendations and nominations for directors is more fully described in the section entitled "Stockholder Nominations for Directors" of our 2022 Proxy Statement on Schedule 14A, which is incorporated by reference to our 2021 Annual Report on Form 10-K.

Item 6. **EXHIBITS**

Exhibit No.	Exhibit Description	Incorporated by Reference		Filed Herewith
		Form	Filing Date	
3.1	Amended and Restated Certificate of Incorporation of the Registrant	8-A12B/A	May 24, 2005	
3.2	Amended and Restated Bylaws of the Registrant	8-K	May 18, 2015	
31.1	Certification of Lynn M. Bamford, Chair and CEO, Pursuant to Rules 13a – 14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended			X
31.2	Certification of K. Christopher Farkas, Chief Financial Officer, Pursuant to Rules 13a – 14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended			X
32	Certification of Lynn M. Bamford, Chair and CEO, and K. Christopher Farkas, Chief Financial Officer, Pursuant to 18 U.S.C. Section 1350			X
101.INS	XBRL Instance Document			X
101.SCH	XBRL Taxonomy Extension Schema Document			X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document			X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document			X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document			X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document			X

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

CURTISS-WRIGHT CORPORATION
(Registrant)

By: /s/ K. Christopher Farkas
K. Christopher Farkas
Vice President and Chief Financial Officer
Dated: November 3, 2022

Exhibit 99.1

Curtiss-Wright Reports Fourth Quarter and Full-Year 2022 Financial Results; Issues Full-Year 2023 Guidance Reflecting Higher Sales, Operating Margin, EPS and Free Cash Flow

Strong Q4 Results Drive Record FY22 Sales, Profitability and Orders

DAVIDSON, N.C.--(BUSINESS WIRE)--February 21, 2023--Curtiss-Wright Corporation (NYSE: CW) reports financial results for the fourth quarter and full-year ended December 31, 2022.

Fourth Quarter 2022 Highlights:

- Reported sales of $758 million, operating income of $157 million, operating margin of 20.8%, diluted earnings per share (EPS) of $2.82, and free cash flow (FCF) of $283 million;
- Adjusted sales of $758 million, up 16% year-over-year;
- Adjusted operating income of $160 million, up 24%;
- Adjusted operating margin of 21.1%, up 140 basis points;
- Adjusted diluted EPS of $2.92, up 21%;
- Adjusted FCF of $299 million, with 265% FCF conversion; and
- New orders of $714 million, up 5%, reflecting solid demand in Aerospace & Defense (A&D) and Commercial markets.

Full-Year 2022 Highlights:

- Reported sales of $2.6 billion, operating income of $423 million, operating margin of 16.6%, diluted EPS of $7.62, and FCF of $257 million;
- Adjusted sales of $2.6 billion, up 4% year-over-year;
- Adjusted operating income of $443 million, up 5%;
- Adjusted operating margin of 17.3%, up 30 basis points;
- Adjusted diluted EPS of $8.13, up 11%;
- Adjusted FCF of $296 million, with 94% FCF conversion;
- Total share repurchases of $50 million; and
- New orders of $2.9 billion, up 15%; Backlog up 19%.

"Curtiss-Wright delivered record financial performance in the fourth quarter, driven by double-digit organic sales growth in our Aerospace & Defense and Commercial markets, and a strong performance from the recent acquisition of our engineered arresting systems business," said Lynn M. Bamford, Chair and CEO of Curtiss-Wright Corporation. "In addition, we achieved record quarterly Adjusted free cash flow of nearly $300 million, which generated robust free cash flow conversion of 265%."

"Our full-year 2022 results were highlighted by a strong operational performance, as we produced higher sales and operating income in our Aerospace & Industrial and Naval & Power segments. Further, the strength and resilience of our combined portfolio enabled us to minimize the impact of the challenging supply chain environment, as we generated 30 basis points in full-year operating margin expansion to 17.3%, and delivered double-digit EPS growth. Our results also reflected record orders of $2.9 billion and a book-to-bill of 1.15x, driven by strong demand across the portfolio."

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"Looking to 2023, we anticipate total sales growth of 4% to 6% principally driven by strong growth in our A&D markets, continued operating margin expansion while maintaining steady investments in our technology, and strong Adjusted free cash flow generation ranging from $360 to $400 million. As a result, we remain well-positioned with line of sight to the 3-year financial targets that we communicated at our 2021 Investor Day."

Fourth Quarter 2022 Operating Results

(In millions)	Q4-2022	Q4-2021	Change
Reported			
Sales	$ 758	$ 667	14%
Operating income	$ 157	$ 105	49%
Operating margin	20.8%	15.8%	500 bps
Adjusted (1)			
Sales	$ 758	$ 655	16%
Operating income	$ 160	$ 129	24%
Operating margin	21.1%	19.7%	140 bps

(1) Reconciliations of Reported to Adjusted operating results are available in the Appendix.

- Adjusted sales of $758 million increased 16% compared with the prior year, and included a $9 million or 1% headwind from unfavorable foreign currency translation, mainly within our Aerospace & Industrial segment;
- Total A&D market sales increased 18%, while total Commercial market sales increased 10%;
- In our A&D markets, our results reflected strong growth of 20% in our defense markets, driven by higher defense electronics revenues, the contribution from the acquisition of our engineered arresting systems business and double-digit sales growth in commercial aerospace;
- In our Commercial markets, we experienced double-digit sales growth in the general industrial market, as well as high-single digit sales growth within the power & process market, despite the wind down on the China Direct AP1000 program; and
- Adjusted operating income of $160 million increased 24%, while Adjusted operating margin increased 140 basis points to 21.1%, principally driven by favorable overhead absorption on higher revenues in all three segments, as well as the benefits of our prior year restructuring and ongoing company-wide operational excellence initiatives.

Fourth Quarter 2022 Segment Performance

Aerospace & Industrial

(In millions)	Q4-2022	Q4-2021	Change
Reported			
Sales	$ 223	$ 210	6%
Operating income	$ 41	$ 40	2%
Operating margin	18.2%	19.0%	(80 bps)
Adjusted (1)			
Sales	$ 223	$ 208	8%
Operating income	$ 41	$ 40	2%
Operating margin	18.5%	19.5%	(100 bps)

(1) *Reconciliations of Reported to Adjusted operating results are available in the Appendix.*

- Adjusted sales of $223 million, up $16 million, or 8% overall, and included a $6 million or 4% headwind from unfavorable foreign currency translation;
- Higher commercial aerospace market revenue was driven by higher sales of actuation and sensors products on numerous narrowbody and widebody platforms;
- Lower aerospace defense market revenue reflected the timing of defense market sales of our actuation and sensors products;
- Strong double-digit revenue growth in the general industrial market reflected continued strong demand for industrial vehicle products serving on-highway, off-highway and specialty platforms, and increased sales of surface treatment services; and
- Adjusted operating income was $41 million, up 2% from the prior year, while Adjusted operating margin decreased 100 basis points to 18.5%, as favorable absorption on higher sales and the benefits of our ongoing operational excellence initiatives were partially offset by unfavorable mix on actuation products.

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Defense Electronics

(In millions)	**Q4-2022**	**Q4-2021**	**Change**
Reported			
Sales	$ 236	$ 199	19%
Operating income	$ 70	$ 52	34%
Operating margin	29.7%	26.3%	340 bps
Adjusted ***(1)***			
Sales	$ 236	$ 200	18%
Operating income	$ 70	$ 53	33%
Operating margin	29.7%	26.5%	320 bps

(1) Reconciliations of Reported to Adjusted operating results are available in the Appendix.

- Adjusted sales of $236 million, up $37 million, or 18%, principally reflected strong growth in defense market sales, despite ongoing supply chain headwinds related to the availability of electronic components;
- Higher aerospace defense market revenues reflected increased sales of our embedded computing equipment on various fighter jet and helicopter programs;
- Ground defense market revenue increases reflected higher sales of our tactical communications equipment; and
- Adjusted operating income was $70 million, up 33% from the prior year, while adjusted operating margin increased 320 basis points to 29.7%, primarily driven by strong absorption on higher defense revenues.

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Naval & Power

(In millions)	Q4-2022	Q4-2021	Change
Reported			
Sales	$ 298	$ 258	16%
Operating income	$ 59	$ 25	135%
Operating margin	19.7%	9.7%	1,000 bps
Adjusted [(1)]			
Sales	$ 298	$ 248	20%
Operating income	$ 60	$ 48	26%
Operating margin	20.3%	19.3%	100 bps

[(1)] *Reconciliations of Reported to Adjusted operating results are available in the Appendix.*

- Adjusted sales of $298 million, up $50 million, or 20%;
- Higher aerospace defense market revenues reflected the contribution from the arresting systems acquisition for arresting systems equipment, principally to international customers;
- Naval defense market revenue increases reflected the strong ramp up on the Columbia-class submarine program partially offset by timing of revenues on the CVN-80 aircraft carrier program;
- Higher power & process market revenues reflected strong growth in nuclear aftermarket sales supporting existing operating reactors as well as increased industrial valve sales in the process market. Those increases were partially offset by the wind down of production on the China Direct AP1000 program; and
- Adjusted operating income was $60 million, up 26% from the prior year, while adjusted operating margin increased 100 basis points to 20.3%, driven by favorable absorption on higher organic revenues, a solid contribution from the arresting systems acquisition and the benefits of our restructuring initiatives.

Free Cash Flow

(In millions)	Q4-2022	Q4-2021	Change
Net cash provided by operating activities	$ 292	$ 232	26%
Capital expenditures	(9)	(13)	(29%)
Reported free cash flow	$ 283	$ 219	29%
Adjusted free cash flow (1)	$ 299	$ 219	37%

(1) A reconciliation of Reported to Adjusted free cash flow is available in the Appendix.

- Reported free cash flow of $283 million increased $64 million, primarily due to higher cash earnings and lower taxes;
- Adjusted free cash flow of $299 million increased $80 million; and
- Capital expenditures decreased $4 million compared with the prior year.

New Orders and Backlog

- New orders of $714 million increased 5% in the fourth quarter driven by strong demand for defense electronics products and the contribution from our arresting systems acquisition within our A&D markets, and for nuclear aftermarket products within our Commercial markets;
- Full-year 2022 new orders of $2.9 billion increased 15% and generated an overall book-to-bill of 1.15x, reflecting growth in our A&D and Commercial markets; and
- Backlog of $2.6 billion, up 19% from December 31, 2021, reflects strong demand in our Defense and Commercial Aerospace markets.

Share Repurchase and Dividends

- During the fourth quarter, the Company repurchased 74,816 shares of its common stock for approximately $12 million;
- During full-year 2022, the Company repurchased 0.3 million shares for $50 million; and
- The Company also declared a quarterly dividend of $0.19 a share.

Other Items – Completion of Financing of $300 Million in Senior Notes

- On October 27, 2022, the Company announced the successful completion of a private placement debt offering of $300 million for senior notes, consisting of $200 million 4.49% notes due 2032 and $100 million 4.64% notes due 2034.

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Full-Year 2023 Guidance

The Company's full-year 2023 Adjusted financial guidance[1] is as follows:

($ in millions, except EPS)	2023 Adjusted Non-GAAP Guidance	% Chg vs 2022
Total Sales	$2,655 - $2,710	Up 4% - 6%
Operating Income	$463 - $477	Up 5% - 8%
Operating Margin	17.4% - 17.6%	Up 10 - 30 bps
Diluted EPS	$8.65 - $8.90	Up 6% - 10%
Free Cash Flow	$360 - $400	Up 22% - 36%

(1) Reconciliations of Reported to Adjusted 2022 operating results and 2023 financial guidance are available in the Appendix, and exclude first year purchase accounting costs in both periods associated with acquisitions.

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A more detailed breakdown of the Company's 2023 financial guidance by segment and by market, as well as all reconciliations of Reported GAAP amounts to Adjusted non-GAAP amounts, can be found in the accompanying schedules. Historical financial results are available in the Investor Relations section of Curtiss-Wright's website.

Conference Call & Webcast Information

The Company will host a conference call to discuss fourth quarter and full-year 2022 financial results and expectations for 2023 guidance at 9:00 a.m. ET on Wednesday, February 22, 2023. A live webcast of the call and the accompanying financial presentation, as well as a webcast replay of the call, will be made available on the internet by visiting the Investor Relations section of the Company's website at www.curtisswright.com.

(Tables to Follow)

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS (UNAUDITED)
($'s in thousands, except per share data)

	Three Months Ended December 31, 2022	Three Months Ended December 31, 2021	Year Ended December 31, 2022	Year Ended December 31, 2021
Product sales	$ 646,263	$ 556,911	$2,135,882	$2,109,617
Service sales	111,402	109,847	421,143	396,314
Total net sales	757,665	666,758	2,557,025	2,505,931
Cost of product sales	399,389	340,432	1,348,569	1,330,191
Cost of service sales	65,792	64,454	253,847	242,384
Total cost of sales	465,181	404,886	1,602,416	1,572,575
Gross profit	292,484	261,872	954,609	933,356
Research and development expenses	19,032	21,814	80,836	88,489
Selling expenses	31,199	27,729	121,586	116,956
General and administrative expenses	85,008	96,532	324,093	326,140
Loss on divestiture	—	—	4,651	—
Impairment of assets held for sale	—	10,432	—	19,088
Operating income	157,245	105,365	423,443	382,683
Interest expense	13,665	10,146	46,980	40,240
Other income, net	1,434	3,157	12,732	12,067
Earnings before income taxes	145,014	98,376	389,195	354,510
Provision for income taxes	(35,991)	(21,797)	(94,847)	(87,351)
Net earnings	$ 109,023	$ 76,579	$ 294,348	$ 267,159
Net earnings per share:				
Basic earnings per share	$ 2.85	$ 1.95	$ 7.67	$ 6.61
Diluted earnings per share	$ 2.82	$ 1.94	$ 7.62	$ 6.58
Dividends per share	$ 0.19	$ 0.18	$ 0.75	$ 0.71
Weighted average shares outstanding:				
Basic	38,296	39,309	38,386	40,417
Diluted	38,633	39,524	38,649	40,602

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CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (UNAUDITED)
($'s in thousands, except par value)

	December 31, 2022	December 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	$ 256,974	$ 171,004
Receivables, net	724,603	647,148
Inventories, net	483,113	411,567
Assets held for sale	—	10,988
Other current assets	52,623	67,101
Total current assets	1,517,313	1,307,808
Property, plant, and equipment, net	342,708	360,031
Goodwill	1,544,635	1,463,026
Other intangible assets, net	620,897	538,077
Operating lease right-of-use assets, net	153,855	143,613
Prepaid pension asset	222,627	256,422
Other assets	47,567	34,568
Total assets	**$ 4,449,602**	**$ 4,103,545**
Liabilities		
Current liabilities:		
Current portion of long-term and short-term debt	$ 202,500	$ —
Accounts payable	266,525	211,640
Accrued expenses	177,536	147,701
Deferred revenue	242,483	260,157
Liabilities held for sale	—	12,655
Other current liabilities	82,395	102,714
Total current liabilities	971,439	734,867
Long-term debt	1,051,900	1,050,610
Deferred tax liabilities	123,001	147,349
Accrued pension and other postretirement benefit costs	58,348	91,329
Long-term operating lease liability	132,275	127,152
Long-term portion of environmental reserves	12,547	13,656
Other liabilities	107,973	112,092
Total liabilities	2,457,483	2,277,055
Stockholders' equity		
Common stock, $1 par value	$ 49,187	$ 49,187
Additional paid in capital	134,553	127,104
Retained earnings	3,174,396	2,908,827
Accumulated other comprehensive loss	(258,916)	(190,465)
Less: cost of treasury stock	(1,107,101)	(1,068,163)
Total stockholders' equity	1,992,119	1,826,490
Total liabilities and stockholders' equity	**$ 4,449,602**	**$ 4,103,545**

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Use and Definitions of Non-GAAP Financial Information (Unaudited)

The Corporation supplements its financial information determined under U.S. generally accepted accounting principles (GAAP) with certain non-GAAP financial information. Curtiss-Wright believes that these Adjusted (non-GAAP) measures provide investors with improved transparency in order to better measure Curtiss-Wright's ongoing operating and financial performance and better comparisons of our key financial metrics to our peers. These non-GAAP measures should not be considered in isolation or as a substitute for the related GAAP measures, and other companies may define such measures differently. Curtiss-Wright encourages investors to review its financial statements and publicly filed reports in their entirety and not to rely on any single financial measure. Reconciliations of "Reported" GAAP amounts to "Adjusted" non-GAAP amounts are furnished within this release.

The following definitions are provided:

Adjusted Sales, Operating Income, Operating Margin, Net Earnings and Diluted EPS

These Adjusted financials are defined as Reported Sales, Operating Income, Operating Margin, Net Earnings and Diluted Earnings per Share under GAAP excluding: (i) the impact of first year purchase accounting costs associated with acquisitions, specifically one-time inventory step-up, backlog amortization, deferred revenue adjustments and transaction costs; (ii) the sale or divestiture of a business or product line; (iii) pension settlement charges; and (iv) significant legal settlements, impairment costs, and costs associated with shareholder activism, as applicable.

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
RECONCILIATION OF AS REPORTED TO ADJUSTED (UNAUDITED)
($'s in thousands)

	Three Months Ended December 31, 2022			Three Months Ended December 31, 2021			% Change	
	As Reported	**Adjustments**	**Adjusted**	**As Reported**	**Adjustments**	**Adjusted**	**As Reported**	**Adjusted**
Sales:								
Aerospace & Industrial (1)	$223,258	$ —	$223,258	$209,994	$ (2,418)	$207,576	6%	8%
Defense Electronics (2)	236,456	—	236,456	199,259	360	199,619	19%	18%
Naval & Power (4)	297,951	—	297,951	257,505	(9,401)	248,104	16%	20%
Total sales	**$757,665**	**$ —**	**$757,665**	**$666,758**	**$ (11,459)**	**$655,299**	**14%**	**16%**
Operating income (expense):								
Aerospace & Industrial (1)(3)	$ 40,599	$ 703	$ 41,302	$ 39,943	$ 493	$ 40,436	2%	2%
Defense Electronics (2)	70,230	—	70,230	52,433	442	52,875	34%	33%
Naval & Power (3)(4)(5)	58,717	1,724	60,441	25,025	22,802	47,827	135%	26%
Total segments	**$169,546**	**$ 2,427**	**$171,973**	**$117,401**	**$ 23,737**	**$141,138**	**44%**	**22%**
Corporate and other	(12,301)	—	(12,301)	(12,036)	(22)	(12,058)	2%	2%
Total operating income	**$157,245**	**$ 2,427**	**$159,672**	**$105,365**	**$ 23,715**	**$129,080**	**49%**	**24%**
Operating margins:	**As Reported**		**Adjusted**	**As Reported**		**Adjusted**	**As Reported**	**Adjusted**
Aerospace & Industrial	18.2%		18.5%	19.0%		19.5%	(80 bps)	(100 bps)
Defense Electronics	29.7%		29.7%	26.3%		26.5%	340 bps	320 bps
Naval & Power	19.7%		20.3%	9.7%		19.3%	1,000 bps	100 bps
Total Curtiss-Wright	**20.8%**		**21.1%**	**15.8%**		**19.7%**	**500 bps**	**140 bps**

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Segment margins	22.4%		22.7%	17.6%		21.5%	480 bps	120 bps

(1) Excludes our build-to-print actuation product line supporting the Boeing 737 Max program, which we substantially exited in the fourth quarter of 2020.

(2) Excludes first year purchase accounting adjustments in the prior period.

(3) Excludes first year purchase accounting adjustments in the current period.

(4) Excludes the results of operations from our German valves business, which was sold in January 2022, including an impairment loss in the prior period.

(5) Excludes one-time legal settlement costs in the prior period.

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
RECONCILIATION OF AS REPORTED TO ADJUSTED (UNAUDITED)
($'s in thousands)

	Year Ended December 31, 2022			Year Ended December 31, 2021			% Change	
	As Reported	**Adjustments**	**Adjusted**	**As Reported**	**Adjustments**	**Adjusted**	**As Reported**	**Adjusted**
Sales:								
Aerospace & Industrial (1)	$ 836,035	$ —	$ 836,035	$ 786,334	$ (11,182)	$ 775,152	6%	8%
Defense Electronics (2)	690,262	—	690,262	724,326	3,600	727,926	(5)%	(5)%
Naval & Power (4)	1,030,728	—	1,030,728	995,271	(29,869)	965,402	4%	7%
Total sales	**$2,557,025**	**$ —**	**$2,557,025**	**$2,505,931**	**$ (37,451)**	**$2,468,480**	**2%**	**4%**
Operating income (expense):								
Aerospace & Industrial (1)(3)	$ 136,996	$ 703	$ 137,699	$ 121,817	$ (1,586)	$ 120,231	12%	15%
Defense Electronics (2)	154,568	—	154,568	159,089	5,134	164,223	(3)%	(6)%
Naval & Power (3)(4)(6)	177,582	14,056	191,638	141,660	34,139	175,799	25%	9%
Total segments	**$ 469,146**	**$ 14,759**	**$ 483,905**	**$ 422,566**	**$ 37,687**	**$ 460,253**	**11%**	**5%**
Corporate and other (5)	(45,703)	4,876	(40,827)	(39,883)	53	(39,830)	15%	3%
Total operating income	**$ 423,443**	**$ 19,635**	**$ 443,078**	**$ 382,683**	**$ 37,739**	**$ 420,422**	**11%**	**5%**
Operating margins:	**As Reported**		**Adjusted**	**As Reported**		**Adjusted**	**As Reported**	**Adjusted**
Aerospace & Industrial	16.4%		16.5%	15.5%		15.5%	90 bps	100 bps
Defense Electronics	22.4%		22.4%	22.0%		22.6%	40 bps	(10 bps)
Naval & Power	17.2%		18.6%	14.2%		18.2%	300 bps	40 bps
Total Curtiss-Wright	**16.6%**		**17.3%**	**15.3%**		**17.0%**	**130 bps**	**30 bps**

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Segment margins	18.3%		18.9%	16.9%		18.6%	140 bps	30 bps

(1) Excludes our build-to-print actuation product line supporting the Boeing 737 Max program, which we substantially exited in the fourth quarter of 2020.

(2) Excludes first year purchase accounting adjustments in the prior period.

(3) Excludes first year purchase accounting adjustments in the current period.

(4) Excludes the results of operations from our German valves business, which was sold in January 2022, including a loss on divestiture in the current period and an impairment loss in the prior period.

(5) Excludes costs associated with shareholder activism in the current period.

(6) Excludes one-time legal settlement costs in the prior period.

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
RECONCILIATION OF AS REPORTED SALES TO ADJUSTED SALES BY END MARKET
(UNAUDITED)
($'s in thousands)

	Three Months Ended December 31, 2022			Three Months Ended December 31, 2021			% Change	
	As Reported	**Adjustments**	**Adjusted Sales**	**As Reported**	**Adjustments**	**Adjusted Sales**	**Change in As Reported Sales**	**Change in Adjusted Sales**
Aerospace & Defense markets:								
Aerospace Defense	$ 172,763	$ —	$ 172,763	$ 124,815	$ —	$ 124,815	38%	38%
Ground Defense (1)	81,348	—	81,348	61,199	360	61,559	33%	32%
Naval Defense	183,418	—	183,418	179,259	—	179,259	2%	2%
Commercial Aerospace (2)	77,178	—	77,178	71,437	(2,418)	69,019	8%	12%
Total Aerospace & Defense	**$ 514,707**	**$ —**	**$ 514,707**	**$ 436,710**	**$ (2,058)**	**$ 434,652**	**18%**	**18%**
Commercial markets:								
Power & Process (3)	131,598	—	131,598	129,916	(9,401)	120,515	1%	9%
General Industrial	111,360	—	111,360	100,132	—	100,132	11%	11%
Total Commercial	**$ 242,958**	**$ —**	**$ 242,958**	**$ 230,048**	**$ (9,401)**	**$ 220,647**	**6%**	**10%**
Total Curtiss-Wright	**$ 757,665**	**$ —**	**$ 757,665**	**$ 666,758**	**$ (11,459)**	**$ 655,299**	**14%**	**16%**

	Year Ended December 31, 2022			Year Ended December 31, 2021			% Change	
	As Reported	**Adjustments**	**Adjusted Sales**	**As Reported**	**Adjustments**	**Adjusted Sales**	**Change in As Reported Sales**	**Change in Adjusted Sales**
Aerospace & Defense markets:								
Aerospace Defense	$ 479,743	$ —	$ 479,743	$ 452,661	$ —	$ 452,661	6%	6%
Ground Defense (1)	219,739	—	219,739	220,290	3,600	223,890	0%	(2%)
Naval Defense	694,015	—	694,015	710,688	—	710,688	(2%)	(2%)
Commercial Aerospace	276,519	—	276,519	267,722	(11,182)	256,540	3%	8%

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(2)								
Total Aerospace & Defense	**$1,670,016**	**$ —**	**$1,670,016**	**$1,651,361**	**$ (7,582)**	**$1,643,779**	**1%**	**2%**
Commercial markets:								
Power & Process (3)	472,300	—	472,300	473,489	(29,869)	443,620	0%	6%
General Industrial	414,709	—	414,709	381,081	—	381,081	9%	9%
Total Commercial	**$ 887,009**	**$ —**	**$ 887,009**	**$ 854,570**	**$ (29,869)**	**$ 824,701**	**4%**	**8%**
Total Curtiss-Wright	**$2,557,025**	**$ —**	**$2,557,025**	**$2,505,931**	**$ (37,451)**	**$2,468,480**	**2%**	**4%**

(1) Excludes first year purchase accounting adjustments in the prior period.

(2) Excludes our build-to-print actuation product line supporting the Boeing 737 MAX program, which we substantially exited in the fourth quarter of 2020.

(3) Excludes the prior period results of our German valves business, which was sold in January 2022.

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CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
RECONCILIATION OF AS REPORTED TO ADJUSTED DILUTED EARNINGS PER SHARE (UNAUDITED)

	Three Months Ended December 31, 2022	Three Months Ended December 31, 2021	Year Ended December 31, 2022	Year Ended December 31, 2021
Diluted earnings per share - As Reported	**$ 2.82**	**$ 1.94**	**$ 7.62**	**$ 6.58**
First year purchase accounting adjustments	0.05	0.02	0.18	0.11
Divested German valves business	—	0.11	0.14	0.30
Costs associated with shareholder activism	—	—	0.10	—
Pension settlement charges	0.05	—	0.09	0.06
Charges related to legal settlement	—	0.32	—	0.31
Exit of build-to-print actuation product line	—	0.01	—	(0.02)
Diluted earnings per share - Adjusted (1)	**$ 2.92**	**$ 2.40**	**$ 8.13**	**$ 7.34**

(1) All adjustments are presented net of income taxes.

Organic Sales and Organic Operating Income

The Corporation discloses organic sales and organic operating income because the Corporation believes it provides investors with insight as to the Company's ongoing business performance. Organic sales and organic operating income are defined as sales and operating income, excluding contributions from acquisitions and results of operations from divested businesses or product lines during the last twelve months, impairment of assets held for sale and corresponding loss from sale of our industrial valves business in Germany, and foreign currency fluctuations.

Three Months Ended December 31, 2022 vs. 2021

	Aerospace & Industrial		Defense Electronics		Naval & Power		Total Curtiss-Wright	
	Sales	Operating income	Sales	Operating income	Sales	Operating income	Sales	Operating income
As Reported	6%	2%	19%	34%	16%	135%	14%	49%
Less:								
Acquisitions/divestiture	1%	0%	0%	0%	(9%)	(17%)	(3%)	(4%)
Impairment of assets held for sale	0%	0%	0%	0%	0%	(42%)	0%	(10%)
Foreign currency	4%	(1%)	0%	(5%)	1%	(2%)	1%	(4%)
Organic	11%	(1%)	19%	29%	8%	74%	12%	31%

Year Ended December 31, 2022 vs. 2021

	Aerospace & Industrial		Defense Electronics		Naval & Power		Total Curtiss-Wright	
	Sales	Operating income	Sales	Operating income	Sales	Operating income	Sales	Operating income
As Reported	6%	12%	(5%)	(3%)	4%	25%	2%	11%
Less:								
Acquisitions/divestiture	1%	1%	0%	0%	(1%)	0%	0%	0%
Loss on divestiture/impairment of assets held for sale	0%	0%	0%	0%	0%	(10%)	0%	(4%)
Foreign currency	3%	1%	1%	(3%)	0%	0%	1%	(1%)
Organic	10%	14%	(4%)	(6%)	3%	15%	3%	6%

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Free Cash Flow and Free Cash Flow Conversion

The Corporation discloses free cash flow because it measures cash flow available for investing and financing activities. Free cash flow represents cash available to repay outstanding debt, invest in the business, acquire businesses, return capital to shareholders and make other strategic investments. Free cash flow is defined as net cash provided by operating activities less capital expenditures. Adjusted free cash flow for 2022 excludes: (i) payments associated with the Westinghouse legal settlement and (ii) executive pension payments. The Corporation discloses adjusted free cash flow conversion because it measures the proportion of net earnings converted into free cash flow and is defined as adjusted free cash flow divided by adjusted net earnings.

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
NON-GAAP FINANCIAL DATA (UNAUDITED)
($'s in thousands)

	Three Months Ended December 31,		Year Ended December 31,	
	2022	**2021**	**2022**	**2021**
Net cash provided by operating activities	$ 292,389	$ 231,907	$ 294,776	$ 387,668
Capital expenditures	(9,428)	(13,250)	(38,217)	(41,108)
Free cash flow	$ 282,961	$ 218,657	$ 256,559	$ 346,560
Westinghouse legal settlement	—	—	15,000	—
Pension payment to former executives	15,753	—	23,967	—
Adjusted free cash flow	$ 298,714	$ 218,657	$ 295,526	$ 346,560
Adjusted free cash flow conversion	265%	230%	94%	116%

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CURTISS-WRIGHT CORPORATION
2023 Guidance
As of February 21, 2023
($'s in millions, except per share data)

	2022 Reported (GAAP)	2022 Adjustments (Non-GAAP)(1,3)	2022 Adjusted (Non-GAAP) (1,3)	2023 Reported Guidance (GAAP)		2023 Adjustments (Non-GAAP)(2,3)	2023 Adjusted Guidance (Non-GAAP)(2,3)		
				Low	**High**		**Low**	**High**	**2023 Chg vs 2022 Adjusted**
Sales:									
Aerospace & Industrial	$ 836	$ —	$ 836	$ 845	$ 860	$ —	$ 845	$ 860	1 - 3%
Defense Electronics	690	—	690	725	750	—	725	750	5 - 9%
Naval & Power	1,031	—	1,031	1,085	1,100	—	1,085	1,100	5 - 7%
Total sales	**$ 2,557**	**$ —**	**$ 2,557**	**$2,655**	**$2,710**	**$ —**	**$2,655**	**$2,710**	**4 to 6%**
Operating income:									
Aerospace & Industrial	$ 137	$ 1	$ 138	$ 143	$ 148	$ —	$ 143	$ 148	4 - 7%
Defense Electronics	155	—	155	165	172	—	165	172	7 - 11%
Naval & Power	178	14	192	182	186	8	190	194	(1) - 1%
Total segments	**469**	**15**	**484**	**490**	**506**	**8**	**498**	**514**	
Corporate and other	(46)	5	(41)	(35)	(38)	—	(35)	(38)	
Total operating income	**$ 423**	**$ 20**	**$ 443**	**$ 455**	**$ 469**	**$ 8**	**$ 463**	**$ 477**	**5 to 8%**
Interest expense	$ (47)	$ —	$ (47)	$ (52)	$ (54)	$ —	$ (52)	$ (54)	
Other income, net	13	4	17	27	28	—	27	28	
Earnings before income taxes	**389**	**24**	**413**	**430**	**443**	**8**	**438**	**451**	
Provision for income taxes	(95)	(4)	(99)	(103)	(106)	(2)	(105)	(108)	
Net earnings	**$ 294**	**$ 20**	**$ 314**	**$ 327**	**$ 336**	**$ 6**	**$ 333**	**$ 343**	
Diluted earnings	**$ 7.62**	**$ 0.51**	**$ 8.13**	**$ 8.49**	**$ 8.74**	**$ 0.16**	**$ 8.65**	**$ 8.90**	**6 to 10%**

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per share									
Diluted shares outstanding	38.6		38.6	38.5	38.5		38.5	38.5	
Effective tax rate	24.4%		24.0%	24.0%	24.0%		24.0%	24.0%	
Operating margins:									
Aerospace & Industrial	16.4%		16.5%	17.0%	17.2%		17.0%	17.2%	50 to 70 bps
Defense Electronics	22.4%		22.4%	22.7%	22.9%		22.7%	22.9%	30 to 50 bps
Naval & Power	17.2%		18.6%	16.7%	16.9%		17.5%	17.7%	(110) to (90) bps
Total operating margin	**16.6%**		**17.3%**	**17.1%**	**17.3%**		**17.4%**	**17.6%**	**10 to 30 bps**
Free cash flow	**$ 257**	**$ 39**	**$ 296**	**$ 350**	**$ 390**	**$ 10**	**$ 360**	**$ 400**	

Notes: Full year amounts may not add due to rounding.

(1) 2022 Adjusted financials exclude the impact of first year purchase accounting adjustments, the loss on sale of our German valves business, costs associated with shareholder activism and pension settlement charges related to the retirement of two former executives.
(2) 2023 Adjusted financials exclude the impact of first year purchase accounting adjustments.
(3) Free Cash Flow is defined as cash flow from operations less capital expenditures. 2022 Adjusted Free Cash Flow excluded one-time pension settlement payments of $24 million and a legal settlement payment of $15 million. 2023 Adjusted Free Cash Flow guidance excludes a legal settlement payment of $10 million.

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CURTISS-WRIGHT CORPORATION
2023 Sales Growth Guidance by End Market
As of February 21, 2023

	2023 % Change vs 2022 Adjusted[1]	% Total Sales
Aerospace & Defense Markets		
Aerospace Defense	9 - 11%	20%
Ground Defense	4 - 6%	9%
Naval Defense	4 - 6%	27%
Commercial Aerospace	5 - 7%	11%
Total Aerospace & Defense	**6 - 8%**	**67%**
Commercial Markets		
Power & Process	Flat	18%
General Industrial	2 - 4%	16%
Total Commercial	**0 - 2%**	**33%**
Total Curtiss-Wright Sales	**4 - 6%**	**100%**

Note: Sales percentages may not add due to rounding.

[1] 2023 and 2022 Sales include the contribution from the engineered arresting systems business, acquired on June 30, 2022, to the Aerospace Defense market.

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About Curtiss-Wright Corporation

Curtiss-Wright Corporation (NYSE:CW) is a global integrated business that provides highly engineered products, solutions and services mainly to Aerospace & Defense markets, as well as critical technologies in demanding Commercial Power, Process and Industrial markets. We leverage a workforce of approximately 8,100 highly skilled employees who develop, design and build what we believe are the best engineered solutions to the markets we serve. Building on the heritage of Glenn Curtiss and the Wright brothers, Curtiss-Wright has a long tradition of providing innovative solutions through trusted customer relationships. For more information, visit www.curtisswright.com.

Certain statements made in this press release, including statements about future revenue, financial performance guidance, quarterly and annual revenue, net income, operating income growth, future business opportunities, cost saving initiatives, the successful integration of the Company's acquisitions, and future cash flow from operations, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements present management's expectations, beliefs, plans and objectives regarding future financial performance, and assumptions or judgments concerning such performance. Any discussions contained in this press release, except to the extent that they contain historical facts, are forward-looking and accordingly involve estimates, assumptions, judgments and uncertainties. Such forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those expressed or implied. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Such risks and uncertainties include, but are not limited to: a reduction in anticipated orders; an economic downturn; changes in the competitive marketplace and/or customer requirements; a change in government spending; an inability to perform customer contracts at anticipated cost levels; and other factors that generally affect the business of aerospace, defense contracting, electronics, marine, and industrial companies. Such factors are detailed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2022, and subsequent reports filed with the Securities and Exchange Commission.

This press release and additional information are available at www.curtisswright.com.

Contacts

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Exhibit 99.1

Curtiss-Wright Reports Third Quarter 2022 Financial Results and Updates Full-Year 2022 Guidance

DAVIDSON, N.C.--(BUSINESS WIRE)--November 2, 2022--Curtiss-Wright Corporation (NYSE: CW) reports financial results for the third quarter ended September 30, 2022.

Third Quarter 2022 Highlights:

- Reported sales of $631 million, operating income of $108 million, operating margin of 17.1%, and diluted earnings per share (EPS) of $1.91;
- Adjusted operating income of $114 million, up 6%;
- Adjusted operating margin of 18.2%, up 70 basis points;
- Adjusted diluted EPS of $2.07, up 10%;
- Reported free cash flow (FCF) of $86 million;
- New orders of $818 million, up 32%, reflecting strong Aerospace & Defense (A&D) and Commercial market demand, and book-to-bill of 1.30; and
- Backlog of $2.6 billion, up 19% year-to-date.

"Curtiss-Wright delivered solid third quarter results, despite continued supply chain challenges, as the strength of our combined portfolio, coupled with the benefits of our company-wide operational excellence initiatives, enabled us to generate stronger than expected profitability with 70 basis points in operating margin expansion and double-digit EPS growth," said Lynn M. Bamford, Chair and CEO of Curtiss-Wright Corporation. "Sales in our Commercial markets increased 9% during the quarter, led by double-digit growth in our general industrial and process markets, while sales for Aerospace & Defense markets were relatively flat. We once again experienced robust order activity, as bookings increased 32% year over year, and both bookings and backlog grew 19% on a year-to-date basis. This was driven by strong demand across the majority of our defense and commercial markets, including record level quarterly orders within our Defense Electronics segment."

Full-Year 2022 Financial Outlook:

- Sales revised to new range of 2% to 4% growth (previously 4% to 6%), including 1% to 3% growth in our A&D markets and 6% to 8% growth in our Commercial markets;
- Adjusted operating income revised to new range of 3% to 6% growth (previously 5% to 7%), reflecting the timing of revenues within our Defense Electronics segment, partially offset by stronger profitability within our Aerospace & Industrial segment;
- Maintained Adjusted operating margin range of 17.1% to 17.3%, up 10 to 30 basis points compared with the prior year;
- Adjusted diluted EPS revised to new range of $8.05 to $8.20 (previously $8.10 to $8.30), which continues to reflect double-digit growth; and
- Adjusted free cash flow revised to a new range of $275 to $315 million (previously $345 to $365 million), reflecting the timing of defense revenues, as well as the expected delay in receipt of a significant cash payment upon the final delivery of our CAP1000 reactor coolant pumps to China, which has likely pushed to 2023, to align with our customer's project schedule.

"Although underlying demand across the portfolio remains strong, we are revising our full-year 2022 guidance to reflect the ongoing global supply chain disruption which continues to impact the timing of production, deliveries and free cash flow within our Defense Electronics segment. We have taken numerous actions, including consistent engagement with our supply base that supported our prior expectations of a strong second half, however, conditions are not easing as quickly as anticipated. While we are confident these dynamics will get resolved over time, the challenges are delaying the recognition of our strong order book."

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"Looking forward, the business fundamentals in the Defense Electronics segment remain quite strong, driven by record bookings, strong profitability and favorable long-term secular tailwinds. In addition, we remain focused on mitigating the impact of other macro-level headwinds through our ongoing operational excellence initiatives. As a result, we are able to maintain our previous operating margin guidance despite the topline reset."

"Overall, Curtiss-Wright remains in a strong position to deliver significant long-term value for our shareholders and on track to achieve the financial targets that we set out at our 2021 Investor Day."

Curtiss-Wright and X-energy Sign Preferred Strategic Supplier Agreement:

- On September 15, 2022, the Company signed a preferred strategic supplier agreement to advance the design and deployment of X-energy's Xe-100 advanced Small Modular Reactor (SMR);
- Under the agreement, Curtiss-Wright has been selected as a preferred supplier to develop and provide three of the most critical systems for the Nuclear Steam Supply System; and
- Curtiss-Wright estimates that its content for these three systems will be in excess of $100 million in revenue per four-unit (320 MW) plant.

Poland Selects Westinghouse AP1000 Technology for its First Nuclear Power Plant:

- Earlier in 2022, Curtiss-Wright secured Westinghouse's commitment to our reactor coolant pump (RCP) technology in future AP1000 power plants, including Eastern Europe;
- Westinghouse's initial partnership with Poland covers the first three of potentially six AP1000 reactors, which are expected to begin producing electricity in 2033; and
- The agreement provides an opportunity for Curtiss-Wright to receive new RCP orders within the next three to five years.

Third Quarter 2022 Operating Results

(In millions)	Q3-2022	Q3-2021	Change
Reported			
Sales	$ 631	$ 621	2%
Operating income	$ 108	$ 98	10%
Operating margin	17.1%	15.7%	140 bps
Adjusted (1)			
Sales	$ 631	$ 614	3%
Operating income	$ 114	$ 108	6%
Operating margin	18.2%	17.5%	70 bps

(1) Reconciliations of Reported to Adjusted operating results are available in the Appendix.

- Adjusted sales of $631 million increased 3% compared with the prior year, and included a 1% headwind from unfavorable foreign currency translation;
- Total A&D market sales were flat, while total Commercial market sales increased 9%;
- In our A&D markets, our results reflected the contribution from the acquisition of our new engineered arresting systems business in the aerospace defense market and mid-single digit sales growth in commercial aerospace; Those increases were principally offset by the timing of defense electronics revenues due to ongoing supply chain headwinds;
- In our Commercial markets, we experienced double-digit sales growth in the general industrial market and mid-single digit sales growth within the power & process market, despite the wind down on the China Direct AP1000 program as it nears completion; and
- Adjusted operating income of $114 million increased 6%, while Adjusted operating margin increased 70 basis points to 18.2%, principally driven by the benefits of our ongoing company-wide operational excellence initiatives and favorable overhead absorption on higher revenues in the Aerospace & Industrial and Naval & Power segments, partially offset by unfavorable overhead absorption on lower revenues in our Defense Electronics segment.

Third Quarter 2022 Segment Performance

Aerospace & Industrial

(In millions)	Q3-2022	Q3-2021	Change
Reported			
Sales	$ 213	$ 196	9%
Operating income	$ 39	$ 31	27%
Operating margin	18.3%	15.7%	260 bps
Adjusted (1)			
Sales	$ 213	$ 196	9%
Operating income	$ 39	$ 31	27%
Operating margin	18.3%	15.7%	260 bps

(1) Reconciliations of Reported to Adjusted operating results are available in the Appendix.

- Adjusted sales of $213 million, up $17 million, or 9% overall, and included a 3% headwind from unfavorable foreign currency translation;
- Higher commercial aerospace market revenue reflected continued strong demand for sensors products and surface treatment services on numerous narrowbody and widebody platforms;
- Strong double-digit revenue growth in the general industrial market was driven by increased sales of industrial vehicle products, principally serving on-highway and specialty platforms, and higher sales of surface treatment services; and
- Adjusted operating income was $39 million, up 27% from the prior year, while Adjusted operating margin increased 260 basis points to 18.3%, reflecting favorable absorption on strong sales and the benefits of our ongoing operational excellence and pricing initiatives.

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Defense Electronics

(In millions)	Q3-2022	Q3-2021	Change
Reported			
Sales	$ 161	$ 182	(11%)
Operating income	$ 37	$ 41	(10%)
Operating margin	22.7%	22.5%	20 bps
***Adjusted* (1)**			
Sales	$ 161	$ 183	(12%)
Operating income	$ 37	$ 42	(14%)
Operating margin	22.7%	23.2%	(50 bps)

(1) Reconciliations of Reported to Adjusted operating results are available in the Appendix.

- Adjusted sales of $161 million, down $21 million, or 12%, principally reflected the timing of defense market sales due to ongoing supply chain headwinds related to the availability of electronic components;
- Lower aerospace defense market revenue reflected decreased sales of our embedded computing and flight test equipment;
- Ground defense market revenue declines reflected reduced sales of our tactical communications equipment; and
- Adjusted operating income was $37 million, down 14% from the prior year, while adjusted operating margin decreased 50 basis points to 22.7%, primarily reflecting unfavorable absorption and mix on lower A&D revenues, partially offset by the benefits of our ongoing operational excellence initiatives.

Naval & Power

(In millions)	Q3-2022	Q3-2021	Change
Reported			
Sales	$ 256	$ 243	6%
Operating income	$ 42	$ 35	17%
Operating margin	16.2%	14.6%	160 bps
Adjusted *(1)*			
Sales	$ 256	$ 235	9%
Operating income	$ 48	$ 44	11%
Operating margin	18.9%	18.6%	30 bps

(1) Reconciliations of Reported to Adjusted operating results are available in the Appendix.

- Adjusted sales of $256 million, up $21 million, or 9%, principally driven by the contribution from the arresting systems acquisition for arresting systems equipment within the aerospace defense market;
- Naval defense market revenues increased slightly as higher revenues on the Columbia-class submarine and CVN-81 aircraft carrier programs were mainly offset by timing of revenues on the Virginia-class submarine and CVN-80 aircraft carrier programs;
- Higher power & process market revenues reflected continued strong growth in industrial valve sales in the process market, as well as higher nuclear aftermarket revenues supporting existing operating reactors; Those increases were partially offset by the wind down of production on the China Direct AP1000 program; and
- Adjusted operating income was $48 million, up 11% from the prior year, while adjusted operating margin increased 30 basis points to 18.9%, as favorable absorption on higher organic revenues, as well as the benefits of our restructuring and ongoing operational excellence initiatives, were partially offset by unfavorable mix in the power & process market.

Free Cash Flow

(In millions)	Q3-2022	Q3-2021	Change
Net cash provided by operating activities	$ 96	$ 107	(11%)
Capital expenditures	(9)	(10)	(8%)
Reported free cash flow	$ 86	$ 97	(11%)
Adjusted free cash flow (1)	$ 86	$ 97	(11%)

(1) *A reconciliation of Reported to Adjusted free cash flow is available in the Appendix.*

- Reported free cash flow of $86 million decreased $11 million, primarily due to the timing of defense revenues and higher inventory levels as we continue to work through the challenging supply chain environment;
- Adjusted free cash flow of $86 million; and
- Capital expenditures decreased $1 million compared with the prior year.

New Orders and Backlog

- New orders of $818 million increased 32% in the third quarter and generated a book-to-bill of 1.30, principally driven by strong demand for defense and commercial aerospace products within our A&D markets, and for nuclear aftermarket and process products within our Commercial markets; and
- Backlog of $2.6 billion, up 19% from December 31, 2021, reflects strong demand in both our A&D and Commercial markets.

Share Repurchase and Dividends

- During the third quarter, the Company repurchased 90,307 shares of its common stock for approximately $13 million; and
- The Company also declared a quarterly dividend of $0.19 a share.

Other Items – Completion of Financing of $300 Million in Senior Notes

- On October 27, 2022, the Company announced the successful completion of a private placement debt offering of $300 million for senior notes (the "Notes"), consisting of $200 million 4.49% notes due 2032 and $100 million 4.64% notes due 2034.

Full-Year 2022 Guidance

The Company is updating its full-year 2022 Adjusted financial guidance[1] as follows:

($ in millions, except EPS)	2022 Adjusted Non-GAAP Guidance (Prior)	2022 Adjusted Non-GAAP Guidance (Current)	% Chg vs 2021
Total Sales	$2,570 - $2,620	$2,525 - $2,575	Up 2% - 4%
Operating Income	$439 - $452	$433 - $444	Up 3% - 6%
Operating Margin	17.1% - 17.3%	17.1% - 17.3%	Up 10 - 30 bps
Diluted EPS	$8.10 - $8.30	$8.05 - $8.20	Up 10% - 12%
Free Cash Flow	$345 - $365	$275 - $315	Down 9% - 21%

[1] *Reconciliations of Reported to Adjusted 2021 operating results and 2022 financial guidance are available in the Appendix. Adjusted guidance includes the contribution from the arresting systems acquisition to the Company's second half 2022 performance.*

- Revised Adjusted free cash flow reflects the timing of defense revenues, as well as the expected delay in receipt of a significant cash payment upon the final delivery of our CAP1000 reactor coolant pumps to China, which has likely pushed to 2023, to align with our customer’s project schedule.

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A more detailed breakdown of the Company’s 2022 financial guidance by segment and by market, as well as all reconciliations of Reported GAAP amounts to Adjusted non-GAAP amounts, can be found in the accompanying schedules. Historical financial results are available in the Investor Relations section of Curtiss-Wright’s website.

Conference Call & Webcast Information

The Company will host a conference call to discuss third quarter 2022 financial results and updates to 2022 guidance at 10:00 a.m. ET on Thursday, November 3, 2022. A live webcast of the call and the accompanying financial presentation, as well as a webcast replay of the call, will be made available on the internet by visiting the Investor Relations section of the Company’s website at www.curtisswright.com.

(Tables to Follow)

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (UNAUDITED)
($'s in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Product sales	$530,782	$528,339	$1,489,619	$1,552,706
Service sales	99,760	92,280	309,741	286,467
Total net sales	630,542	620,619	1,799,360	1,839,173
Cost of product sales	338,264	328,424	949,180	989,759
Cost of service sales	60,069	55,187	188,055	177,930
Total cost of sales	398,333	383,611	1,137,235	1,167,689
Gross profit	232,209	237,008	662,125	671,484
Research and development expenses	17,387	21,618	61,804	66,675
Selling expenses	31,888	30,067	90,387	89,227
General and administrative expenses	75,351	78,998	239,085	229,608
Loss on divestiture	—	—	4,651	—
Impairment of assets held for sale	—	8,656	—	8,656
Operating income	107,583	97,669	266,198	277,318
Interest expense	13,997	9,955	33,315	30,094
Other income, net	3,746	3,627	11,298	8,910
Earnings before income taxes	97,332	91,341	244,181	256,134
Provision for income taxes	(23,564)	(21,638)	(58,856)	(65,554)
Net earnings	$ 73,768	$ 69,703	$ 185,325	$ 190,580
Net earnings per share:				
Basic earnings per share	$ 1.92	$ 1.71	$ 4.82	$ 4.66
Diluted earnings per share	$ 1.91	$ 1.70	$ 4.79	$ 4.64
Dividends per share	$ 0.19	$ 0.18	$ 0.56	$ 0.53
Weighted-average shares outstanding:				
Basic	38,368	40,769	38,416	40,865
Diluted	38,647	40,950	38,655	41,040

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CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
($'s in thousands, except par value)

	September 30, 2022	December 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	$ 113,552	$ 171,004
Receivables, net	713,592	647,148
Inventories, net	503,064	411,567
Assets held for sale	—	10,988
Other current assets	84,468	67,101
Total current assets	1,414,676	1,307,808
Property, plant, and equipment, net	338,549	360,031
Goodwill	1,512,231	1,463,026
Other intangible assets, net	618,563	538,077
Operating lease right-of-use assets, net	145,252	143,613
Prepaid pension asset	267,262	256,422
Other assets	45,629	34,568
Total assets	**$ 4,342,162**	**$ 4,103,545**
Liabilities		
Current liabilities:		
Current portion of long-term debt	$ 202,500	$ —
Accounts payable	182,621	211,640
Accrued expenses	139,982	147,701
Deferred revenue	220,259	260,157
Liabilities held for sale	—	12,655
Other current liabilities	95,002	102,714
Total current liabilities	840,364	734,867
Long-term debt	1,141,211	1,050,610
Deferred tax liabilities, net	150,721	147,349
Accrued pension and other postretirement benefit costs	85,865	91,329
Long-term operating lease liability	125,493	127,152
Long-term portion of environmental reserves	13,186	13,656
Other liabilities	101,079	112,092
Total liabilities	2,457,919	2,277,055
Stockholders' equity		
Common stock, $1 par value	$ 49,187	$ 49,187
Additional paid in capital	131,230	127,104
Retained earnings	3,072,639	2,908,827
Accumulated other comprehensive loss	(274,114)	(190,465)
Less: cost of treasury stock	(1,094,699)	(1,068,163)
Total stockholders' equity	1,884,243	1,826,490
Total liabilities and stockholders' equity	**$ 4,342,162**	**$ 4,103,545**

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Use and Definitions of Non-GAAP Financial Information (Unaudited)

The Corporation supplements its financial information determined under U.S. generally accepted accounting principles (GAAP) with certain non-GAAP financial information. Curtiss-Wright believes that these Adjusted (non-GAAP) measures provide investors with improved transparency in order to better measure Curtiss-Wright's ongoing operating and financial performance and better comparisons of our key financial metrics to our peers. These non-GAAP measures should not be considered in isolation or as a substitute for the related GAAP measures, and other companies may define such measures differently. Curtiss-Wright encourages investors to review its financial statements and publicly filed reports in their entirety and not to rely on any single financial measure. Reconciliations of "Reported" GAAP amounts to "Adjusted" non-GAAP amounts are furnished within this release.

The following definitions are provided:

Adjusted Sales, Operating Income, Operating Margin, Net Earnings and Diluted EPS

These Adjusted financials are defined as Reported Sales, Operating Income, Operating Margin, Net Earnings and Diluted Earnings per Share under GAAP excluding: (i) the impact of first year purchase accounting costs associated with acquisitions, specifically one-time inventory step-up, backlog amortization, deferred revenue adjustments and transaction costs; (ii) the sale or divestiture of a business or product line; (iii) pension settlement charges; and (iv) significant legal settlements, impairment costs, and costs associated with shareholder activism, as applicable.

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
RECONCILIATION OF AS REPORTED TO ADJUSTED (UNAUDITED)
($'s in thousands)

	Three Months Ended September 30, 2022			Three Months Ended September 30, 2021			% Change	
	As Reported	Adjustments	Adjusted	As Reported	Adjustments	Adjusted	As Reported	Adjusted
Sales:								
Aerospace & Industrial (1)	$213,093	$ —	$213,093	$196,296	$ (381)	$195,915	9%	9%
Defense Electronics (2)	161,188	—	161,188	181,504	1,080	182,584	(11)%	(12)%
Naval & Power (4)	256,261	—	256,261	242,819	(7,471)	235,348	6%	9%
Total sales	**$630,542**	**$ —**	**$630,542**	**$620,619**	**$ (6,772)**	**$613,847**	**2%**	**3%**
Operating income (expense):								
Aerospace & Industrial (1)	$ 39,080	$ —	$ 39,080	$ 30,872	$ (97)	$ 30,775	27%	27%
Defense Electronics (2)	36,588	—	36,588	40,762	1,561	42,323	(10)%	(14)%
Naval & Power (3) (4)	41,576	6,905	48,481	35,483	8,381	43,864	17%	11%
Total segments	**$117,244**	**$ 6,905**	**$124,149**	**$107,117**	**$ 9,845**	**$116,962**	**9%**	**6%**
Corporate and other	(9,661)	—	(9,661)	(9,448)	9	(9,439)	(2)%	(2)%
Total operating income	**$107,583**	**$ 6,905**	**$114,488**	**$ 97,669**	**$ 9,854**	**$107,523**	**10%**	**6%**
Operating margins:	**As Reported**		**Adjusted**	**As Reported**		**Adjusted**	**As Reported**	**Adjusted**
Aerospace & Industrial	18.3%		18.3%	15.7%		15.7%	260 bps	260 bps
Defense Electronics	22.7%		22.7%	22.5%		23.2%	20 bps	(50 bps)
Naval & Power	16.2%		18.9%	14.6%		18.6%	160 bps	30 bps
Total Curtiss-Wright	**17.1%**		**18.2%**	**15.7%**		**17.5%**	**140 bps**	**70 bps**

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Segment margins	18.6%	19.7%	17.3%	19.1%	130 bps	60 bps

(1) Excludes our build-to-print actuation product line supporting the Boeing 737 Max program, which we substantially exited in the fourth quarter of 2020.

(2) Excludes first year purchase accounting adjustments in the prior period.

(3) Excludes first year purchase accounting adjustments in the current period.

(4) Excludes the results of operations from our German valves business, which was sold in January 2022, including an impairment loss in the prior period.

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
RECONCILIATION OF AS REPORTED TO ADJUSTED (UNAUDITED)
($'s in thousands)

	Nine Months Ended September 30, 2022			Nine Months Ended September 30, 2021			% Change	
	As Reported	**Adjustments**	**Adjusted**	**As Reported**	**Adjustments**	**Adjusted**	**As Reported**	**Adjusted**
Sales:								
Aerospace & Industrial (1)	$ 612,777	$ —	$ 612,777	$ 576,340	$ (8,764)	$ 567,576	6%	8%
Defense Electronics (2)	453,806	—	453,806	525,067	3,240	528,307	(14)%	(14)%
Naval & Power (4)	732,777	—	732,777	737,766	(20,468)	717,298	(1)%	2%
Total sales	**$1,799,360**	**$ —**	**$1,799,360**	**$1,839,173**	**$ (25,992)**	**$1,813,181**	**(2)%**	**(1)%**
Operating income (expense):								
Aerospace & Industrial (1)	$ 96,397	$ —	$ 96,397	$ 81,874	$ (2,079)	$ 79,795	18%	21%
Defense Electronics (2)	84,338	—	84,338	106,656	4,692	111,348	(21)%	(24)%
Naval & Power (3) (4)	118,865	12,332	131,197	116,635	11,337	127,972	2%	3%
Total segments	**$ 299,600**	**$ 12,332**	**$ 311,932**	**$ 305,165**	**$ 13,950**	**$ 319,115**	**(2)%**	**(2)%**
Corporate and other (5)	(33,402)	4,876	(28,526)	(27,847)	75	(27,772)	(20)%	(3)%
Total operating income	**$ 266,198**	**$ 17,208**	**$ 283,406**	**$ 277,318**	**$ 14,025**	**$ 291,343**	**(4)%**	**(3)%**
Operating margins:	**As Reported**		**Adjusted**	**As Reported**		**Adjusted**	**As Reported**	**Adjusted**
Aerospace & Industrial	15.7%		15.7%	14.2%		14.1%	150 bps	160 bps
Defense Electronics	18.6%		18.6%	20.3%		21.1%	(170 bps)	(250 bps)
Naval & Power	16.2%		17.9%	15.8%		17.8%	40 bps	10 bps
Total Curtiss-Wright	**14.8%**		**15.8%**	**15.1%**		**16.1%**	**(30 bps)**	**(30 bps)**

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Segment margins	16.7%	17.3%	16.6%	17.6%	10 bps	(30 bps)

(1) Excludes our build-to-print actuation product line supporting the Boeing 737 Max program, which we substantially exited in the fourth quarter of 2020.

(2) Excludes first year purchase accounting adjustments in the prior period.

(3) Excludes first year purchase accounting adjustments in the current period.

(4) Excludes the results of operations from our German valves business, which was sold in January 2022, including a loss on divestiture in the current period and an impairment loss in the prior period.

(5) Excludes costs associated with shareholder activism in the current period.

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
RECONCILIATION OF AS REPORTED SALES TO ADJUSTED SALES BY END MARKET
(UNAUDITED)
($'s in thousands)

	Three Months Ended September 30, 2022			Three Months Ended September 30, 2021			% Change	
	As Reported	Adjustments	Adjusted Sales	As Reported	Adjustments	Adjusted Sales	Change in As Reported Sales	Change in Adjusted Sales
Aerospace & Defense markets:								
Aerospace Defense	$ 114,431	$ —	$ 114,431	$ 116,853	$ —	$ 116,853	(2%)	(2%)
Ground Defense (1)	54,890	—	54,890	55,124	1,080	56,204	0%	(2%)
Naval Defense	174,844	—	174,844	175,800	—	175,800	(1%)	(1%)
Commercial Aerospace (2)	70,257	—	70,257	67,461	(381)	67,080	4%	5%
Total Aerospace & Defense	**$ 414,422**	**$ —**	**$ 414,422**	**$ 415,238**	**$ 699**	**$ 415,937**	**0%**	**0%**
Commercial markets:								
Power & Process (3)	110,559	—	110,559	112,736	(7,472)	105,264	(2%)	5%
General Industrial	105,561	—	105,561	92,645	—	92,645	14%	14%
Total Commercial	**$ 216,120**	**$ —**	**$ 216,120**	**$ 205,381**	**$ (7,472)**	**$ 197,909**	**5%**	**9%**
Total Curtiss-Wright	**$ 630,542**	**$ —**	**$ 630,542**	**$ 620,619**	**$ (6,773)**	**$ 613,846**	**2%**	**3%**

	Nine Months Ended September 30, 2022			Nine Months Ended September 30, 2021			% Change	
	As Reported	Adjustments	Adjusted Sales	As Reported	Adjustments	Adjusted Sales	Change in As Reported Sales	Change in Adjusted Sales
Aerospace & Defense markets:								
Aerospace Defense	$ 306,980	$ —	$ 306,980	$ 327,847	$ —	$ 327,847	(6%)	(6%)
Ground Defense (1)	138,391	—	138,391	159,090	3,240	162,330	(13%)	(15%)
Naval Defense	510,597	—	510,597	531,429	—	531,429	(4%)	(4%)
Commercial Aerospace	199,341	—	199,341	196,285	(8,764)	187,521	2%	6%

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(2)								
Total Aerospace & Defense	**$1,155,309**	**$ —**	**$1,155,309**	**$1,214,651**	**$ (5,524)**	**$1,209,127**	**(5%)**	**(4%)**
Commercial markets:								
Power & Process [3]	340,702	—	340,702	343,573	(20,468)	323,105	(1%)	5%
General Industrial	303,349	—	303,349	280,949	—	280,949	8%	8%
Total Commercial	**$ 644,051**	**$ —**	**$ 644,051**	**$ 624,522**	**$ (20,468)**	**$ 604,054**	**3%**	**7%**
Total Curtiss-Wright	**$1,799,360**	**$ —**	**$1,799,360**	**$1,839,173**	**$ (25,992)**	**$1,813,181**	**(2%)**	**(1%)**

(1) Excludes first year purchase accounting adjustments in the prior period.

(2) Excludes our build-to-print actuation product line supporting the Boeing 737 MAX program, which we substantially exited in the fourth quarter of 2020.

(3) Excludes the prior period results of our German valves business, which was sold in January 2022.

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CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
RECONCILIATION OF AS REPORTED TO ADJUSTED DILUTED EARNINGS PER SHARE (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Diluted earnings per share - As Reported	**$ 1.91**	**$ 1.70**	**$ 4.79**	**$ 4.64**
Divested German valves business	—	0.15	0.11	0.19
Costs associated with shareholder activism	—	—	0.10	—
Former executive pension settlement expense	—	—	0.04	0.06
First year purchase accounting adjustments	0.16	0.03	0.17	0.09
Exit of build-to-print actuation product line	—	—	—	(0.03)
Diluted earnings per share - Adjusted (1)	**$ 2.07**	**$ 1.88**	**$ 5.21**	**$ 4.95**

(1) All adjustments are presented net of income taxes.

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Organic Sales and Organic Operating Income

The Corporation discloses organic sales and organic operating income because the Corporation believes it provides investors with insight as to the Company's ongoing business performance. Organic sales and organic operating income are defined as sales and operating income, excluding contributions from acquisitions made during the last twelve months, loss on divestiture of the German valves business, and foreign currency fluctuations.

Three Months Ended September 30, 2022 vs. 2021

	Aerospace & Industrial		**Defense Electronics**		**Naval & Power**		**Total Curtiss-Wright**	
	Sales	Operating income	Sales	Operating income	Sales	Operating income	Sales	Operating income
As Reported	9%	27%	(11%)	(10%)	6%	17%	2%	10%
Less: Acquisitions	0%	0%	0%	0%	(6%)	20%	(2%)	7%
Impairment of assets held for sale	0%	0%	0%	0%	0%	(24%)	0%	(9%)
Foreign currency	3%	1%	1%	(1%)	0%	(1%)	1%	0%
Organic	12%	28%	(10%)	(11%)	0%	12%	1%	8%

Nine Months Ended September 30, 2022 vs. 2021

	Aerospace & Industrial		**Defense Electronics**		**Naval & Power**		**Total Curtiss-Wright**	
	Sales	Operating income	Sales	Operating income	Sales	Operating income	Sales	Operating income
As Reported	6%	18%	(14%)	(21%)	(1%)	2%	(2%)	(4%)
Less: Acquisitions	0%	0%	0%	0%	(1%)	6%	(1%)	3%
Loss on divestiture/impairment of assets held for sale	0%	0%	0%	0%	0%	(3%)	0%	(2%)
Foreign currency	3%	1%	1%	(1%)	0%	0%	1%	0%
Organic	9%	19%	(13%)	(22%)	(2%)	5%	(2%)	(3%)

Free Cash Flow and Free Cash Flow Conversion

The Corporation discloses free cash flow because it measures cash flow available for investing and financing activities. Free cash flow represents cash available to repay outstanding debt, invest in the business, acquire businesses, return capital to shareholders and make other strategic investments. Free cash flow is defined as net cash provided by operating activities less capital expenditures. Adjusted free cash flow for 2022 excludes: (i) payments associated with the Westinghouse legal settlement and (ii) executive pension payments. The Corporation discloses adjusted free cash flow conversion because it measures the proportion of net earnings converted into free cash flow and is defined as adjusted free cash flow divided by adjusted net earnings.

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CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
NON-GAAP FINANCIAL DATA (UNAUDITED)
($'s in thousands)

	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Net cash provided by operating activities	$ 95,658	$107,285	$ 2,387	$155,761
Capital expenditures	(9,297)	(10,087)	(28,789)	(27,858)
Free cash flow	$ 86,361	$ 97,198	$ (26,402)	$127,903
Westinghouse legal settlement	—	—	15,000	—
Pension payment to former executive	—	—	8,214	—
Adjusted free cash flow	$ 86,361	$ 97,198	$ (3,188)	$127,903
Adjusted free cash flow conversion	108%	127%	(2%)	63%

CURTISS-WRIGHT CORPORATION
2022 Guidance
As of November 2, 2022
($'s in millions, except per share data)

	2021 Reported (GAAP)	2021 Adjustments (Non-GAAP)(1)	2021 Adjusted (Non-GAAP) (1)	2022 Reported Guidance (GAAP) Low	2022 Reported Guidance (GAAP) High	2022 Adjustments (Non-GAAP)(2,3)	2022 Adjusted Guidance (Non-GAAP)(1,2,3) Low	2022 Adjusted Guidance (Non-GAAP)(1,2,3) High	2022 Chg vs 2021 Adjusted
Sales:									
Aerospace & Industrial	$ 786	$ (11)	$ 775	$ 820	$ 840	$ —	$ 820	$ 840	6 - 8%
Defense Electronics	724	4	728	675	690	—	675	690	(7) - (5)%
Naval & Power	995	(30)	965	1,030	1,045	—	1,030	1,045	7 - 8%
Total sales	**$ 2,506**	**$ (37)**	**$ 2,468**	**$2,525**	**$2,575**	**$ —**	**$2,525**	**$2,575**	**2 to 4%**
Operating income:									
Aerospace & Industrial	$ 122	$ (2)	$ 120	$ 135	$ 139	$ —	$ 135	$ 139	12 - 16%
Defense Electronics	159	5	164	150	155	—	150	155	(9) - (6)%
Naval & Power	142	34	176	171	175	15	186	190	6 - 8%
Total segments	**423**	**38**	**460**	**456**	**469**	15	**471**	**484**	
Corporate and other	(40)	—	(40)	(43)	(44)	5	(38)	(39)	
Total operating income	**$ 383**	**$ 38**	**$ 420**	**$ 413**	**$ 425**	**$ 20**	**$ 433**	**$ 444**	**3 to 6%**

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Interest expense	$ (40)	$ —	$ (40)	$ (46)	$ (47)	$ —	$ (46)	$ (47)	
Other income, net	12	3	15	10	11	7	17	18	
Earnings before income taxes	**355**	**41**	**395**	**378**	**389**	**27**	**405**	**416**	
Provision for income taxes	(87)	(10)	(97)	(89)	(93)	(6)	(96)	(100)	
Net earnings	**$ 267**	**$ 31**	**$ 298**	**$ 290**	**$ 296**	**$ 20**	**$ 310**	**$ 316**	
Diluted earnings per share	**$ 6.58**	**$ 0.76**	**$ 7.34**	**$ 7.52**	**$ 7.67**	**$ 0.53**	**$ 8.05**	**$ 8.20**	**10 to 12%**
Diluted shares outstanding	40.6		40.6	38.6	38.6		38.6	38.6	
Effective tax rate	24.6%		24.6%	24.0%	24.0%		24.0%	24.0%	
Operating margins:									
Aerospace & Industrial	15.5%		15.5%	16.4%	16.6%		16.4%	16.6%	90 to 110 bps
Defense Electronics	22.0%		22.6%	22.2%	22.4%		22.2%	22.4%	(20 to 40 bps)
Naval & Power	14.2%		18.2%	16.6%	16.7%		18.0%	18.2%	(20) to 0 bps
Total operating margin	**15.3%**		**17.0%**	**16.4%**	**16.5%**		**17.1%**	**17.3%**	**10 to 30 bps**
Free cash flow	**$ 347**		**$ 347**	**$ 236**	**$ 276**	**$ 39**	**$ 275**	**$ 315**	

Notes: Full year amounts may not add due to rounding.

(1) 2021 Adjusted financials excludes the impact of first year purchase accounting adjustments; our build-to-print actuation product line supporting the Boeing 737 Max program; the results of operations and related impairments from our German valves business; pension settlement charges related to the retirement of two former executives (within non-operating income); and one-time legal settlement costs.

(2) 2022 Adjusted financials exclude the impact of first year purchase accounting adjustments, the loss on sale of our German valves business, costs associated with shareholder activism and pension settlement charges related to the retirement of two former executives.

(3) Free Cash Flow is defined as cash flow from operations less capital expenditures. 2022 Adjusted Free Cash Flow guidance excludes executive pension settlement payments of $24 million and a legal settlement payment of $15 million.

CURTISS-WRIGHT CORPORATION
2022 Sales Growth Guidance by End Market
As of November 2, 2022

2022 % Change vs. 2021 Adjusted[1][2]

	Prior	Current	% Total Sales
Aerospace & Defense Markets			
Aerospace Defense	9 - 11%	3 - 5%	19%
Ground Defense	(1 - 3%)	(7 - 9%)	8%
Naval Defense	1 - 3%	Flat	28%
Commercial Aerospace	9 - 11%	9 - 11%	11%
Total Aerospace & Defense	**4 - 6%**	**1 - 3%**	**66%**
Commercial Markets			
Power & Process	4 - 6%	5 - 7%	18%
General Industrial	6 - 8%	6 - 8%	16%
Total Commercial	**5 - 7%**	**6 - 8%**	**34%**
Total Curtiss-Wright Sales	**4 - 6%**	**2 - 4%**	**100%**

(1) 2021 Adjusted Sales exclude the impact of first year purchase accounting adjustments; our build-to-print actuation product line supporting the Boeing 737 Max programs; and the results of operations from our German valves business.
(2) 2022 Sales include the contribution from the arresting systems acquisition to the Company's second half 2022 performance.

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About Curtiss-Wright Corporation

Curtiss-Wright Corporation (NYSE:CW) is a global integrated business that provides highly engineered products, solutions and services mainly to Aerospace & Defense markets, as well as critical technologies in demanding Commercial Power, Process and Industrial markets. We leverage a workforce of approximately 8,000 highly skilled employees who develop, design and build what we believe are the best engineered solutions to the markets we serve. Building on the heritage of Glenn Curtiss and the Wright brothers, Curtiss-Wright has a long tradition of providing innovative solutions through trusted customer relationships. For more information, visit www.curtisswright.com.

Certain statements made in this press release, including statements about future revenue, financial performance guidance, quarterly and annual revenue, net income, operating income growth, future business opportunities, cost saving initiatives, the successful integration of the Company's acquisitions, and future cash flow from operations, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements present management's expectations, beliefs, plans and objectives regarding future financial performance, and assumptions or judgments concerning such performance. Any discussions contained in this press release, except to the extent that they contain historical facts, are forward-looking and accordingly involve estimates, assumptions, judgments and uncertainties. Such forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those expressed or implied. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Such risks and uncertainties include, but are not limited to: a reduction in anticipated orders; an economic downturn; changes in the competitive marketplace and/or customer requirements; a change in government spending; an inability to perform customer contracts at anticipated cost levels; and other factors that generally affect the business of aerospace, defense contracting, electronics, marine, and industrial companies. Such factors are detailed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2021, and subsequent reports filed with the Securities and Exchange Commission.

This press release and additional information are available at www.curtisswright.com.

Contacts

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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, 2022
or
☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _______ to _______

Commission File Number 1-134
CURTISS-WRIGHT CORPORATION
(Exact name of Registrant as specified in its charter)

Delaware	13-0612970
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
130 Harbour Place Drive, Suite 300 Davidson, North Carolina	28036
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (704) 869-4600

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	CW	New York Stock Exchange

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 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 check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 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 the 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 of the voting and non-voting Common stock held by non-affiliates of the Registrant as of June 30, 2022 was approximately $4.5 billion.

The number of shares outstanding of the Registrant’s Common stock as of January 31, 2023:

Class	Number of shares
Common stock, par value $1 per share	38,274,724

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement of the Registrant with respect to the 2023 Annual Meeting of Stockholders to be held on May 4, 2023 are incorporated by reference into Part III of this Form 10-K.

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PART I

PART II

PART III

PART IV

PART I

FORWARD-LOOKING STATEMENTS

Except for historical information, this Annual Report on Form 10-K may be deemed to contain “forward-looking statements” within the meaning of the Private Litigation Reform Act of 1995. Examples of forward-looking statements include, but are not limited to: (a) projections of or statements regarding return on investment, future earnings, interest income, sales, volume, other income, earnings or loss per share, growth prospects, capital structure, liquidity requirements, and other financial terms, (b) statements of plans and objectives of management, (c) statements of future economic performance and potential impacts from COVID-19, including the impacts to supply and demand, the impact of significant inflation, higher interest rates or deflation, and measures taken by governments and private industry in response, (d) statements of future economic performance and potential impacts due to the conflict between Russia and Ukraine, (e) the effect of laws, rules, regulations, new accounting pronouncements, and outstanding litigation on our business and future performance, and (f) statements of assumptions, such as economic conditions underlying other statements. Such forward-looking statements can be identified by the use of forward-looking terminology such as “anticipates,” “believes,” “continue,” “could,” “estimate,” “expects,” “intend,” “may,” “might,” “outlook,” “potential,” “predict,” “should,” “will,” as well as the negative of any of the foregoing or variations of such terms or comparable terminology, or by discussion of strategy. No assurance may be given that the future results described by the forward-looking statements will be achieved. While we believe these forward-looking statements are reasonable, they are only predictions and are subject to known and unknown risks, uncertainties, and other factors, many of which are beyond our control, which could cause actual results, performance or achievement to differ materially from anticipated future results, performance or achievement expressed or implied by such forward-looking statements. In addition, other risks, uncertainties, assumptions, and factors that could affect our results and prospects are described in this report, including under the heading “Item 1A. Risk Factors” and elsewhere, and may further be described in our prior and future filings with the Securities and Exchange Commission and other written and oral statements made or released by us. Such forward-looking statements in this Annual Report on Form 10-K include, without limitation, those contained in Item 1. Business, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations, and Item 8. Financial Statements and Supplementary Data, including, without limitation, the Notes to Consolidated Financial Statements.

Given these risks and uncertainties, you are cautioned not to place undue reliance on such forward-looking statements. These forward-looking statements speak only as of the date they were made, and we assume no obligation to update forward-looking statements to reflect actual results or changes in or additions to the factors affecting such forward-looking statements.

Item 1. Business.

BUSINESS DESCRIPTION

Curtiss-Wright Corporation along with its subsidiaries (we, the Corporation, or the Company) is a global integrated business that provides highly engineered products, solutions, and services mainly to aerospace & defense (A&D) markets, as well as critical technologies in demanding commercial power, process, and industrial markets. We expect that the diversification and breadth of our portfolio should improve our competitive positions in our core markets, mitigate the impact of business cycles or economic volatility, and allow us to drive growth in new products and markets. We believe we are well positioned in the markets in which we operate as we seek to leverage and build upon our critical mass to expand our global engineering, sales, support and manufacturing footprint. We also have inherent synergies with significant potential to build upon crossover applications for our defense and commercial technologies that leverage our teams’ collaborative efforts and the strength of our combined portfolio.

Curtiss-Wright maintains a unique presence on high-performance platforms and critical applications that require our technical sophistication and benefit from decades of engineering expertise and knowledge transfer. Curtiss-Wright has been involved in a number of “firsts” in industry, and since the origin of many of our markets, including commercial aerospace (our history dates back to the Wright Brothers and their historical first manned flight), naval nuclear power (presence on the first nuclear naval vessel) and commercial power (where we were in the first commercial nuclear power plant). We have built upon those long-standing and deep customer relationships and are deeply embedded in our customers workflows today. We hold competitive positions in the majority of our key defense and commercial end markets through engineering and technological leadership, and precision manufacturing. As a result, Curtiss-Wright is well positioned to take advantage of industry growth dynamics and secular trends that align with our strengths in attractive end markets.

Our portfolio of highly competitive technologies is relied upon to improve safety, operating efficiency, and reliability, while meeting performance requirements in the most demanding environments. Our ability to provide mission critical, niche products and services on a cost-effective basis is fundamental to our strategy to drive increased value to our customers, which include defense prime contractors, commercial aerospace original equipment manufacturers (OEMs), and numerous energy and manufacturing companies. We compete globally, primarily based on technology and pricing.

Our Strategy

Curtiss-Wright's Pivot to Growth strategy focuses on maximizing revenue, operating income and free cash flow growth for our shareholders. It is built upon a strong foundation of operational and financial excellence where we strive for consistent growth in sales, operating margin, diluted earnings per share and free cash flow. Curtiss-Wright is differentiated because we have strength in the combined portfolio benefiting from long-term stability in our defense businesses and agility in our commercial businesses.

Our strategy is centered on a renewed drive for top-line acceleration through both organic and inorganic sales growth, building on the strengths across our A&D and commercial markets, while deepening and expanding our customer relationships by driving One Curtiss-Wright to our customers. We have continued opportunities within our Operational Growth Platform for margin expansion which allows us to maintain steady investments in research and development (R&D) to fuel both innovation and organic growth. We also utilize a strong and healthy balance sheet to implement a disciplined capital allocation strategy consisting of acquisitions as well as returns to shareholders through share repurchases and dividends, which will collectively drive long-term shareholder value.

Business Segments

We manage and evaluate our operations based on the products and services we offer and the different markets we serve. Based on this approach, we operate through three reportable segments: Aerospace & Industrial, Defense Electronics, and Naval & Power.

Our principal domestic manufacturing facilities are located in Arizona, California, New York, North Carolina, Ohio, Pennsylvania, and South Carolina, and internationally in Canada, Mexico, and the United Kingdom.

Aerospace & Industrial

Sales in the Aerospace & Industrial segment are primarily generated from the general industrial and commercial aerospace markets and, to a lesser extent, the defense markets. The businesses in this segment provide a diversified offering of highly engineered products and services including: (i.) industrial and specialty vehicle products, such as electronic throttle control devices, joysticks, and transmission shifters, (ii.) sensors, controls, and electro-mechanical actuation components used on commercial and military aircraft, and (iii.) surface technology services, such as shot peening, laser peening, and engineered coatings utilized in both commercial and defense end market applications. In the general industrial market, we have long-standing customer relationships and maintain a broad portfolio of products and services promoting efficiency, safety, reduced emission and longevity. Certain industrial businesses within our Aerospace & Industrial segment are impacted primarily by general economic conditions, which may include consumer consumption or commercial construction rates, as the nature of their products and services primarily support global industrial, commercial vehicles, medical, and transportation industries. The commercial aerospace business is primarily impacted by OEM production rates of new aircraft as well as emerging platforms such as all-electric aircraft, while the defense business is primarily impacted by government funding and spending on new programs, primarily driven by the U.S. Government. The production and service processes rest primarily within material modification, machining, assembly, and testing and inspection at commercial grade specifications. The businesses distribute products through commercial sales and marketing channels.

Defense Electronics

Sales in the Defense Electronics segment are primarily to the defense markets and, to a lesser extent, the commercial aerospace market. The defense businesses in this segment provide a diversified offering of products including: commercial off-the-shelf (COTS) embedded computing board-level modules, data acquisition and flight test instrumentation equipment, integrated subsystems, instrumentation and control systems, tactical communications solutions for battlefield network management, and electronic stabilization products. The defense businesses within our Defense Electronics segment are impacted primarily by government funding and spending, driven primarily by the U.S. Government, and supplemented by foreign defense spending (e.g. NATO countries). As a supplier of Modular Open Systems Approach (MOSA) based solutions, our products typically support government entities in the aerospace defense, ground defense, and naval defense industries. As a result, we have varying degrees of platform-level content on fighter jets, helicopters, unmanned aerial vehicles (UAVs), ground vehicles, and nuclear and non-nuclear surface ships and submarines, including a presence on more than 325 platforms and more than 3,000 programs over the past 10 years. Additionally, we provide avionics and electronics, flight test equipment, and aircraft data management solutions to the commercial aerospace market. Our defense businesses supporting government contractors

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typically utilize more advanced and ruggedized production and service processes compared to our commercial businesses and have more stringent specifications and performance requirements based on their support of key Department of Defense (DoD) priorities such as cyber, security and the net-centric connected battlefield. The businesses in this segment typically market and distribute products through regulated government contracting channels.

Naval & Power

Sales in the Naval & Power segment are primarily to the naval defense and power & process markets and, to a lesser extent, the aerospace defense market. For the naval defense market, we provide naval propulsion and auxiliary equipment, including main coolant pumps, power-dense compact motors, generators, steam turbines, valves, and secondary propulsion systems, primarily to the U.S. Navy. We also provide ship repair and maintenance for the U.S. Navy's Atlantic and Pacific fleets through three service centers. The naval defense businesses in this segment are primarily impacted by government funding and spending on shipbuilding programs, primarily driven by the U.S. Government, and supplemented by foreign defense spending. For the aerospace defense market, we provide aircraft arresting systems equipment including energy absorbers, retractable hook cable systems, net-stanchion systems and mobile systems to support fixed land-based arresting systems. For the power & process markets, we provide a diversified offering of products for commercial nuclear power plants and nuclear equipment manufacturers, including hardware, valves, fastening systems, specialized containment doors, airlock hatches, and spent fuel management products supporting the continued performance, safety and modernization of operating reactors. We also provide Reactor Coolant Pumps (RCPs) and control rod drive mechanisms for commercial nuclear power plants, most notably to support the Generation III+ Westinghouse AP1000 reactor design, as well as various nuclear reactor technologies supporting the deployment of Generation IV advanced Small Modular Reactors (SMRs). In addition, we furnish specialized and innovative severe-service valve technologies and services, heat exchanger repair, and piping test and isolation products to the oil and gas, chemical, petrochemical and industrial markets worldwide. The businesses in this segment are dependent upon the need for ongoing maintenance, repair and overhaul of existing power plants, as well as the construction of new power plants globally, and typically market and distribute products through regulated or government contracting channels.

OTHER INFORMATION

Certain Financial Information

For information regarding sales by geographic region, see Note 18 to the Consolidated Financial Statements contained in Part II, Item 8, of this Annual Report on Form 10-K.

In 2022, 2021, and 2020, our foreign operations as a percentage of pre-tax earnings were 39%, 27%, and 28%, respectively, adjusted for the loss on sale of our industrial valves business in Germany in 2022, along with impairments on assets held for sale related to the German industrial valves business in 2021 and 2020.

Government Sales

Our sales to the U.S. Government and foreign government end use represented 54%, 55%, and 53% of total net sales during 2022, 2021, and 2020, respectively.

In accordance with normal U.S. Government business practices, contracts and orders are subject to partial or complete termination at any time at the option of the customer. In the event of a termination for convenience by the government, there generally are provisions for recovery of our allowable incurred costs and a proportionate share of the profit or fee on the work completed, consistent with regulations of the U.S. Government. Fixed-price redeterminable contracts usually provide that we absorb the majority of any cost overrun. In the event that there is a cost underrun, the customer recoups a portion of the underrun based upon a formula in which the customer's portion increases as the underrun exceeds certain established levels.

Generally, long-term contracts with the U.S. Government require us to invest in and carry significant levels of inventory. However, where allowed, we utilize progress payments and other interim billing practices, to reduce working capital requirements. It is our policy to seek customary progress payments on certain contracts. Where we obtain such payments under U.S. Government prime contracts or subcontracts, the U.S. Government generally has control of the materials and work in process allocable or chargeable to the respective contracts. (See Notes 1, 5, and 6 to the Consolidated Financial Statements, contained in Part II, Item 8, of this Annual Report on Form 10-K).

Customers

We have hundreds of customers in the various industries that we serve. No customer accounted for more than 10% of our total net sales during 2022, 2021, or 2020.

Approximately 47% of our total net sales for 2022, 50% for 2021, and 47% for 2020 were derived from contracts with agencies of, and prime contractors to, the U.S. Government. Information on our sales to the U.S. Government, including both direct sales as a prime contractor and indirect sales as a subcontractor, is as follows:

	Year Ended December 31,		
(In thousands)	2022	2021	2020
Aerospace & Industrial	$ 151,528	$ 155,276	$ 156,981
Defense Electronics	548,878	600,085	470,949
Naval & Power	509,002	499,486	491,388
Total U.S. Government sales	$ 1,209,408	$ 1,254,847	$ 1,119,318

Patents

We own and license a number of United States and foreign patents and patent applications, which have been obtained or filed over a period of years. We also license intellectual property to and from third parties. Specifically, the U.S. Government receives licenses to our patents that are developed in performance of government contracts, and it may use or authorize others to use the technology covered by such patents for government purposes. Additionally, trade secrets, unpatented research and development, and engineering, some of which have been acquired by the company through business acquisitions, make an important contribution to our business. While our intellectual property rights in the aggregate are important to the operation of our business, we do not consider the success of our business or business segments to be materially dependent upon the timing of expiration or protection of any one or group of patents, patent applications, or patent license agreements under which we now operate.

Executive Officers

Name	Current Position	Business Experience	Age	Executive Officer Since
Lynn M. Bamford	Chair and Chief Executive Officer	Chair of the Board of Directors since May 5, 2022 and Chief Executive Officer of the Corporation since January 1, 2021. She also formerly held the title of President of the Corporation from January 1, 2021 to May 5, 2022. Prior to this, she served as President of the former Defense and Power segments of the Corporation from January 2020. She also served as Senior Vice President and General Manager of the Company's Defense Solutions and Nuclear divisions from 2018, and Senior Vice President and General Manager of the Defense Solutions division from 2013. She has held various leadership positions in the Corporation since 2004. She has been a Director of the Corporation since January 1, 2021.	59	2021
Kevin M. Rayment	Vice President and Chief Operating Officer	Vice President and Chief Operating Officer of the Corporation since April 1, 2021. Prior to this, he served as President of the Aerospace & Industrial segment (f/k/a Commercial/Industrial) of the Corporation from January 2020. He has held various leadership positions in the Corporation since 2004.	53	2021
K. Christopher Farkas	Vice President and Chief Financial Officer	Vice President and Chief Financial Officer of the Corporation since May 2020. Prior to this, he served as Vice President of Finance from December 2017 and served as Vice President and Corporate Controller of the Corporation from September 2014. He also served as Assistant Corporate Controller of the Corporation from May 2009.	54	2014
Paul J. Ferdenzi	Vice President, General Counsel, and Corporate Secretary	Vice President, General Counsel, and Corporate Secretary of the Corporation since March 2014. Prior to this, he served as Vice President of Human Resources of the Corporation from November 2011 and also served as Associate General Counsel and Assistant Secretary of the Corporation from June 1999 and May 2001, respectively.	55	2011
Robert F. Freda	Vice President and Treasurer	Vice President and Treasurer of the Corporation since January 2021. Prior to this, he served as Assistant Corporate Controller of the Corporation from June 2017 and also served as Director of Finance from September 2006.	55	2021
Gary A. Ogilby	Vice President and Corporate Controller	Vice President and Corporate Controller of the Corporation since May 2020. Prior to this, he served as Vice President of Finance and Administration of the Company's Surface Technologies division from November 2016. He also served as Assistant Corporate Controller of the Corporation from 2014.	41	2020
John C. Watts	Vice President of Strategy and Corporate Development	Vice President of Strategy and Corporate Development of the Corporation since May 2022. Prior to this, he served as Vice President of Strategy and Communications of the Corporation from April 2015, and as Director and Vice President of Business Development from 2006.	53	2022

Available information

We file annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and proxy statements for our annual stockholders' meetings, as well as any amendments to those reports, with the Securities and Exchange Commission (SEC). The SEC maintains an Internet site at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including our filings. These reports are also available free of charge through the Investor Relations section of our website at *www.curtisswright.com* as soon as reasonably practicable after we electronically file.

Human Capital

At the end of 2022, we had approximately 8,100 employees in more than 20 countries, 7% of which are represented by labor unions and covered by collective bargaining agreements.

Set forth below are some of the key aspects of Curtiss-Wright's human capital strategy:

Compensation Programs and Employee Benefits

Our success as an organization is ultimately dependent upon the success of our employees. As a result, we have made significant investments in order to attract, develop, and retain talented personnel, inclusive of competitive pay, equity-based compensation, benefits, training, and professional development opportunities. Notable programs offered include the following:

- Employer 401(k) matching contributions;
- Employee Stock Purchase Plan;
- Employer-sponsored health insurance;
- Tuition reimbursement program;
- Training and professional development; and
- Annual and local incentive compensation plans

In addition to the above, we also offer equity-based incentive compensation plans to certain employees through the issuance of performance share units, restricted stock units, and cash-based performance units. Our equity compensation plans ultimately act as a key lever for rewarding and retaining key employees, while also aligning the interests of our key employees and shareholders. See Note 16 to the Consolidated Financial Statements for more information regarding our equity-based compensation plans.

Talent Management

Curtiss-Wright's talent strategy is designed to maximize the full potential of our people and our business. We are focused on providing an end-to-end experience from pre-hire to retirement. This includes creating inclusive, employee-centric experiences, cultivating leadership, offering multiple development pathways and expanding the talent pipeline into and through the company.

We hold regular succession and career development reviews to ensure line of sight to talent at various levels of the organization. Succession plans are refreshed and reviewed to ensure a robust, diverse pipeline of talent and business continuity with a tight linkage to development.

We focus on accelerating learning and development of our leaders by providing a combination of experiences and education. Our New Business Leaders Program offers developmental paths for new and experienced managers seeking to refresh or build their leadership capabilities. Nearly hundreds of leaders have honed their skills leveraging various learning modalities, including virtual and in-person instructor-led, web-based training and micro-courses to support our managers. Our employee development programs are designed to strengthen employee skills that align to our current and future business needs, encourage knowledge sharing and support career progression and growth. We utilize our Leaning Management System to provide our employees online career-specific tools and resources and we also support development opportunities through educational institutions with our Tuition Assistance Program. Our early-in-career rotation program for new business leaders develops talent pipelines with both depth of skills and breadth of experiences that are critical to the company's future talent needs. Our Technical Fellows program and our Innovative Council program is uniquely designed to cultivate technical, domain expertise and collaborative thought leadership for early through advanced career levels.

As our company continues to grow, we rely on an integrated talent acquisition approach. The company strategically attracts, identifies, and onboards candidates in support of business needs and priorities. In order to accomplish our goals, we seek talent with unique perspectives, skills and experiences; maintain strategic relationships with colleges; offer a robust employee referral program; and partner with numerous diversity organizations, military organizations and trusted external partners, with a commitment to growing and supporting a diverse talent pipeline. Amidst the evolving and, at times, challenging hiring environment, we apply agile recruiting methods as we work to adapt to the changing labor marketplace and to ensure employees and candidates have an exceptional experience.

Diversity and Inclusion

Curtiss-Wright believes in a diverse and inclusive workforce, where diverse backgrounds are represented, engaged, and empowered to inspire and innovate. Discrimination is not tolerated at Curtiss-Wright. We are committed to high ethical standards and equal employment opportunities in all personnel actions without regard to race, color, religion, gender, national origin, citizenship status, age, marital status, gender identity or expression, sexual orientation, physical or mental disability, or veteran status. We maintain a Code of Conduct, an anti-harassment policy, and an equal employment opportunity policy, and provide training on these policies annually. We do business in more than 20 countries, and our employees operate across cultures, functions, language barriers, and time zones to solve the technical and logistical challenges presented by its worldwide customer base. To foster a more diverse and inclusive culture, Curtiss-Wright is focused on (1) promoting a culture of diversity and inclusion that leverages the talents of all employees, and (2) implementing practices that attract, recruit, and retain diverse top talent. Our succession plans are geared at retaining and promoting our existing employees to provide equal opportunity and access to promotion within the organization.

Health and Safety

The health and safety of our employees is a top priority for Curtiss-Wright. We take steps to ensure that we comply with applicable legal, regulatory, and other requirements in all material respects related to preventing pollution, injury, and ill health, and employ industry-leading, technologically sound, and economically feasible control mechanisms, procedures, and processes. In addition, we provide training, education, safety monitoring and auditing, and health-awareness programs in our offices and factories. We track total recordable rate (TRR) and days away, restriction and transfer rate (DART) for all sites worldwide. Senior executives provide monthly reporting to the Chief Executive Officer (CEO) and Chief Operating Officer (COO) on their safety statistics, and are accountable and compensated based on their safety record. For the year ended December 31, 2022, our TRR and DART rates were 1.69 and 1.04, respectively. For the year ended December 31, 2021, our TRR and DART rates were 1.49 and 0.99, respectively.

Ethics and Integrity

Curtiss-Wright is deeply committed to ensuring that all of its employees conduct business with the highest levels of ethics and integrity and to complying with all laws and regulations applicable to Curtiss-Wright's businesses. To support and articulate our commitment and responsibility in this regard, Curtiss-Wright has adopted a Code of Conduct (the "Code"). The Code addresses several topics, including conflicts of interest, safeguarding assets, financial reporting, the protection of confidential information, insider trading, and general adherence to laws and regulations. All employees, including executive officers, must comply with the Code. The Code is available within the Corporate Governance section of the Company's website at *https://curtisswright.com/investor-relations/governance/governance-documents/default.aspx*. In order to enhance understanding of and compliance with the Code, all employees are required to complete a training program annually which details ethical business practices, an inclusive workforce, and respectful treatment of our employees. In addition, the Corporation maintains an ethics-related global hotline through which employees can report any issues of concern. The hotline also facilitates the anonymous or direct communication of ethical, financial, discrimination, and health and safety concerns to the Office of General Counsel and serves as the vehicle through which employees and third parties may send communications to the Audit Committee of the Board of Directors confidentially and anonymously regarding any accounting, internal controls, or auditing concerns.

Item 1A. Risk Factors.

We have summarized the known, material risks to our business below. Our business, financial condition, and results of operations and cash flows could be materially and adversely impacted if any of these risks materialize. Additional risk factors not currently known to us or that we believe are immaterial may also impair our business, financial condition, and results of operations and cash flows, and require significant management time and attention. In addition to the risks and uncertainties set forth in section below entitled "Risks Related to the Coronavirus (COVID-19) Pandemic," many of the risks and uncertainties set forth in the other risk factors are exacerbated by the COVID-19 pandemic, corresponding government and business responses, and any further resulting decline in the global business and economic environment, and may be impacted by the extent and speed of the global economic recovery. The risk factors below should be considered together with information included elsewhere in this Annual Report on Form 10-K as well as other required filings by us to the Securities Exchange Commission, such as our Form 10-Q's, Form 8-K's, proxy statements for our annual shareholder meetings, and subsequent amendments, if any.

RISKS RELATED TO THE CORONAVIRUS (COVID-19) PANDEMIC

The COVID-19 pandemic has adversely impacted, and is expected to continue to pose risks to our business, the nature and extent of which are highly uncertain and unpredictable.

In March 2020, the World Health Organization characterized the outbreak of COVID-19 as a pandemic. The COVID-19 pandemic and the associated pandemic-related responses continue to cause significant and volatile disruptions in global economies, in capital markets, and across industries. While we continue to actively monitor the pandemic and take steps to mitigate the risks posed by its spread, there is no guarantee that our efforts will mitigate the adverse impacts of COVID-19 or will be effective.

The pandemic has adversely affected, and is expected to continue to adversely affect, certain elements of our business, including our supply chain, transportation networks, and production levels. As of December 31, 2022, all of our manufacturing operations are operational. However, due to the numerous uncertainties that have arisen from the pandemic, including the likelihood of resurgences and the emergence and spread of variants, we are unable to predict if there will be additional government-imposed restrictions on our ability to operate in future periods. Additionally, our ability to continue to manufacture products is highly dependent on our ability to maintain the safety and health of our factory employees. The ability of our employees to work may be significantly impacted by the individuals contracting or being exposed to COVID-19 and its variants. While we are following the requirements of governmental authorities and taking preventative and protective measures to prioritize the safety of our employees, these measures are not always successful, and we may be required to temporarily close facilities or take other measures. Potential future directives curtailing in-person operations due to illness, quarantines, government actions, facility closures or other restrictions in connection with the COVID-19 pandemic could change at any time. This could have an adverse effect on the productivity and profitability of such manufacturing facilities, which could in turn adversely impact our business and operations.

The COVID-19 pandemic has disrupted the global supply chain to a certain extent and availability of raw materials, particularly electronic parts. The disruption in the supply chain has resulted in increased freight costs, raw material costs, and labor costs from the ongoing inflationary environment. Because we strive to limit the volume of raw materials and component parts on hand, our business could be adversely affected if we were unable to obtain these raw materials and components from our suppliers in the quantities we require or on favorable terms. Although we believe in most cases that we could identify alternative suppliers, or alternative raw materials or component parts, the sometimes lengthy and expensive regulatory authority and OEM certification processes could prevent efficient replacement of a supplier, raw material, or component part.

We continue to monitor the situation, assessing possible implications on our operations, supply chain, liquidity, cash flow and customer orders, and will continue taking actions to mitigate adverse consequences. Recognizing the unprecedented nature, scale and uncertainty associated with this global health crisis, the duration and extent of the ongoing impacts cannot be reasonably estimated at this time.

RISKS RELATED TO OUR OPERATIONS

Intrusion on our systems could damage our business.

We store sensitive data, including intellectual property, proprietary business information, and confidential employee information on our servers and databases. The COVID-19 pandemic has caused us to modify our business practices, including empowering many of our office-based associates to work productively from home on a hybrid basis. As a result, we are increasingly dependent upon our information systems to operate our business. Our ability to effectively manage our business depends on the security, reliability, and adequacy of our information systems. In addition, various privacy and cybersecurity laws and regulations, both in the U.S. and globally, require us to manage and protect sensitive and confidential information, including personal data of our employees, from disclosure. For example, the European Union's General Data Protection Regulation, which became effective in May 2018, extends the scope of the European Union data protection laws to all companies processing data of European Union residents, regardless of the company's location. Additionally, we have incurred, and expect to continue to occur, additional costs to comply with increased cybersecurity protections for our customers, including the U.S. government. Despite our implementation of firewalls, switchgear, and other network security measures, our servers, databases, and other systems may be vulnerable to computer hackers, physical or electronic break-ins, sabotage, computer viruses, worms, and similar disruptions from unauthorized tampering with our computer systems. The occurrence of some of these risks may be increased due to the increase in remote working by our employees due to the COVID-19 pandemic. We continue to review and enhance our computer systems as well as provide training to our employees in an attempt to prevent unauthorized and unlawful intrusions. However, it is possible that we may not be able to prevent all intrusions. Such intrusions could result in our network security or computer systems being compromised and possibly result in the misappropriation or corruption of sensitive information or cause disruptions in our services. While we carry cyber insurance, we still may be required to expend significant capital and resources to protect against, remediate, or alleviate problems caused by such intrusions. Any such intrusion could cause us to be non-compliant with applicable laws or regulations, subject us to legal claims or proceedings, disrupt our operations, damage our reputation, and cause a loss of confidence in our products and services, any of which could have a material adverse effect on our business, financial condition, and results of operations.

Potential product liability risks exist from the products that we sell.

We may be exposed to liabilities for personal injury, death, or property damage due to the failure of a product that we have sold. We typically agree to indemnify our customers against certain liabilities resulting from the products we sell, and any third-party indemnification we seek from our suppliers and our liability insurance may not fully cover our indemnification obligations to customers. We may also not be able to maintain insurance coverage in the future at an acceptable cost. Any liability for which third-party indemnification is not available and not covered by insurance could have a material adverse effect on our business, financial condition, and results of operations.

In addition, an accident caused by one of our products could damage our reputation for selling quality products. We believe that our customers consider safety and reliability as key criteria in selecting our products and believe that our reputation for quality assurance is a significant competitive strength. If an accident were to be caused by one of our products, or if we were to otherwise fail to maintain a satisfactory record of safety and reliability, our ability to retain and attract customers may be materially adversely affected.

We are subject to liability under warranty obligations.

The majority of our contracts contain provisions which expose us to potential liability for warranty claims made by customers or third parties with respect to products that have been designed, manufactured, or serviced by us or our suppliers. While we maintain insurance coverage with respect to certain liability claims, that insurance coverage may not be adequate to cover all claims that may arise, or we may not be able to maintain adequate insurance coverage in the future at an acceptable cost. Material product warranty obligations not covered by insurance or that exceed our established reserves could have a material adverse effect on our business, financial condition, and results of operations.

Our earnings and margins depend in part on subcontractor performance, as well as raw material and component availability and pricing.

Our businesses depend on suppliers and subcontractors for raw materials and components. At times subcontractors perform services that we provide to our customers. Our supply chain has been and may continue to be impacted by the COVID-19 pandemic as well as other geo-political events, such as China's relationship with the United States and Taiwan. Particularly, the market for electronic components is experiencing increased demand and a global shortage of semiconductors and other electronic items, creating substantial uncertainty regarding the timing of our suppliers' production of key components for our products, which is adversely impacting the timing of sales in our Defense Electronics segment. We expect that these delays and shortages will continue in 2023, and that such shortages could result in delays in shipments to our customers during the period of such shortages. We depend on subcontractors and suppliers to meet their contractual obligations in full compliance with customer requirements. Nonperformance or underperformance by subcontractors and suppliers could materially impact our ability to perform obligations to our customers, which could result in a customer terminating our contract for default, expose us to liability, and substantially impair our ability to compete for future contracts and orders. Generally, raw materials and purchased components are available from a number of different suppliers, though several suppliers are our sole source of certain components. If a sole-source supplier should cease or otherwise be unable to deliver such components, our operating results could be adversely impacted. In addition, supply chain constraints and improving economic conditions have resulted in sustained increases in the prices we pay for many of the components and raw materials used in our products. Furthermore, we are experiencing higher labor costs due to increased competition for personnel in many regions in which we operate as well as general inflationary conditions, including higher shipping costs, labor shortages, and rising energy prices. We expect inflationary pressures to persist in 2023. Our ability to perform our obligations as a prime contractor may be adversely affected if one or more of these suppliers is unable to provide the agreed-upon supplies or perform the agreed-upon services in a timely and cost-effective manner. While we have attempted to mitigate the effects of increased costs through price increases, there are no assurances that higher prices can effectively be passed through to our customers, or that we will be able to fully offset the effects of higher raw materials costs through price increases on a timely basis.

Our business involves risks associated with complex manufacturing processes.

Our manufacturing processes depend on certain sophisticated and high-value equipment. Unexpected failures of this equipment may result in production delays, revenue loss, and significant repair costs. In addition, equipment failures could result in injuries to our employees. Moreover, the competitive nature of our businesses requires us to continuously implement process changes intended to achieve product improvements and manufacturing efficiencies. These process changes may at times result in production delays, quality concerns, and increased costs. Any disruption of operations at our facilities due to equipment failures or process interruptions could have a material adverse effect on our business.

RISKS RELATED TO OUR STRATEGY

Implementing our acquisition strategy involves risks, and our failure to successfully implement this strategy could have a material adverse effect on our business.

As part of our capital allocation strategy, we aim to grow our business by selectively pursuing acquisitions and technologies that supplement our organic growth. We are continuing to actively pursue additional acquisition opportunities, some of which may be material to our business and financial performance. Although we have been successful with this strategy in the past, we may not be able to grow our business in the future through acquisitions for several reasons, including:

- Encountering difficulties identifying and executing acquisitions;
- Increased competition for targets, which may increase acquisition costs;
- Consolidation in our industry, reducing the number of acquisition targets;
- Competition laws and regulations preventing us from making certain acquisitions; and
- Acquisition financing not being available on acceptable terms, or at all.

In addition, there are potential risks associated with growing our business through acquisitions, including the failure to successfully integrate and realize the expected benefits of an acquisition, which could be exacerbated by the impact of the COVID-19 pandemic. For example, with any past or future acquisition, there is the possibility that:

- The business culture of the acquired business may not match well with our culture;
- Technological and product synergies, economies of scale, or cost reductions may not occur as expected;
- Management may be distracted from overseeing existing operations by the need to integrate acquired businesses;
- We may acquire or assume unexpected liabilities;
- We may experience unforeseen difficulties in integrating operations and systems;
- We may fail to retain or assimilate employees of the acquired business;
- We may experience problems in retaining customers or integrating customer bases;
- We may experience increased capital requirements;
- There could be insufficient internal controls over financial activities or financial reporting at an acquired company that could impact us on a consolidated basis; and
- We may encounter difficulties in entering new markets in which we may have little or no experience.

While we conduct financial and other due diligence in connection with our acquisitions and generally seek some form of protection, such as indemnification from the seller, insurance coverage, and sometimes placing a portion of the purchase price in escrow or a cash holdback to cover potential liabilities, such acquired companies may have weaknesses or liabilities that are not accurately assessed or brought to our attention at the time of the acquisition. Further, indemnities, insurance or escrow/holdback arrangements may not fully cover such matters.

Failure to successfully implement our acquisition strategy, including successfully integrating acquired businesses, could have a material adverse effect on our business, financial condition, and results of operations.

Our future success will depend, in part, on our ability to develop new technologies.

Virtually all products produced and sold by us are highly engineered and require sophisticated manufacturing and system-integration techniques and capabilities. The commercial and government markets in which we operate are characterized by rapidly changing technologies. In addition, product and program needs of our government and commercial customers change and evolve regularly. Accordingly, to remain competitive in the future, we will need to continue to invest financial resources, including through internal research and development, acquisitions, or other teaming arrangements, to: (a) identify emerging technological trends in our current and target markets; (b) develop and manufacture competitive products, systems, and services; (c) enhance our offerings by adding technological innovations that differentiate our products, systems, and services from those of our competitors; and (d) develop, manufacture, and bring those products, systems, and service to market quickly at cost-effective prices. These expenditures could divert our attention and resources from other projects, and we cannot be sure that these expenditures will ultimately lead to the timely development of new offerings and technologies or identification of and expansion into new markets. Due to the design complexity of our products, we may, in the future, experience delays in completing the development and introduction of new products. Any delays could result in increased costs of development or deflect resources from other projects. In addition, there can be no assurance that the market for our products will develop or continue to expand or that we will be successful in newly identified markets as we currently anticipate.

We operate in highly competitive markets.

Many of our products and services are sold in highly competitive markets, and are affected by varying degrees of competition, including competition for hiring and retaining skilled labor. We compete against companies that often have higher sales volumes and greater financial, technological, research and development, human, and marketing resources than we have. These companies may also price their products and services below our selling prices, which could exert downward pressure on our product pricing and margins.

As a result, they may be better able to withstand the effects of periodic economic downturns, including withstanding the current global pandemic. In addition, some of our largest customers could develop the capability to manufacture products or provide services similar to products that we manufacture or services that we provide. This would 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. Furthermore, we are facing increased international competition and cross-border consolidation of competition. If consolidation of our competition continues to occur, we would expect the competitive pressures we face to increase. Our management believes that the principal points of competition in our markets are technology, price, product quality, product performance, sufficient supply of necessary components, technical expertise, timeliness of delivery, superior customer service and support, and continued certification under customer quality requirements and assurance programs. If we are unable to compete successfully with existing or new competitors in these areas, we may experience a material adverse effect on our business, financial condition, and results of operations.

We may be unable to protect the value of our intellectual property.

Obtaining, maintaining, and enforcing our intellectual property rights and avoiding infringing on the intellectual property rights of others are important factors to the operation of our business. While we take precautionary steps to protect our technological advantages and intellectual property and rely in part on patent, trademark, trade secret, and copyright laws, we cannot assure that the precautionary steps we have taken will completely protect our intellectual property rights. Because patent applications in the United States are maintained in secrecy until either the patent application is published or a patent is issued, we may not be aware of third-party patents, patent applications, and other intellectual property relevant to our products that may block our use of our intellectual property or may be used in third-party products that compete with our products and processes. When others infringe on our intellectual property rights, the value of our products is diminished, and we may incur substantial litigation costs to enforce our rights. Similarly, we may incur substantial litigation costs and the obligation to pay royalties if others claim we infringed on their intellectual property rights. When we develop intellectual property and technologies with funding from U.S. Government contracts, the government has the royalty-free right to use that property.

In addition to our patent rights, we also rely on unpatented technology, trade secrets, and confidential information. Others may independently develop substantially equivalent information and techniques or otherwise gain access to or disclose our technology. We may not be able to protect our rights in unpatented technology, trade secrets, and confidential information effectively. We generally require each of our employees and consultants to execute a confidentiality agreement at the commencement of an employment or consulting relationship with us. There is no guarantee that we will succeed in obtaining and retaining executed agreements from all employees or consultants. Moreover, these agreements may not provide effective protection of our information or, in the event of unauthorized use or disclosure, they may not provide adequate remedies.

RISKS RELATED TO MARKET CONDITIONS

A substantial portion of our revenues and earnings depends upon the continued willingness of the U.S. Government and other customers in the defense industry to buy our products and services.

In 2022, approximately 47% of our total net sales were derived from or related to U.S. defense programs. U.S. defense spending has historically been cyclical, and defense budgets tend to rise when perceived threats to national security increase the level of concern over the country's safety. At other times, spending by the military can decrease. In August 2011, Congress enacted the Budget Control Act of 2011 (BCA), which imposed spending caps and certain reductions in defense spending over a ten-year period through 2021. These spending caps and reductions, referred to as sequestration, went into effect in March 2013. Through a series of bipartisan agreements, Congress has been able to temporarily lift discretionary spending limits every year through 2019. On August 2, 2019, the Bipartisan Budget Act of 2019 (BBA) was signed into law, which raised the BCA budget caps for both defense and non-defense discretionary spending in 2020 and 2021 and extended the mandatory BCA spending reductions through 2029. Absent additional legislative or other remedial action, the sequestration could require reduced U.S. federal government spending from fiscal 2022 through fiscal 2029. As a result of this uncertainty, a decrease in U.S. Government defense spending or changes in spending allocation could result in one or more of our programs being reduced, delayed, or terminated. In the event that one or more of our programs are reduced, delayed, or terminated for which we provide products and services, we may experience a reduction in our revenues and earnings and a material adverse effect on our business, financial condition, and results of operations.

The BBA also temporarily suspended the public debt limit through July 31, 2021. However, on December 16, 2021, President Biden signed legislation into law increasing the debt ceiling by $2.5 trillion, which is expected to allow the U.S. government to cover its debt obligations until at least July of 2023 unless Congress takes legislative action to further extend or increase it. Failure by Congress to further suspend or increase the debt ceiling could delay or result in the loss of contracts for the procurement of our products and services, and we may be asked or required to continue to perform for some period of time on certain of our U.S. government contracts, even if the U.S. government is unable to make timely payments.

A downturn in the aircraft market could adversely affect our business.

Our sales to large commercial aircraft manufacturers are cyclical in nature, and can be adversely affected by a number of factors, including current and future passenger traffic levels, increasing fuel and labor costs, environmental concerns (inclusive of climate change), intense price competition, the retirement of older aircraft, regulatory changes, outbreak of infectious disease such as the COVID-19 pandemic, terrorist attacks, geopolitical events, conflicts and wars (including the Russia-Ukraine conflict), general economic conditions (including cost inflation), worldwide airline profits, and backlog levels, all of which can be unpredictable and are outside our control. For example, the COVID-19 pandemic drastically reduced air traffic as travel restrictions and social distancing measures were implemented to help control the spread of the virus. The reduced air traffic applied financial pressures on airlines, who, in order to preserve cash and liquidity, dramatically reduced flight hours and delayed the purchases of new aircraft. While U.S. domestic air travel continues to recover, international travel utilizing wide-body aircraft will take longer to fully recover. Furthermore, as companies and employees become accustomed to working remotely, business travel and the associated flight hours may not reach pre-pandemic levels. As such, we believe the commercial market may shift away from wide-body aircraft. Any decrease in demand resulting from a downturn in the aerospace market could adversely affect our business, financial condition, and results of operations.

Our backlog is subject to reduction and cancellation, which could negatively impact our revenues and results of operations.

Backlog represents products or services that our customers have contractually committed to purchase from us. Total backlog includes both funded (unfilled orders for which funding is authorized, appropriated, and contractually obligated by the customer) and unfunded backlog (firm orders for which funding has not been appropriated and/or contractually obligated by the customer). We are a subcontractor to prime contractors for the vast majority of our government business; as such, substantially all amounts in backlog are funded. Backlog excludes unexercised contract options and potential orders under ordering type contracts (e.g. Indefinite Delivery / Indefinite Quantity). Backlog is adjusted for changes in foreign exchange rates and is reduced for contract cancellations and terminations in the period in which they occur. Backlog as of December 31, 2022 was $2.6 billion. Backlog is subject to fluctuations and is not necessarily indicative of future sales. The timing of backlog may be impacted by project delays. The U.S. Government may unilaterally modify or cancel its contracts. In addition, under certain of our commercial contracts, our customers may unilaterally modify or terminate their orders at any time for their convenience. Accordingly, certain portions of our backlog can be cancelled or reduced at the option of the U.S. Government and commercial customers. We believe that these risks are heightened due to the global economic impact of the COVID-19 pandemic. Our failure to replace cancelled or reduced backlog could negatively impact our results of operations.

RISKS RELATED TO LEGAL AND REGULATORY MATTERS

As a U.S. Government contractor, we are subject to numerous procurement rules and regulations.

We must comply with and are affected by laws and regulations relating to the award, administration, and performance of U.S. Government contracts. Government contract laws and regulations affect how we do business with our customers and, in some instances, impose added costs on our business. A violation of specific laws and regulations could result in the imposition of fines and penalties, the termination of our contracts, or debarment from bidding on contracts. These fines and penalties could be imposed for failing to follow procurement integrity and bidding rules, employing improper billing practices or otherwise failing to follow cost accounting standards, receiving or paying kickbacks, or filing false claims. We have been, and expect to continue to be, subjected to audits, reviews, and investigations by government agencies. The failure to comply with the terms of our government contracts could harm our business reputation. It could also result in our progress payments being withheld. In some instances, these laws and regulations impose terms or rights that are more favorable to the government than those typically available to commercial parties in negotiated transactions. For example, the U.S. Government may terminate any of our government contracts and, in general, subcontracts, at its convenience as well as for default based on performance. Upon termination for convenience of a fixed-price type contract, we normally are entitled to receive the purchase price for delivered items, reimbursement for allowable costs for work-in-process, and an allowance for profit on work actually completed on the contract or adjustment for loss if completion of performance would have resulted in a loss. Upon termination for convenience of a cost reimbursement contract, we normally are entitled to reimbursement of allowable costs plus a portion of the fee. Such allowable costs would normally include our cost to terminate agreements with our suppliers and subcontractors. The amount of the fee recovered, if any, is related to the portion of the work accomplished prior to termination and is determined by negotiation.

A termination arising out of our default could have a material adverse effect on our ability to compete for future contracts and orders. In addition, on those contracts for which we are teamed with others and are not the prime contractor, the U.S. Government could terminate a prime contract under which we are a subcontractor, irrespective of the quality of our services as a subcontractor.

Our U.S. Government contracts typically span one or more base years and multiple option years. The U.S. Government generally has the right to not exercise option periods and may not exercise an option period if the agency is not satisfied with our performance on the contract or does not receive funding to continue the program. U.S. Government procurement may adversely affect our cash flow or program profitability.

Furthermore, we are subject to other risks in connection with government contracts, including without limitation:

- the frequent need to bid on programs prior to completing the necessary design, which may result in unforeseen technological difficulties and/or cost overruns;
- the difficulty in forecasting long-term costs and schedules and the potential obsolescence of products related to long-term, fixed price contracts;
- contracts with varying fixed terms that may not be renewed or followed by follow-on contracts upon expiration;
- cancellation of the follow-on production phase of contracts if program requirements are not met in the development phase; and
- the fact that government contract wins can be contested by other contractors.

Our operations are subject to numerous domestic and international laws, regulations, and restrictions. Noncompliance with these laws, regulations, and restrictions could expose us to fines, penalties, suspension, or debarment, which could have a material adverse effect on our profitability and overall financial condition.

We have contracts and operations in many parts of the world subject to United States and foreign laws and regulations, including the False Claims Act, regulations relating to import-export control (including the International Traffic in Arms Regulation promulgated under the Arms Export Control Act), sanctions programs implemented by the Office of Foreign Assets Control of the U.S. Department of Treasury, technology transfer restrictions, repatriation of earnings, exchange controls, the Foreign Corrupt Practices Act, the U.K. Anti-Bribery Act, and the anti-boycott provisions of the U.S. Export Administration Act. Because the COVID-19 pandemic has so negatively impacted local economies, government intervention has increased, which in turn can create elevated risk and opportunity for corruption. Although we have implemented policies and procedures and provided training that we believe are sufficient to address these risks, we cannot guarantee that our operations will always comply with these laws and regulations. From time to time, we may file voluntary disclosure reports with the U.S. Department of State, the Department of Energy, and the Department of Commerce regarding certain violations of U.S. export control laws and regulations discovered by us in the course of our business activities, employee training, or internal reviews and audits. To date, our voluntary disclosures have not resulted in a fine, penalty, or export privilege denial or restriction that has had a material adverse impact on our financial condition or ability to export. Our failure, or failure by our sales representatives or consultants to comply with these laws and regulations could result in administrative, civil, or criminal liabilities and could, in the extreme case, result in suspension or debarment from government contracts or suspension of our export privileges, which could have a material adverse effect on our business.

The airline industry is heavily regulated, and if we fail to comply with applicable requirements, our results of operations could suffer.

Governmental agencies throughout the world, including the U.S. Federal Aviation Administration (FAA) and the European Aviation Safety Agency, prescribe standards and qualification requirements for aircraft components, including virtually all commercial airline and general aviation products. Specific regulations vary from country to country, although compliance with FAA requirements generally satisfies regulatory requirements in other countries. We include documentation with our products sold to aircraft manufacturing customers certifying that each part complies with applicable regulatory requirements and meets applicable standards of airworthiness established by the FAA or the equivalent regulatory agencies in other countries. In order to sell our products, we as well as the products that we manufacture must also be certified by our individual OEM customers. If any of the material authorizations or approvals qualifying us to supply our products is revoked or suspended, then the sale of such product would be prohibited by law, which would have an adverse effect on our business, financial condition, and results of operations.

From time to time, the FAA or equivalent regulatory agencies in other countries propose new regulations or changes to existing regulations, which are usually more stringent than existing regulations. If these proposed regulations are adopted and enacted, we may incur significant additional costs to achieve compliance, which could have a material adverse effect on our business, financial condition, and results of operations.

We are subject to liability under environmental and health and safety laws and regulations.

Our business and facilities are subject to numerous federal, state, local, and foreign laws and regulations relating to the use, manufacture, storage, handling, and disposal of hazardous materials and other waste products. We may also be subject to increasingly stringent environmental standards in the future, particularly as greenhouse gas emissions and climate change regulations and initiatives increase. Environmental laws generally impose liability for investigation, remediation, and removal of hazardous materials and other waste products on property owners and those who dispose of materials at waste sites, whether or not the waste was disposed of legally at the time in question. We are currently addressing environmental remediation at certain current and former facilities, and we have been named as a potentially responsible party along with other organizations in a number of environmental clean-up sites and may be named in connection with future sites. We are required to contribute to the costs of the investigation and remediation and to establish reserves in our financial statements for future costs deemed probable and estimable. Although we have estimated and reserved for future environmental remediation costs, the final resolution of these liabilities may significantly vary from our estimates and could potentially have an adverse effect on our

results of operations and financial position. We are also subject to worker health and safety requirements as well as various state and local public health laws, rules, regulations and orders related to COVID-19, including mask and social distancing requirements. While we are in compliance with government health and safety regulations related to COVID-19, the cost of complying, or failing to comply, with these regulations could have an adverse effect on our operating results.

We may be subject to periodic litigation and regulatory proceedings, which may adversely affect our business and financial performance.

From time to time, we are involved in lawsuits and regulatory actions brought or threatened against us in the ordinary course of business. These actions and proceedings may involve claims for, among other things, compensation for alleged personal injury, workers' compensation, employment discrimination, or breach of contract. Due to the inherent uncertainties of litigation, we cannot accurately predict the ultimate outcome of any such actions or proceedings. The outcome of litigation, particularly class action lawsuits and regulatory actions, is difficult to assess or quantify, as plaintiffs may seek recovery of very large or indeterminate amounts in these types of lawsuits, and the magnitude of the potential loss may remain unknown for substantial periods of time. In addition, plaintiffs in many types of actions may seek punitive damages, civil penalties, consequential damages or other losses, or injunctive or declaratory relief. These proceedings could result in substantial cost and may require us to devote substantial resources to defend ourselves and distract our management from the operation of our business. Moreover, any insurance or indemnification rights that we may have may be insufficient or unavailable to protect us against such losses. The ultimate resolution of these matters through settlement, mediation, or court judgment could have a material impact on our financial condition, results of operations, and cash flows.

Our business, financial condition, and results of operations could be materially adversely affected by climate change regulations.

Climate change regulations at the federal, state, or local level or in international jurisdictions could require us to limit emissions, change our manufacturing processes, obtain substitute materials which may cost more or be less available, increase our investment in control technology for greenhouse gas emissions, fund offset projects, or undertake other costly activities. These regulations could significantly increase our costs and restrict our manufacturing operations by virtue of requirements for new equipment. New permits may be required for our current operations, or expansions thereof. Failure to timely receive permits could result in fines, suspension of production, or cessation of operations at one or more facilities. In addition, restrictions on carbon dioxide or other greenhouse gas emissions could result in significant costs such as higher energy costs and the passing down of carbon taxes, emission cap and trade programs, and renewable portfolio standards by utility companies. The cost of complying, or of failing to comply, with these and other climate change and emissions regulations could have an adverse effect on our operating results.

Increasing focus on environmental, social, and governance responsibility may impose additional costs on us and expose us to new risks.

Regulators, stockholders, and other interested constituencies have focused increasingly on corporate responsibility, specifically related to the environmental, social, and governance (ESG), practices of companies, including climate change. Some investors have used, and may continue to use, ESG criteria to guide their investment strategies, and may not invest in us, or divest their holdings of us, if they believe our policies relating to ESG matters are inadequate. Our customers may also require us to implement environmental, social, or governance responsibility procedures or standards before they continue to do business with us. Additionally, we may face reputational challenges if our environmental, social, or governance responsibility procedures or standards do not meet the standards set by certain constituencies. The occurrence of any of the foregoing could have a material adverse effect on our business, financial condition, and results of operations.

RISKS RELATED TO FINANCIAL MATTERS

Political and economic changes in foreign countries and markets, including foreign currency fluctuations, may have a material effect on our operating results.

During 2022, approximately 27% of our total net sales were to customers outside of the United States. Additionally, we also have operating facilities located in foreign countries. Doing business in foreign countries is subject to numerous risks, including without limitation: (a) political and economic instability and potential for social unrest; (b) the uncertainty of the ability of non-U.S. customers to finance purchases; (c) restrictions on the repatriation of funds; (d) restrictive trade policies; (e) tariff regulations; (f) difficulties in obtaining export and import licenses; (g) government financed competition; (h) changes in the local labor-relations climate; (i) economic conditions in local markets, including changes in inflation; (j) health concerns (including the COVID-19 pandemic); (k) complying with foreign regulatory and tax requirements that are subject to change; and (l) limitations on our ability to enforce legal rights and remedies. For example, in response to Russia's invasion of Ukraine, the United States, along with the European Union, has imposed restrictive sanctions on Russia, Russian entities, and Russian citizens. We are subject to these governmental sanctions and export controls, which may subject us to liability if we are not in

full compliance with applicable laws. Further, implementation of new tariff schemes by various governments, such as those implemented by the United States and China in recent years, could potentially increase the costs of our materials, increase our cost of production, and ultimately increase the landed cost of our products sold from one country into another country. While these factors or the impact of these factors are difficult to predict, any one or more of these factors could adversely affect our operations.

There has been, and may continue to be, significant volatility in global stock markets and foreign currency exchange rates that result in the strengthening of the U.S. dollar against foreign currencies in which we conduct business. To the extent that foreign sales are transacted in foreign currencies and we do not enter into currency hedge transactions, we are exposed to risk of losses due to fluctuations in foreign currency exchange rates, particularly for the British Pound, Euro, and Canadian dollar. Significant fluctuations in the value of the currencies of the countries in which we do business could have an adverse effect on our results of operations.

Unanticipated changes in our tax provisions or exposure to additional income tax liabilities could affect our cash flows and financial condition.

Our business operates in many locations under government jurisdictions that impose income taxes. Changes in domestic or foreign income tax laws and regulations, or their interpretation, could result in higher or lower income tax rates assessed or changes in the taxability of certain revenues or the deductibility of certain expenses, thereby affecting our income tax expense and profitability. In both 2021 and 2022, the Biden administration announced, and in certain cases has enacted, several tax proposals to fund new government investments in infrastructure, healthcare, and education, among others. Certain of these proposals involve an increase in the domestic corporate tax rate, which if implemented could have a material impact on our future results of operations and cash flows. On August 16, 2022, the Inflation Reduction Act of 2022 ("IRA") was signed into law, with tax provisions primarily focused on implementing a 15% minimum tax on global adjusted financial statement income and a 1% excise tax on share repurchases. Certain provisions of the IRA will become effective beginning in fiscal 2023. We have evaluated the impact of the IRA on our business, and deem it to be immaterial. In addition, on March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted in response to the COVID-19 pandemic. The CARES Act, among other things, included certain changes in tax law intended to stimulate the U.S. economy due to the COVID-19 pandemic, including temporary beneficial changes to the treatment of net operating losses, interest deductibility limitations, and payroll tax matters. The CARES Act is subject to interpretation and implementation guidance by both federal and state tax authorities, as well as amendments and technical corrections. Any or all of these could impact our business unfavorably. Additionally, tax rates in various jurisdictions in which we operate or sell into may increase as a means of funding the significant cost of governmental stimulus measures enacted to assist and protect individuals and businesses impacted by the COVID-19 pandemic. It cannot be predicted whether, when, in what form, or with what effective dates, new tax laws or changes in tax rates may be enacted, or regulations and rulings may be enacted, promulgated or issued under existing or new tax laws, which could result in an increase in our tax liability or require changes in the manner in which we operate in order to minimize or mitigate any adverse effects of changes in tax law or in the interpretation thereof.

Furthermore, the amount of income taxes paid by us is subject to examination by U.S. federal, state, and local tax authorities and by non-U.S. tax authorities. We regularly assess the likelihood of an adverse outcome resulting from such examinations to determine the adequacy of our provision for taxes. There can be no assurance as to the outcome of any such examinations. If the ultimate determination of our taxes owed were for an amount in excess of amounts reserved, our operating results, cash flows, and financial condition could be materially and adversely affected.

We use estimates when accounting for long-term contracts. Changes in estimates could affect our profitability and overall financial position.

Long-term contract accounting requires judgment relative to assessing risks, estimating contract revenues and costs, and making assumptions for schedule and technical issues. Due to the size and nature of many of our contracts, the estimation of total revenues and costs at completion is complicated and subject to many variables. For example, assumptions must be made regarding the length of time to complete the contract, as costs also include expected increases in wages and prices for materials. Similarly, assumptions must be made regarding the future impact of efficiency initiatives and cost reduction efforts. Incentives, awards, price escalations, liquidated damages, or penalties related to performance on contracts are considered in estimating revenue and profit rates using either the expected value method or most likely amount method. It is possible that materially different amounts could be obtained, because of the significance of the judgments and estimation processes described above, if different assumptions were used or if the underlying circumstances were to change. Changes in underlying assumptions, circumstances, or estimates may have a material adverse effect upon future period financial reporting and performance. See "Critical Accounting Estimates and Policies" in Part II, Item 7 of this Form 10-K.

Our future financial results could be adversely impacted by asset impairment charges.

As of December 31, 2022, we had goodwill and other intangible assets, net of accumulated amortization, of approximately $2.2 billion, which represented approximately 49% of our total assets. Our goodwill is subject to an impairment test on an annual basis and is also tested whenever events and circumstances indicate that goodwill may be impaired. Intangible assets (other than goodwill) are generally amortized over the useful life of such assets. In addition, from time to time, we may acquire or make an investment in a business that will require us to record goodwill based on the purchase price and the value of the acquired assets. We may subsequently experience unforeseen issues with such business that adversely affect the anticipated returns of the business or value of the intangible assets and trigger an evaluation of the recoverability of the recorded goodwill and intangible assets for such business. For example, if the financial performance of such business was to decline significantly, we could incur a material non-cash charge to our income statement for the impairment of goodwill and other intangible assets. Future determinations of significant write-offs of goodwill or intangible assets as a result of an impairment test or any accelerated amortization of other intangible assets could have a material adverse impact on our financial condition and results of operations.

Our current debt, and debt we may incur in the future, could adversely affect our business and financial position.

As of December 31, 2022, we had $1.3 billion of debt outstanding. Our level of debt could have significant consequences for our business. For example, our indebtedness could require us to use a substantial portion of our cash flows from operations to pay the principal and interest on our debt, thereby reducing funds available for working capital, acquisitions, dividends, capital expenditures, and other investments in our business, including investments in technology and research and development; make us vulnerable to economic downturns and increases in interest rates; limit us from obtaining additional debt; limit our flexibility in planning for, or reacting to, changes in the industries in which we compete; and place us at a competitive disadvantage compared to our competitors, some of whom have lower debt service obligations and greater financial resource than we do.

We self-insure health benefits and may be adversely impacted by unfavorable claims experience.

We are primarily self-insured for our health benefits. If the number or severity of claims increases, or we are required to accrue or pay additional amounts because the claims prove to be more severe than our original assessment, our operating results would be adversely affected. Our future claims expense might exceed historical levels, which could reduce our earnings. We expect to periodically assess our self-insurance strategy. We are required to periodically evaluate and adjust our claims reserves to reflect our experience. However, ultimate results may differ from our estimates, which could result in losses over our reserved amounts. In addition, because we do not carry “stop loss” insurance, a significant increase in the number of claims that we must cover under our self-insurance retainage could adversely affect our profitability.

Increasing costs of certain employee and retiree benefits could adversely affect our financial position, results of operations, or cash flows.

Our earnings may be positively or negatively impacted by the amount of income or expense we record for our pension and other postretirement benefit plans. U.S. GAAP requires that we calculate income or expense for the plans using actuarial valuations. These valuations reflect assumptions relating to financial markets and other economic conditions. Changes in key economic indicators can change the assumptions. The most significant year-end assumptions used to estimate pension or other postretirement benefit expense for the following year are the discount rate, the expected long-term rate of return on plan assets, expected future medical cost inflation, and expected compensation increases. In addition, we are required to make an annual measurement of plan assets and liabilities, which may result in a significant change to equity through a reduction or increase to other comprehensive income. For a discussion regarding how our financial statements can be affected by pension and other postretirement benefit plans accounting policies, see “Management’s Discussion and Analysis—Critical Accounting Estimates and Policies—Pension and Other Postretirement Benefits” in Part II, Item 7 of this Form 10-K. Although U.S. GAAP expense and pension or other postretirement contributions are not directly related, the key economic factors that affect U.S. GAAP expense would also likely affect the amount of cash we would contribute to the pension or other postretirement plans. Potential pension contributions include both mandatory amounts required under federal law, Employee Retirement Income Security Act, and discretionary contributions to improve the plans’ funded status. An obligation to make contributions to pension plans could reduce the cash available for working capital and other corporate uses.

GENERAL RISKS

Our future growth and continued success are dependent upon our key personnel.

Our success is dependent upon the efforts of our senior management personnel and our ability to attract and retain other highly qualified management and technical personnel. We face competition for management and qualified technical personnel from other companies and organizations. Additionally, it is particularly difficult to hire new employees during the COVID-19 pandemic as conducting interviews remotely makes it more difficult to ensure that we are recruiting and hiring high-quality employees. Further, the uncertainty created by the COVID-19 pandemic makes it less likely that potential candidates will be willing to leave a stable job to explore a new opportunity. Therefore, we may not be able to retain our existing management and technical personnel or fill new management or technical positions or vacancies created by expansion or turnover at our existing compensation levels. Although we have entered into change of control agreements with some members of senior management, we do not have employment contracts with our key executives. As some of our key executives approach retirement age, we have made a concerted effort to reduce the effect of the loss of our senior management personnel through management succession planning. However, we may be required to devote significant time and resources to identify and integrate key new personnel should key management losses occur earlier than anticipated. The loss of members of our senior management and qualified technical personnel could have a material adverse effect on our business.

On September 9, 2021, President Biden directed the Department of Labor's Occupational Safety and Health Administration ("OSHA") to issue an Emergency Temporary Standard ("ETS") requiring that all employers with at least 100 employees ensure that their employees are fully vaccinated for COVID-19 or obtain a negative COVID-19 test at least once a week. On November 4, 2021, the OSHA issued an emergency regulation to carry out this mandate, which was expected to take effect on January 4, 2022. However, OSHA withdrew the ETS on January 26, 2022 as an enforceable emergency temporary standard following the U.S. Supreme Court issuing a nationwide stay prohibiting OSHA from enforcing or implementing the ETS. OSHA explicitly did not withdraw the ETS as a proposed rule, such that it is possible that a permanent rule regarding COVID-19 vaccination and testing requirements will ultimately be issued by OSHA following a formal rulemaking process. President Biden also issued an Executive Order requiring certain COVID-19 precautions for government contractors and their subcontractors, including mandatory employee vaccination, with exemptions only for medical or religious reasons. These requirements for federal contractors have been the subject of multiple lawsuits and enforcement has been enjoined nationwide, with appeals from those decisions pending in multiple federal appellate courts. It is not currently possible to predict the impact on our business of a permanent OSHA rule, or the requirements for government contractors and their subcontractors, to the extent that such OSHA rule and requirements for federal contractors are ultimately implemented and enforced. But many states and localities are free to impose vaccine requirements. Despite the previous legal and timing uncertainties relating to these regulations, we implemented requirements regarding mandatory vaccines for U.S. based covered employees, subject to approved exemptions. It is possible that additional vaccine and testing mandates may be announced in other jurisdictions in which we operate our business. While it is not currently possible to predict with any certainty the exact impact any new state, local or foreign vaccine regulations would have on our operations, our suppliers and our customers, the implementation of such state, local or foreign government mandated vaccination or testing mandates may impact our ability to retain current employees, attract new employees, and result in labor disruptions and may have an adverse effect on future profitability. Further, implementation could also have similar consequences for our subcontractors, which may impact their ability to deliver the goods and services we need from them. In addition, any requirement to impose obligations on our suppliers under the Executive Order covering government contractors and their subcontractors could impact the price and continuity of supply of raw materials, whereby our results of operations and financial condition could be adversely affected.

Our business, financial condition, and results of operations could be materially adversely affected if the United States were to withdraw from or materially modify certain international trade agreements, or if tariffs or other restrictions on the foreign-sourced goods that we sell were to increase.

A significant portion of our business activities are conducted in foreign countries, including Mexico and Canada. Our business benefits from free trade agreements such as the United States-Mexico-Canada Trade Agreement (USMCA) and relies on various U.S. corporate tax provisions related to international commerce as we build, market, and sell our products globally. Although there are no immediate effects on our operations with respect to USMCA, we cannot predict future developments in the political climate involving the United States, Mexico and Canada, and thus, these may have an adverse and material impact on our operations and financial growth.

The United States and other countries have levied tariffs and taxes on certain goods (such as those implemented by the United States and China in recent years). Some of our products are included in these tariffs. All of this could lead to increased costs and diminished sales opportunities in the U.S. and abroad. Media and political reactions in the affected countries could potentially exacerbate the impact on our operations in those countries. The imposition of new or increased tariffs, duties, border adjustment taxes or other trade restrictions by the United States could also result in the adoption of new or increased tariffs or other trade restrictions by other countries. The tariffs may in the future increase our cost of materials and may cause us to increase prices to our customers which we believe may reduce demand for our products. Our price increases may not be sufficient to fully offset the impact of the tariffs and result in lowering our margin on products sold. If the U.S. government increases or implements additional tariffs, or if additional tariffs or trade restrictions are implemented by other countries, the resulting trade barriers could have a significant adverse impact on our suppliers, our customers and on our business. We are not able to predict future trade policy of the U.S. or of any foreign countries in which we operate or purchase goods, or the terms of any renegotiated trade agreements, or their impact on our business.

Global economic conditions may adversely affect our business, operating results and financial condition.

Although we currently generate significant operating cash flows, which combined with access to the credit markets provides us with significant discretionary funding capacity, global macroeconomic uncertainty, including the economic downturn caused by the COVID-19 pandemic, the ongoing trade disputes between the United States and China, the United Kingdom's withdrawal from the European Union, the Russia-Ukraine conflict (including related sanctions as well as measures taken in response to

such sanction), inflationary pressures, global supply chain disruptions, and uncertainty regarding the stability of global credit and financial markets could affect our ability to fund our operations. In addition, certain of our customers and suppliers could be affected directly by an economic downturn and could face credit issues or cash flow problems that could give rise to payment delays, increased credit risk, bankruptcies, and other financial hardships, which could impact customer demand for our products as well as our ability to manage normal commercial relationships with our customers and suppliers. Depending on their severity and duration, the effects and consequences of a global economic downturn could have an adverse impact on our results of operations and financial condition.

A percentage of our workforce is employed under collective bargaining agreements.

Approximately 7% of our workforce is employed under collective bargaining agreements, which from time to time are subject to renewal and negotiation. We cannot ensure that we will be successful in negotiating new collective bargaining agreements, that such negotiations will not result in significant increases in the cost of labor, including healthcare, pensions, or other benefits, or that a breakdown in such negotiations will not result in the disruption of our operations, including by way of strikes or work stoppages. Although we have generally enjoyed good relations with both our unionized and non-unionized employees, we may experience an adverse impact on our operating results if we are subject to labor actions.

Future terror attacks, war (including the Russia-Ukraine conflict), natural disasters, climate change-related events, pandemic diseases (including the COVID-19 pandemic), or other events beyond our control could adversely impact our businesses.

Despite our concerted effort to minimize risk to our production capabilities and corporate information systems and to reduce the effect of unforeseen interruptions through insurance or other risk transfer mechanisms, such as our business continuity planning and disaster recovery plans, we could be adversely impacted by terror attacks, war (including the Russia-Ukraine conflict), natural disasters such as earthquakes, hurricanes, floods, tornadoes, ice storms, climate change-related events, pandemic diseases such as COVID-19, or other events such as strikes by the workforce of a significant customer or supplier. Several of our facilities, because of their locations, could be subject to catastrophic loss caused by the aforementioned natural disasters. Global climate change may aggravate natural disasters and increase severe weather events that affect our business operations. These risks could negatively impact demand for or supply of our products and could also cause disruption to our facilities or systems, which could also interrupt operational processes and adversely impact our ability to manufacture our products and provide services and support to our customers. The insurance we maintain may be insufficient to cover our losses, and any incidents may result in loss of, or increased costs of, such insurance. In addition, while our existing disaster recovery and business continuity plans (including those relating to our information technology systems) are well designed, they may not be fully responsive to, or minimize losses associated with, catastrophic events. As a result, any business disruption could negatively affect our business, operating results, or financial condition.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our corporate headquarters is located at a leased facility in Davidson, North Carolina. As of December 31, 2022, we had 146 facilities worldwide, including four corporate and shared-services facilities. Approximately 83% of our facilities operate as manufacturing and engineering, metal treatment, or aerospace overhaul plants, while the remaining 17% operate as selling and administrative office facilities. The number and type of facilities utilized by each of our reportable segments are summarized below:

Owned Facilities Location	Aerospace & Industrial	Defense Electronics	Naval & Power	Total
North America	7	1	5	13
Europe	9	—	—	9
Total	16	1	5	22

Leased Facilities Location	Aerospace & Industrial	Defense Electronics	Naval & Power	Total
North America	42	18	25	85
Europe	14	5	5	24
Asia	9	1	1	11
Total	65	24	31	120

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The buildings on the properties referred to in this Item are well maintained, in good condition, and are suitable and adequate for current needs. Management believes that the productive capacity of our properties is adequate to meet our anticipated volume for the foreseeable future.

Item 3. Legal Proceedings.

From time to time, we are involved in legal proceedings that are incidental to the operation of our business. Some of these proceedings allege damages relating to asbestos and environmental exposures, intellectual property matters, copyright infringement, personal injury claims, employment and employee benefit matters, government contract issues, commercial or contractual disputes, and acquisitions or divestitures. We continue to defend vigorously against all claims. Although the ultimate outcome of any legal matter cannot be predicted with certainty, based on present information, including assessment of the merits of the particular claim, as well as current accruals and insurance coverage, we do not believe that the disposition of any of these matters, individually or in the aggregate, will have a material adverse effect on our consolidated financial condition, results of operations, and cash flows.

We have been named in pending lawsuits that allege injury from exposure to asbestos. To date, we have not been found liable or paid any material sum of money in settlement in any asbestos-related case. We believe that the minimal use of asbestos in our past operations and the relatively non-friable condition of asbestos in our products make it unlikely that we will face material liability in any asbestos litigation, whether individually or in the aggregate. We maintain insurance coverage for these potential liabilities and we believe adequate coverage exists to cover any unanticipated asbestos liability.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

MARKET INFORMATION

Our common stock is listed and traded on the New York Stock Exchange (NYSE) under the symbol CW. As of January 1, 2023, we had approximately 2,653 registered shareholders of our common stock, $1.00 par value.

DIVIDENDS

During 2022 and 2021, the Company paid quarterly dividends as follows:

	2022	2021
Common Stock		
First Quarter	$ 0.18	$ 0.17
Second Quarter	0.19	0.18
Third Quarter	0.19	0.18
Fourth Quarter	0.19	0.18

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table sets forth information regarding our equity compensation plans as of December 31, 2022, the end of our most recently completed fiscal year:

Plan category	Number of securities to be issued under equity compensation plans		Weighted-average fair value of outstanding equity-based awards	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)	
Equity compensation plans approved by security holders	407,581	(a)	$112.85	1,776,493	(b)
Equity compensation plans not approved by security holders	None		Not applicable	Not applicable	

(a) Consists of 362,729 shares issuable upon vesting of performance share units, restricted shares, restricted stock units, and shares to non-employee directors under the 2005 and 2014 Omnibus Incentive Plan, and 44,852 shares issuable under the Employee Stock Purchase Plan.

(b) Consists of 1,192,211 shares available for share-based awards under the 2014 Omnibus Incentive Plan, and 584,282 shares remaining available for issuance under the Employee Stock Purchase Plan.

Issuer Purchases of Equity Securities

The following table provides information about our repurchases of equity securities that are registered by us pursuant to Section 12 of the Securities Exchange Act of 1934, as amended, during the quarter ended December 31, 2022.

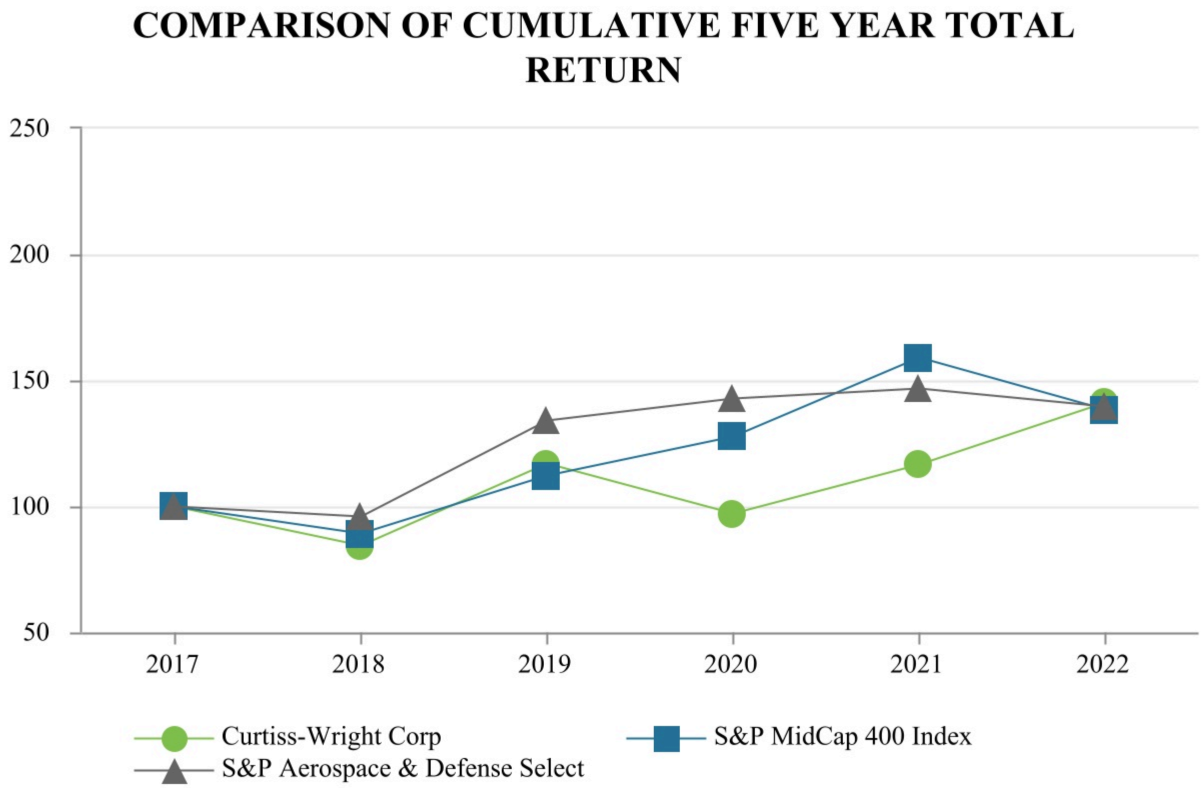
	Total Number of shares purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program	Maximum Dollar amount of shares that may yet be Purchased Under the Program (in thousands)
October 1 – October 31	26,864	$156.18	341,353	$208,377
November 1 – November 30	24,121	$173.92	365,474	204,182
December 1 – December 31	23,831	$169.64	389,305	200,140
For the quarter ended December 31	74,816	$166.19	389,305	$200,140

In December 2022, the Corporation adopted two written trading plans in connection with its previously authorized share repurchase program, of which approximately $200 million remains available for repurchase. The first trading plan includes share repurchases of $50 million, to be executed equally throughout the 2023 calendar year. The second trading plan includes opportunistic share repurchases up to $100 million to be executed through a 10b5-1 program. The terms of these trading plans can be found in the Corporation's Form 8-K filed with U.S. Securities and Exchange Commission on December 14, 2022.

The following performance graph does not constitute soliciting material and should not be deemed filed or incorporated by reference into any of our other filings under the Securities Act or the Securities Exchange Act of 1934, except to the extent we specifically incorporate this information by reference therein.

PERFORMANCE GRAPH

The following graph compares the annual change in the cumulative total return on our common stock during the last five fiscal years with the annual change in the cumulative total return of the S&P MidCap 400 Index and the S&P Aerospace & Defense Select Industry Index. The graph assumes an investment of $100 on December 31, 2017 and the reinvestment of all dividends paid during the following five fiscal years.



Company / Index	2017	2018	2019	2020	2021	2022
Curtiss-Wright Corp	**100**	84.21	116.81	97.15	116.44	140.93
S&P MidCap 400 Index	**100**	88.92	112.21	127.54	159.12	138.34
S&P Aerospace & Defense Select	**100**	95.79	133.91	142.55	146.43	139.48

Item 6. [Reserved]

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Our Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) begins with an overview of our company, followed by economic and industry-wide factors impacting our company and the markets we serve, a discussion of the overall results of operations, and finally a more detailed discussion of those results within each of our reportable segments.

COMPANY ORGANIZATION

Curtiss-Wright Corporation along with its subsidiaries is a global integrated business that provides highly engineered products, solutions, and services mainly to aerospace & defense markets, as well as critical technologies in demanding commercial power, process, and industrial markets. We hold competitive positions in a majority of our key defense and commercial end markets through engineering and technological leadership, precision manufacturing, and strong relationships with our customers. We are also well positioned to build upon crossover applications for our defense and commercial market technologies that leverage the strength of our combined portfolio.

We manage and evaluate our operations based on the products and services we offer and the different markets we serve. Based on this approach, we operate through three reportable segments: Aerospace & Industrial, Defense Electronics, and Naval & Power.

Impacts of inflation, pricing, and volume

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Historically, we have not been significantly impacted by inflation, with increases in raw material costs or payroll costs generally offset through lean manufacturing activities or price increases. During the current period, we have experienced significant increases in our costs of material, labor, and services consistent with the overall rates of inflation. We have generally been able to offset these increases, as a portion of our contracts contain terms and conditions that enable us to pass inflationary price increases to our customers. In those cases whereby inflationary increases are not contractually stipulated, we actively negotiate price increases. We have consistently made annual investments in capital that deliver efficiencies and cost savings. While the historical benefits of these efforts have generally offset the margin impact of competitive pricing conditions in the markets that we serve, there are no assurances that higher prices can effectively be passed through to our customers or that we will be able to fully offset the effects of higher costs through price increases on a timely basis. We expect these inflationary pressures to continue to persist in 2023.

Market Analysis and Economic Factors

Economic Factors Impacting Our Markets

Many of Curtiss-Wright's commercial businesses are driven in large part by global economic growth, primarily led by operations in the U.S., Canada, Europe, and China. In March 2020, the World Health Organization characterized the global outbreak of COVID-19 as a pandemic, which resulted in significant disruption to travel, transportation of goods and services, and financial markets globally, and caused adverse and residual impacts to both industry supply chains and production levels. Though the impact of COVID-19 variants continues to cause supply-chain disruptions to global economies, including our business, as well as our customers and suppliers, U.S. economic activity has rebounded since 2021, due in part to the availability of vaccines, increased government support to rebuild the country's infrastructure, and increased U.S. consumer spending.

In 2020, U.S. real gross domestic product (GDP) declined 3.4%, principally due to the impact of the COVID-19 pandemic, before it rebounded sharply in 2021, increasing 5.7% and at the fastest pace since 1984, led by an acceleration in industrial activity. In 2022, U.S. GDP is expected to grow approximately 2.0%, according to the most recent estimates, as strong U.S. consumer spending continued to support GDP growth despite the dual headwinds of rising interest rates and high inflation. In 2023, some economists expect growth in the broader U.S. economy to moderate significantly due to concerns about a recession or recessionary-like conditions, continued supply chain disruptions, rising interest rates, and high yet steady inflation, with current estimates for U.S. GDP ranging from flat to growth of approximately 1.5%.

Similarly, the global environment, which is typically influenced by international trade, economic conditions, and geopolitical uncertainty, had also been greatly impacted by the pandemic in 2020 before it dramatically rebounded in 2021. According to the International Monetary Fund's World Economic Outlook, global GDP in world economies grew 6.0% in 2021 and is expected to grow 3.2% in 2022 and 2.7% in 2023, according to the most recent estimates. Looking ahead to the next few years, we remain cautiously optimistic that our economically sensitive commercial and industrial markets will continue to improve based upon a return to normalized global growth conditions.

Defense

We have a well-diversified portfolio of products and services that supply all branches of the U.S. military, with content on critical high-performance programs and platforms, as well as a growing international defense business. A significant portion of our defense business operations are characterized by long-term programs and contracts driven primarily by U.S. DoD budgets and funding levels. As such, the U.S. Defense budget serves as a leading indicator of our growth in the defense market.

We derive revenue from the naval defense, aerospace defense, and ground defense markets, which collectively represent more than 50% of our annual net sales. In the naval defense market, we expect continued funding for U.S. shipbuilding programs, particularly as it relates to production on the Ford class aircraft carrier, as well as Columbia class and Virginia class submarines, which have received strong bipartisan support from Congress. We have a long legacy of providing products that support nuclear propulsion systems on naval vessels. In addition, through our service centers, we are a provider of ship repair and maintenance for the U.S. Navy's Atlantic and Pacific fleets. In the aerospace defense market, we expect to benefit from increased funding levels on Command, Control, Computers, Communications, Cyber, Intelligence, Surveillance, and Reconnaissance (C5ISR), electronic warfare, encryption, unmanned systems, and communications programs. As a supplier of COTS and COTS+ solutions, we continue to demonstrate that defense electronics technology will enhance our ability to design and develop future generations of advanced systems and products for high performance applications, while also meeting the military's Size, Weight, and Power considerations. We are also a designer and manufacturer of high-technology data acquisition and comprehensive flight test instrumentation systems, as well as critical aircraft arresting systems equipment. In the ground defense market, we are a supplier of advanced tactical communications solutions for battlefield network management, including

COTS-based rugged, small form factor communications systems, and integrated network communications management software. The modernization of the existing U.S. ground vehicle fleet is expected to recover slowly, while international demand should remain strong, particularly for our electronics stabilization systems. Through continued innovation as well as incremental research and development investments, Curtiss-Wright remains aligned with high growth DoD priorities, modernization efforts and emerging technological trends, including security, cyber, hypersonics, net-centric connected battlefield, soldier survivability, and MOSA capabilities.

In early 2022, the President's FY23 budget request was released, calling for $773 billion in defense spending, which represented a 4% increase over the FY22 enacted funding level of $742 billion. In December 2022, following a short Continuing Resolution, Congress passed the National Defense Authorization Act (NDAA) for FY23, which authorized an approximate $44 billion increase to the President's defense budget proposal ($818 billion vs. $773 billion) and represented a 10% increase over FY22 enacted levels, driven by increases in both Procurement and Research, Development, Test and Evaluation (RDT&E) investment spending.

Looking ahead, we expect the overall demand environment and global defense spending backdrop to remain favorable for the Corporation. The President is expected to request continued U.S. defense budget growth in FY24, while also submitting the Future Years Defense Program (FYDP), which outlines expectations about its key programs over the next five years. Based on industry research, the FYDP is expected to reflect modest increases in total defense budget funding through FY27. In addition, our growth in the international defense market is primarily driven by funding from North Atlantic Treaty Organization (NATO) countries, where its members have committed to spending at least 2.0% of annual GDP on defense budgets, driven in part by the Russia-Ukraine war, which is expected to drive significant growth in defense spending for the foreseeable future.

Commercial Aerospace

Curtiss-Wright derives revenue from the global commercial aerospace market, principally to the commercial jet market, and to a lesser extent the regional jet, business jet, and commercial helicopter markets. Our primary focus in this market is OEM products and services for commercial jets, which is highly dependent on new aircraft production from our primary customers, Boeing and Airbus. We maintain a strong presence on the majority of the commercial aircraft programs, including both narrow-body and wide-body aircraft. Currently, more than 50% of our sales in this market are linked to the narrow-body market. We provide a combination of flight control, actuation, high-temperature and high accuracy sensors, and other sophisticated electronics, as well as shot and laser peening services utilized on highly stressed components of turbine engine fan blades and aircraft structures.

Passenger travel and freight logistics, along with the demand for and delivery of new aircraft, are the key drivers in the commercial aerospace market. Over the prior decade, there was an extended production up-cycle for the commercial aerospace market, which was driven by increases in production by Boeing and Airbus on both legacy and new aircraft, particularly narrow-body aircraft. Additionally, sustained low oil prices contributed to declining fuel prices, which in turn led to cheaper airfares for consumers and increased passenger growth.

In 2020, the onset of the COVID-19 pandemic abruptly halted the industry's growth as fewer passengers traveled, and business operations were disrupted globally, stunting the production of new aircraft as well as the maintenance of existing aircraft well into 2021. The industry experienced a strong rebound in global passenger growth in 2022, benefiting from the propensity for the general public to travel by air, decisions by most governments to lift COVID-19 travel restrictions, and the continued availability and implementation of vaccines. According to industry reports, global travel demand is not expected to fully recover to pre-pandemic levels until at least 2024.

While we closely monitor these industry metrics, our success and future growth in the commercial aerospace market is primarily tied to the growth in aircraft production rates (e.g., Boeing 737 and 787, Airbus A320 and A350), the timing of our order placement, and continued partnering with aerospace OEMs on both the current fleet and the next-generation of single aisle programs and engines, as well as emerging opportunities to support more fuel efficient and all-electric aircraft.

Power & Process

In the power market, Curtiss-Wright is a global supplier of nuclear reactor technologies. We derive sales from the commercial nuclear power generation market, whereby we supply a variety of highly engineered products and services, including reactor coolant pumps, control rod drive mechanisms, valves, motors, spent fuel management, containment doors, bolting solutions, enterprise resource planning, plant process controls, and coating services. We provide equipment and services to both the aftermarket and new build markets, and have content on every reactor operating in the U.S. today. Based upon the global drive

for clean energy usage, nuclear is expected to play a critical role in meeting rising future energy demand and carbon-free emissions goals.

According to the Nuclear Regulatory Commission (NRC), nuclear power comprises approximately 20% of all electric power produced in the United States today, with 92 reactors operating across 54 nuclear power plants in 28 states. Our growth opportunities for aftermarket products and services are driven by plant aging, plant closures, requirements for planned outages, plant life extensions (from the end of their original 40-year operating lives to 60-year and now 80-year lives via subsequent license renewals), the levying of regulatory requirements, suppliers abandoning the commercial nuclear market, and plants seeking technology and innovation advances, such as digitalization, that further enable plant modernization.

One of the industry's most significant challenges is maintaining electricity market competitiveness. Throughout the past decade, U.S. reactor operators have faced increased security measures and post-Fukushima regulatory requirements, and were also tasked with reassessing operating practices, improving efficiency, and reducing plant costs to compete with sustained low natural gas prices. All of those factors contributed to plant operators diverting and deferring their typical plant capital expenditure budgets significantly away from normalized maintenance schedules, while also leading to numerous plant closures (down from 104 reactors in 2012). However, in 2022, the U.S. market experienced strong bipartisan support for nuclear power, with significant investments through the Civil Nuclear Credit Program (part of the Infrastructure Bill) and nuclear power production tax credits (provided by the Inflation Reduction Act) focused on helping to preserve the existing U.S. reactor fleet. As a result, we have experienced and continue to expect increased opportunities for our vast portfolio of advanced nuclear technologies to aid safety, extend the reliability and ensure the ongoing viability of U.S. nuclear plants.

Outside of the U.S., we have seen sentiment shift dramatically towards nuclear power, as many countries have begun or are starting to recommit to advanced technologies, while realizing the strategic importance of energy independence. In addition, the continued supply constraints and environmental concerns attributed to the current dependence on fossil fuels have led to a greater appreciation of the value of nuclear technology as the most efficient and environmentally friendly source of energy available today. Similar to the U.S., as international plants age, we foresee opportunities to support plant safety and technology upgrades, plant life extensions, and upgrades of computer systems.

We play an important role in the new build market for the Generation III+ Westinghouse AP1000 reactor design, for which we are a supplier of reactor coolant pumps, as well as a variety of ancillary plant products and services. On a global basis, nuclear plant construction remains active. According to the World Nuclear Organization, there are currently 58 new reactors under construction across 18 countries, with 104 planned and 341 proposed over the next several decades. We continue to expect to play a role in new build nuclear plant construction, where we are aligned with Westinghouse to support the growing need for carbon-free emissions and energy independence in eastern Europe, including Poland, Ukraine, Romania, Bulgaria, and the Czech Republic, while also seeking opportunities in China and India. We are also well positioned to take advantage of market opportunities to support the ongoing design and development as well as future construction of Generation IV advanced and small modular reactors, driven by strong support from the U.S. Department of Energy which has allocated $3.2 billion for advanced nuclear through its Advanced Reactor Demonstration Program. We are actively engaged and continue to pursue a foothold on numerous designs, both in the U.S. as well as internationally.

In the process market, we service the oil and gas, chemical, and petrochemical industries through numerous industrial valve products, in which the majority of our industrial valve sales are to the downstream markets. We maintain a global maintenance, repair, and overhaul (MRO) business for our pressure-relief valve technologies as refineries opportunistically service or upgrade equipment that has been operating at or near full capacity. We produce severe service, operation-critical valves for the power and process industries. We are also developing advanced pump technology to support the oil exploration industry's need and desire for more reliable subsea pumping systems. Sales in these industries are driven by global supply and demand, crude oil prices, industry regulations, and the natural gas market. Over the long run, we believe improved economic conditions and continued global expansion will be key drivers for future growth of our severe service and operation-critical valves serving the process industry.

General Industrial

We derive revenue from our widely diversified offering to the general industrial market, which primarily consists of electronic sensors and control systems, electro-mechanical actuation, and surface treatment services. We supply our products and services to numerous OEMs and aftermarket industrial customers, including the transportation, commercial trucking, off-road equipment, agriculture, construction, and automotive industries, which lowers the risk associated with any specific headwinds or economic cycles across the various markets in which we compete. Our growth in these markets is typically aligned with the

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performance of the U.S. and global economies, with changes in global GDP rates and industrial production driving our sales, particularly for our surface treatment services.

We have developed long-standing relationships with our customers, and provide technologies that promote efficiency, safety, reduced emissions, and longevity. One of the key drivers within our general industrial market is our focus on electronification and electrification, where our electronic sensors and controls systems products serve the on-and-off highway, medical mobility, and specialty vehicles markets. Notable products include electronic throttle controls, shift controls, joysticks, power management systems, and traction inverter systems, driving our ability to provide a full suite of in-cab operator control systems to our customers. Increased industry demand for electronic control systems and sensors has been driven by the need for improved operational efficiency, safety, repeatability, reduced emissions, enhanced functionality, and greater fuel efficiencies to customers worldwide. Key to our future growth is expanding the human-machine interface (HMI) technology portfolio and providing a complete system solution to our customers. Existing and emerging trends in commercial vehicle safety, emissions control, and improved driver efficiency are propelling commercial vehicle OEMs toward higher performance subsystems. These trends are accelerating the evolution from discrete HMI components towards a more integrated vehicle interface architecture. Growth opportunities also exist with a range of intelligent actuators for industrial automation and robotics which help our customers quickly leverage data and utilize analytics within the Internet of Things environment. Meanwhile, our surface treatment services, which include shot and laser peening, engineered coatings, and analytical testing services across an extensive global network, are used to increase the safety, reliability, and longevity of components operating in harsh environments. Sales are primarily driven by global demand from general industrial customers.

In the long term, the global drive towards electrification and electronification, push for zero or low-emissions vehicles, investments in green technology, advancements in robotics and automation, and new government regulations, will provide steady growth opportunities for Curtiss-Wright's technologies serving this market.

RESULTS OF OPERATIONS

The following MD&A is intended to help the reader understand the results of operations and financial condition of the Corporation for the year ended December 31, 2022, as compared to the year ended December 31, 2021. Discussion and analysis of our financial condition and results of operations for the year ended December 31, 2021, as compared to the year ended December 31, 2020, is contained in our 2021 Annual Report on Form 10-K, filed with the SEC on February 24, 2022.

Analytical Definitions

Throughout MD&A, the terms "incremental" and "organic" are used to explain changes from period to period. The term "incremental" is used to highlight the impact that acquisitions and divestitures had on the current year results. The results of operations for acquisitions are incremental for the first twelve months from the date of acquisition, after which they are reported as organic. Additionally, the results of operations of divested businesses or product lines are removed from the comparable prior year period for purposes of calculating "organic" and "incremental" results. The definition of "organic" also excludes the impairment of assets held for sale and corresponding loss from sale of our industrial valves business in Germany, as well as the effects of foreign currency translation.

(In thousands, except percentages)	Year Ended December 31, 2022	Year Ended December 31, 2021	Percent change 2022 vs. 2021
Sales:			
Aerospace & Industrial	$ 836,035	$ 786,334	6 %
Defense Electronics	690,262	724,326	(5)%
Naval & Power	1,030,728	995,271	4 %
Total sales	$ 2,557,025	$ 2,505,931	2 %
Operating income:			
Aerospace & Industrial	$ 136,996	$ 121,817	12 %
Defense Electronics	154,568	159,089	(3)%
Naval & Power	177,582	141,660	25 %
Corporate and eliminations	(45,703)	(39,883)	(15)%
Total operating income	$ 423,443	$ 382,683	11 %
Interest expense	46,980	40,240	(17)%
Other income, net	12,732	12,067	6 %
Earnings before income taxes	389,195	354,510	10 %
Provision for income taxes	(94,847)	(87,351)	(9)%
Net earnings	$ 294,348	$ 267,159	10 %
Loss on divestiture/impairment of assets held for sale	$ 4,651	$ 19,088	NM
New orders	$ 2,942,550	$ 2,590,534	14 %
Backlog	$ 2,622,731	$ 2,228,924	18 %

NM - Not meaningful

Components of sales and operating income growth (decrease):

	2022 vs. 2021 Sales	2022 vs. 2021 Operating Income
Organic	3 %	6 %
Acquisitions/divestiture	— %	— %
Loss on divestiture/impairment of assets held for sale	— %	4 %
Foreign currency	(1)%	1 %
Total	2 %	11 %

Sales for the year increased $51 million, or 2%, to $2,557 million, compared with the prior year period. On a segment basis, sales from the Aerospace & Industrial and Naval & Power segments increased $50 million and $35 million, respectively, with sales from the Defense Electronics segment decreasing $34 million. Changes in sales by segment are discussed in further detail in the "Results by Business Segment" section below.

Operating income for the year increased $41 million, or 11%, to $423 million, and operating margin increased 130 basis points compared with 2021. In the Aerospace & Industrial segment, increases in operating income and operating margin were primarily due to favorable absorption on higher sales in the general industrial and commercial aerospace markets, as well as the

benefits of our ongoing operational excellence initiatives. Both operating income and operating margin in the Naval & Power segment benefited from lower current period losses associated with our industrial valves business in Germany, which was sold in the current period, as well as the absence of charges associated with the WEC legal settlement recorded in the prior year period. These increases were partially offset by lower operating income in the Defense Electronics segment primarily due to lower sales volumes from supply chain headwinds. Operating margin in the Defense Electronics segment benefited from our ongoing operational excellence initiatives.

Non-segment operating expense for the year increased $6 million, or 15%, to $46 million, primarily due to costs associated with shareholder activism in the current period.

Interest expense for the year increased $7 million, or 17%, to $47 million, primarily due to higher current period borrowings under our Credit Agreement as well as the issuance of $300 million Senior Notes in October 2022.

Other income, net for the year increased $1 million, or 6%, to $13 million, primarily due to lower overall pension costs against the comparable prior year period.

The effective tax rate of 24.4% for the year ended December 31, 2022, decreased as compared to an effective tax rate of 24.6% in the prior year period, primarily due to lower non-deductible losses related to our former industrial valve business in Germany. This decrease was partially offset by a higher proportion of foreign income in the current period, which is taxed at a higher rate than the U.S. rate.

New orders increased $352 million, or 14%, from the prior year period to $2,943 million, primarily due to the timing of naval defense orders and the incremental impact from our arresting systems acquisition in the Naval & Power segment, as well as an increase in new orders for ground defense and aerospace defense equipment in the Defense Electronics segment. The Aerospace & Industrial segment benefited from an increase in new orders for commercial aerospace equipment.

Comprehensive income (loss)

Pension and postretirement adjustments within comprehensive income during the year ended December 31, 2022 were a $7 million loss, compared to a $131 million gain for the prior year period. The loss in the current period was primarily attributed to lower asset returns, partially offset by increases in the discount rate. The gain in the prior period was primarily due to higher asset returns and increases in the discount rate.

Foreign currency translation adjustments during the year ended December 31, 2022 resulted in a comprehensive loss of $61 million, compared to a comprehensive loss of $11 million in the comparable prior period. Comprehensive losses during both the current period and prior year period were primarily attributed to decreases in the British Pound and Canadian Dollar.

RESULTS BY BUSINESS SEGMENT

Aerospace & Industrial

Sales in the Aerospace & Industrial segment are primarily generated from the commercial aerospace and general industrial markets and, to a lesser extent, the defense markets.

The following tables summarize sales, operating income and margin, and new orders within the Aerospace & Industrial segment.

	Year Ended December 31,		Percent Change
(In thousands, except percentages)	2022	2021	2022 vs. 2021
Sales	$ 836,035	$ 786,334	6 %
Operating income	136,996	121,817	12 %
Operating margin	16.4 %	15.5 %	90 bps
New orders	$ 883,838	$ 853,077	4 %
Backlog	$ 371,305	$ 338,581	10 %

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Components of sales and operating income growth (decrease):

	2022 vs. 2021	
	Sales	Operating Income
Organic	10 %	14 %
Acquisitions	(1)%	(1)%
Foreign currency	(3)%	(1)%
Total	6 %	12 %

Sales increased $50 million, or 6%, to $836 million, from the comparable prior year period primarily due to higher sales in the general industrial and commercial aerospace markets. Sales in the general industrial market increased $31 million primarily due to higher demand for industrial vehicle products. In the commercial aerospace market, sales increased $20 million primarily due to higher demand for sensors products and surface treatment services. These increases were partially offset by lower sales in the aerospace defense market primarily due to lower sales of sensors products on various programs.

Operating income increased $15 million, or 12%, to $137 million, and operating margin increased 90 basis points to 16.4%. The increase in operating income and operating margin were primarily due to favorable absorption on higher organic sales in the general industrial and commercial aerospace markets, as well as the benefits of our ongoing operational excellence initiatives.

New orders increased $31 million as compared to the prior year, as an increase in new orders for commercial aerospace equipment was partially offset by the timing of new orders for industrial vehicles.

Defense Electronics

Sales in the Defense Electronics segment are primarily to the defense markets and, to a lesser extent, the commercial aerospace market.

The following tables summarize sales, operating income and margin, and new orders within the Defense Electronics segment.

	Year Ended December 31,		Percent Change
(In thousands, except percentages)	2022	2021	2022 vs. 2021
Sales	$ 690,262	$ 724,326	(5 %)
Operating income	154,568	159,089	(3 %)
Operating margin	22.4 %	22.0 %	40 bps
New orders	$ 836,660	$ 753,852	11 %
Backlog	$ 786,026	$ 667,510	18 %

Components of sales and operating income growth (decrease):

	2022 vs. 2021	
	Sales	Operating Income
Organic	(4)%	(6)%
Acquisitions	— %	— %
Foreign currency	(1)%	3 %
Total	(5)%	(3)%

Sales decreased $34 million, or 5%, to $690 million, from the comparable prior year period. In the commercial aerospace market, sales decreased $11 million primarily due to lower sales of electronic systems on domestic platforms. Sales in the aerospace defense market decreased $8 million primarily due to ongoing supply chain headwinds, which contributed to lower sales of embedded computing equipment. The ground defense market was also negatively impacted by ongoing supply chain headwinds, which resulted in lower sales of $9 million, primarily on embedded computing and tactical communications

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equipment. Sales in the naval defense market were negatively impacted by the timing of orders on various submarine and surface combat ship programs.

Operating income decreased $5 million, or 3%, to $155 million compared with the same period in 2021, while operating margin increased 40 basis points to 22.4%. Operating income was negatively impacted by lower sales volumes due to supply chain headwinds, while operating margin benefited from our ongoing operational excellence initiatives.

New orders increased $83 million as compared to the prior year, primarily due to an increase in new orders for ground defense and aerospace defense equipment.

Naval & Power

Sales in the Naval & Power segment are primarily to the naval defense and power & process markets, and, to a lesser extent, the aerospace defense market.

The following tables summarize sales, operating income and margin, loss on divestiture/impairment of assets held for sale, and new orders within the Naval & Power segment.

	Year Ended December 31,		Percent Change
(In thousands, except percentages)	2022	2021	2022 vs. 2021
Sales	$ 1,030,728	$ 995,271	4 %
Operating income	177,582	141,660	25 %
Operating margin	17.2 %	14.2 %	300 bps
Loss on divestiture/impairment of assets held for sale	4,651	19,088	NM
New orders	$ 1,222,052	$ 983,605	24 %
Backlog	$ 1,465,400	$ 1,222,833	20 %

Components of sales and operating income growth (decrease):

	2022 vs. 2021	
	Sales	Operating Income
Organic	3 %	15 %
Acquisitions/divestiture	1 %	— %
Loss on divestiture/impairment of assets held for sale	— %	10 %
Foreign currency	— %	— %
Total	4 %	25 %

Sales increased $35 million, or 4%, to $1,031 million, from the comparable prior year period, primarily due to the impact of our arresting systems acquisition, which contributed incremental sales of $44 million. This increase was partially offset by lower sales in the in the power & process market, as higher nuclear aftermarket sales were more than offset by the wind-down on the China Direct AP1000 program and the sale of our industrial valve business in Germany in the current period. In the naval defense market, higher demand on the Columbia-class submarine and CVN-81 aircraft carrier programs was more than offset by the timing of sales on the CVN-80 aircraft carrier and Virginia-class submarine programs.

Operating income increased $36 million, or 25%, to $178 million and operating margin increased 300 basis points to 17.2%, primarily due to lower current period losses associated with our industrial valves business in Germany, which was sold in the current period, as well as the absence of charges associated with the WEC legal settlement recorded in the prior year period. These increases were partially offset by first year purchase accounting costs from our arresting systems acquisition.

New orders increased $238 million as compared to the prior year, primarily due to the timing of naval defense orders, the incremental impact from our arresting systems acquisition, as well as an increase in orders within our nuclear aftermarket and process markets.

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SUPPLEMENTARY INFORMATION

The table below depicts sales by end market and customer type, as it helps provide an enhanced understanding of our businesses and the markets in which we operate. The table has been included to supplement the discussion of our consolidated operating results.

Net Sales by End Market and Customer Type

	Year Ended December 31,		Percent change
(In thousands, except percentages)	2022	2021	2022 vs. 2021
Aerospace & Defense markets:			
Aerospace Defense	$ 479,743	$ 452,661	6 %
Ground Defense	219,739	220,290	— %
Naval Defense	694,015	710,688	(2)%
Commercial Aerospace	$ 276,519	$ 267,722	3 %
Total Aerospace & Defense	$ 1,670,016	$ 1,651,361	1 %
Commercial markets:			
Power & Process	472,300	473,489	— %
General Industrial	414,709	381,081	9 %
Total Commercial	$ 887,009	$ 854,570	4 %
Total Curtiss-Wright	$ 2,557,025	$ 2,505,931	2 %

Aerospace & Defense Markets
Sales increased $19 million, or 1%, to $1,670 million, as compared to the prior year period, primarily due to higher sales in the aerospace defense and commercial aerospace markets. Sales in the aerospace defense market increased primarily due to the incremental impact from our arresting systems acquisition, partially offset by lower sales of embedded computing equipment due to ongoing supply chain headwinds as well as lower sales of sensors products on various programs. In the commercial aerospace market, higher demand for sensors products and surface treatment services was partially offset by lower sales of electronic systems on domestic platforms. Sales decreases in the naval defense market were primarily due to the timing of sales on the CVN-80 aircraft carrier and Virginia-class submarine programs, as well as the timing of orders on various submarine and surface combat ship programs. These decreases were partially offset by production ramps on the Columbia-class submarine and CVN-81 aircraft carrier programs.

Commercial Markets
Commercial sales increased $32 million, or 4%, to $887 million, primarily due to higher demand for our industrial vehicle products in the general industrial market. In the power & process market, higher nuclear aftermarket sales were essentially offset by the wind-down on the China Direct AP1000 program and the sale of our industrial valve business in Germany in the current period.

Liquidity and Capital Resources

Sources and Uses of Cash

We derive the majority of our operating cash inflow from receipts on the sale of goods and services and cash outflow for the procurement of materials and labor; cash flow is therefore subject to market fluctuations and conditions. Most of our long-term contracts allow for several billing points (progress or milestone) that provide us with cash receipts as costs are incurred throughout the project rather than upon contract completion, thereby reducing working capital requirements.

Consolidated Statement of Cash Flows

(In thousands)	Year ended December 31, 2022	2021
Net cash provided by (used in):		
Operating activities	$ 294,776	$ 387,668
Investing activities	(325,867)	(42,403)
Financing activities	129,428	(369,129)
Effect of exchange rates	(12,367)	(3,380)
Net increase (decrease) in cash and cash equivalents	$ 85,970	$ (27,244)

Operating Activities

Cash provided by operating activities decreased $93 million to $295 million from the comparable prior year period, primarily due to higher inventory purchases, lower advanced cash receipts, and a legal settlement payment made to WEC during the current period.

Investing Activities

Capital Expenditures

Our capital expenditures were $38 million and $41 million for 2022 and 2021, respectively. The decrease in capital expenditures was primarily due to lower capital spending during the current period.

Divestitures

In January 2022, the Corporation completed the sale of its industrial valve business in Germany, for gross cash proceeds of $3 million. No material divestitures took place during 2021.

Acquisitions

In 2022, we acquired two businesses for $282 million. In 2021, we did not complete any acquisitions.

Future acquisitions will depend, in part, on the availability of financial resources at a cost of capital that meet our stringent criteria. As such, future acquisitions, if any, may be funded through the use of our cash and cash equivalents, through additional financing available under the credit agreement, or through new financing alternatives.

Financing Activities

Debt Issuances and Repayments

On October 27, 2022, we issued $300 million Senior Notes, consisting of $200 million 4.49% notes that mature on October 27, 2032 and $100 million 4.64% notes that mature on October 27, 2034.

In the fourth quarter of 2021, we repaid $100 million of the 2011 Notes that matured on December 1, 2021.

Revolving Credit Agreement

In May 2022, we terminated our existing credit agreement, which was set to expire in October 2023, and entered into a new Credit Agreement ("Credit Agreement") with a syndicate of financial institutions. The Credit Agreement, which is set to expire in May 2027, increases the size of our revolving credit facility to $750 million, and expands the accordion feature to $250 million.

As of December 31, 2022, we had no borrowings outstanding under the Credit Agreement and $17 million in letters of credit supported by the credit facility. The unused credit available under the Credit Agreement as of December 31, 2022 was $733 million, which could be borrowed in full without violating any of our debt covenants. As of December 31, 2021, we had $94 million of borrowings outstanding under our prior Credit Agreement.

Repurchase of Common Stock

During 2022, the Company repurchased approximately 0.4 million shares of its common stock for $57 million. In 2021, the Company repurchased approximately 2.7 million shares of its common stock for $343 million.

Dividends

The Company made dividend payments of approximately $29 million in both 2022 and 2021.

Capital Resources

Cash in U.S. and Foreign Jurisdictions

	As of December 31,	
(In thousands)	2022	2021
United States of America	$ 147,851	$ 37,361
United Kingdom	48,203	69,732
Canada	33,268	24,019
European Union	8,721	12,154
China	7,889	13,403
Other foreign countries	11,042	14,335
Total cash and cash equivalents	$ 256,974	$ 171,004

Cash and cash equivalents as of December 31, 2022 and December 31, 2021 were $257 million and $171 million, respectively. The increase in cash held by U.S. subsidiaries during 2022 as compared to 2021 was primarily due to lower share repurchase activity and higher foreign cash repatriation during the current period. The decrease in cash held by foreign subsidiaries during 2022 as compared to 2021 was primarily due to higher aforementioned foreign cash repatriation and lower net cash receipts during the current period. There are no legal or economic restrictions on the ability of any of our subsidiaries to transfer funds, absent certain regulatory approvals in China, where approximately $8 million of our foreign cash resides.

Cash Utilization

Management continually evaluates cash utilization alternatives, including share repurchases, acquisitions, increased dividends, capital expenditures, and repaying debt to determine the most beneficial use of available capital resources. We believe that our cash and cash equivalents, cash flow from operations, available borrowings under the credit facility, and ability to raise additional capital through the credit markets are sufficient to meet both the short-term and long-term capital needs of the organization, including the return of capital to shareholders through dividends and share repurchases and growing our business through acquisitions.

Debt Compliance

As of December 31, 2022, we were in compliance with all debt agreements and credit facility covenants, including our most restrictive covenant, which is our debt to capitalization ratio limit of 60%. As of December 31, 2022, we had the ability to incur total additional indebtedness of $1.7 billion without violating our debt to capitalization covenant.

Future Commitments

Cash generated from operations should be adequate to meet our planned capital expenditures of approximately $50 million to $60 million and expected dividend payments of approximately $29 million in 2023. There can be no assurance, however, that we will continue to generate cash from operations at the current level, or that these projections will remain constant throughout 2023. If cash generated from operations is not sufficient to support these operating requirements and investing activities, we may be required to reduce capital expenditures, borrow from our existing credit line, refinance a portion of our existing debt, or obtain additional financing. While all companies are subject to economic risk, we believe that our cash and cash equivalents, cash flow from operations, available borrowings under the credit facility, and ability to raise additional capital through the credit markets are sufficient to meet both the short-term and long-term capital needs of the organization, including the return of capital to shareholders through dividends and share repurchases and growing our business through acquisitions.

The following table quantifies our significant future contractual obligations and commercial commitments as of December 31, 2022:

(In thousands)	Total	2023	2024	2025	2026	2027	Thereafter
Debt Principal Repayments	$ 1,250,000	$ 202,500	$ —	$ 90,000	$ 200,000	$ —	$ 757,500
Operating Leases	188,912	35,688	32,830	25,728	21,025	15,787	57,854
Interest Payments on Fixed Rate Debt	310,781	46,318	41,448	40,235	37,441	29,503	115,836
Total	$ 1,749,693	$ 284,506	$ 74,278	$ 155,963	$ 258,466	$ 45,290	$ 931,190

We enter into standby letters of credit agreements and guarantees with financial institutions and customers primarily relating to future performance on certain contracts to provide products and services and to secure advance payments we have received from certain international customers. As of December 31, 2022, we had contingent liabilities on outstanding letters of credit due as follows:

(In thousands)	Total	2023	2024	2025	2026	2027	Thereafter
Letters of Credit [(1)]	$ 17,325	$ 7,194	$ 4,247	$ 5,297	$ 53	$ 209	$ 325

[(1)] Amounts exclude bank guarantees of approximately $2.5 million.

Critical Accounting Estimates and Policies

Our consolidated financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America. Preparing consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. These estimates and assumptions are affected by the application of our accounting policies. Critical accounting policies are those that require application of management's most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain and may change in subsequent periods. We believe that the following are some of the more critical judgment areas in the application of our accounting policies that affect our financial condition and results of operations:

Revenue Recognition

We account for revenues in accordance with ASC 606, *Revenue from Contracts with Customers*. Under ASC 606, revenue is recognized when control of a promised good and/or service is transferred to a customer at a transaction price that reflects the consideration that we expect to be entitled to in exchange for that good and/or service. The unit of account is a performance obligation whereby a contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when the respective performance obligation is satisfied. In certain instances, the transaction price may include estimated amounts of variable consideration including but not limited to incentives, awards, price escalations, liquidated damages, and penalties, only to the extent that it is probable that a significant reversal of cumulative revenue recognized to date around such variable consideration will not occur. We estimate variable consideration to be included in the transaction price using either the expected value method or most likely amount method. Variable consideration associated with our respective arrangements is not typically constrained.

Performance obligations are satisfied either at a point-in-time or on an over-time basis. Contracts that qualify for over-time revenue recognition are generally associated with the design, development, and manufacture of highly engineered industrial products used in commercial and defense applications and generally span between 2-5 years in duration. Revenue recognized on an over-time basis for the year ended December 31, 2022 accounted for approximately 51% of total net sales. Typically, over-time revenue recognition is based on the utilization of an input measure used to measure progress, such as costs incurred to date relative to total estimated costs. Application of an over-time revenue recognition method requires the use of reasonable and dependable estimates of future material, labor, and overhead costs that will be incurred as well as a disciplined cost estimating system in which all functions of the business are integrally involved. These estimates are determined based on industry knowledge and experience of our engineers, project managers, and financial staff. Changes in total estimated costs are recognized using the cumulative catch-up method of accounting which recognizes the cumulative effect of the changes on current and prior periods in the current period. During the years ended December 31, 2022, 2021, and 2020, there were no significant changes in estimated contract costs.

If a performance obligation does not qualify for over-time revenue recognition, revenue is then recognized at the point-in-time in which control of the distinct good or service is transferred to the customer, typically based upon the terms of delivery. Revenue recognized at a point-in-time for the year ended December 31, 2022 accounted for approximately 49% of total net sales.

Timing of revenue recognition and cash collection may result in billed receivables, unbilled receivables (contract assets), and deferred revenue (contract liabilities) on the Consolidated Balance Sheet. Contract assets primarily relate to our right to consideration for work completed but not billed as of the reporting date. Contract assets are transferred to billed receivables when the rights to consideration become unconditional. Contract liabilities primarily consist of customer advances received prior to revenue being earned. Contract assets and contract liabilities are reported in the "Receivables, net" and "Deferred revenue" lines, respectively, within the Consolidated Balance Sheet.

Inventory

Inventory costs include materials, direct labor, purchasing, and manufacturing overhead costs, which are stated at the lower of cost or net realizable value. We estimate the net realizable value of our inventories and establish reserves to reduce the carrying amount of these inventories to net realizable value, as necessary. We continually evaluate the adequacy of the inventory reserves by reviewing historical scrap rates, on-hand quantities as compared with historical and projected usage levels, and other anticipated contractual requirements. We generally hold reserved inventory for extended periods before scrapping and disposing of the reserved inventory, which contributes to a higher level of reserved inventory relative to the level of annual inventory write-offs.

We purchase materials for the manufacture of components for sale. The decision to purchase a set quantity of a particular item is influenced by several factors including: current and projected price, future estimated availability, existing and projected contracts to produce certain items, and the estimated needs for our businesses.

Pension and Other Postretirement Benefits

In consultation with our actuaries, we determine the appropriate assumptions for use in determining the liability for future pension and other postretirement benefits. The most significant of these assumptions include the discount rates used to determine plan obligations, the expected return on plan assets, and the number of employees who will receive benefits, their tenure, their salary levels, and their projected mortality. Changes in these assumptions, if significant in future years, may have an effect on our pension and postretirement expense, associated pension and postretirement assets and liabilities, and our annual cash requirements to fund these plans.

The discount rate used to determine the plan benefit obligations as of December 31, 2022, and the annual periodic costs for 2023, was increased from 2.87% to 5.04% for the Curtiss-Wright Pension Plan, and from 2.70% to 4.99% for the nonqualified benefit plan, to reflect current economic conditions. The rates reflect the hypothetical rates at which the projected benefit obligations could be effectively settled or paid out to participants on that date. We determine our discount rates for past service liabilities and service cost by utilizing a select bond yield curve developed by our actuaries, which is based on the rates of return on high-quality, fixed-income corporate bonds available at the measurement date with maturities that match the plan’s expected cash outflows for benefit payments. Interest cost is determined by applying the spot rate from the full yield curve to each anticipated benefit payment. The discount rate changes contributed to a decrease in the benefit obligation of $181 million in the CW plans.

The rate of compensation increase for base pay in the pension plans decreased to a weighted average of 3.4% for the current period, based upon a graded scale of 4.1% to 2.9% that decrements as pay increases, which reflects the experience over past years and the Company’s expectation of future salary increases. We also updated our mortality assumptions from prior year for the CW Pension plan by adopting a 50/50 blend of the Pri-2012 Aggregate and White Collar tables published by the Society of Actuaries in October 2019, while retaining the White Collar table for the nonqualified plan. We also adopted the MP-2021 projected mortality scale published in October 2021, with no pandemic adjustments.

The overall expected return on assets assumption is based primarily on the expectations of future performance. Expected future performance is determined by weighting the expected returns for each asset class by the plan’s asset allocation. The expected returns are based on long-term capital market assumptions provided by our investment consultants. Based on a review of market trends, actual returns on plan assets, and other factors, the Company’s expected long-term rate of return on plan assets was increased to 6.50% as of December 31, 2022, which will be utilized for determining 2023 pension cost. An expected long-term rate of return of 5.75% was used for determining 2022 expense, with 6.50% used for 2021 pension expense and 7.50% used for 2020 pension expense.

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The timing and amount of future pension income or expense to be recognized each year is dependent on the demographics and expected compensation of the plan participants, the expected interest rates in effect in future years, inflation, and the actual and expected investment returns of the assets in the pension trust.

The funded status of the Curtiss-Wright Pension Plan decreased by $24 million in 2022, primarily driven by unfavorable asset experience due to weak market performance in 2022, partially offset by a lower benefit obligation due to higher interest rates.

The following table reflects the impact of changes in selected assumptions used to determine the funded status of the Company's U.S. qualified and nonqualified pension plans as of December 31, 2022 (in thousands, except for percentage point change):

Assumption	Percentage Point Change	Increase in Benefit Obligation	Increase in Expense
Discount rate	(0.25)%	$16,976	($231)
Expected return on assets	(0.25)%	—	$2,223

See Note 17 to the Consolidated Financial Statements for further information on our pension and postretirement plans.

Goodwill

We have $1.5 billion in goodwill as of December 31, 2022. Generally, the largest separately identifiable asset from the businesses that we acquire is the value of their assembled workforces, which includes the additional benefit received from management, administrative, marketing, business development, engineering, and technical employees of the acquired businesses. The success of our acquisitions, including the ability to retain existing business and to successfully compete for and win new business, is based on the additional benefit received from management, administrative, marketing, and business development, scientific, engineering, and technical skills and knowledge of our employees rather than on productive capital (plant and equipment, technology, and intellectual property). Therefore, since intangible assets for assembled workforces are part of goodwill, the substantial majority of the intangible assets for our acquired business acquisitions are recognized as goodwill.

We test for goodwill impairment annually, at the reporting unit level, in the fourth quarter, which coincides with the preparation of our strategic operating plan. Additionally, goodwill is tested for impairment when an event occurs or if circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

We perform either a quantitative or qualitative assessment to assess if the fair value of the respective reporting unit exceeds its carrying value. The qualitative goodwill impairment assessment requires evaluating factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. As part of our goodwill qualitative assessment process for each reporting unit, when utilized, we evaluate various factors that are specific to the reporting unit as well as industry and macroeconomic factors in order to determine whether it is reasonably likely to have a material impact on the fair value of our reporting units. Examples of the factors that are considered include the results of the most recent impairment test, current and long-range forecasts, and changes in the strategic outlook or organizational structure of the reporting units. The long-range financial forecasts of the reporting units are compared to the forecasts used in the prior year analysis to determine if management expectations for the business have changed.

Actual results may differ from those estimates. When performing the quantitative assessment to calculate the fair value of a reporting unit, we consider both comparative market multiples as well as estimated discounted cash flows for the reporting unit. The significant estimates and assumptions include, but are not limited to, revenue growth rates, operating margins, and future economic and market conditions. The discount rates are based upon the reporting unit's weighted average cost of capital. As a supplement, we conduct additional sensitivity analysis to assess the risk for potential impairment based upon changes in the key assumptions such as the discount rate, expected long-term growth rate, and cash flow projections. Based upon the completion of our annual test as of October 31, 2022, we determined that there was no impairment of goodwill and that all reporting units' estimated fair values were substantially in excess of their carrying amounts.

Other Intangible Assets

Other intangible assets are generally the result of acquisitions and consist primarily of purchased technology, customer related intangibles, and trademarks. Intangible assets are recorded at their fair values as determined through purchase accounting, based

on estimates and judgments regarding expectations for the estimated future after-tax earnings and cash flows arising from follow-on sales. Definite-lived intangible assets are amortized on a straight-line basis over their estimated useful lives, which generally range from 1 to 20 years. Customer-related intangibles primarily consist of customer relationships, which reflect the value of the benefit derived from the incremental revenue and related cash flows as a direct result of the customer relationship. We review the recoverability of all intangible assets, including the related useful lives, whenever events or changes in circumstances indicate that the carrying amount might not be recoverable. We would record any impairment in the reporting period in which it has been identified.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

We are exposed to certain market risks from changes in interest rates and foreign currency exchange rates as a result of our global operating and financing activities. We seek to minimize any material risks from foreign currency exchange rate fluctuations through our normal operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments. We used forward foreign currency contracts to manage our currency rate exposures during the year ended December 31, 2022, and, in order to manage our interest rate risk, we may, from time to time, enter into interest rate swaps to balance the ratio of fixed to floating rate debt. We do not use such instruments for trading or other speculative purposes. Information regarding our accounting policy on financial instruments is contained in Note 1 to the Consolidated Financial Statements.

Interest Rates

The market risk for a change in interest rates relates primarily to our debt obligations. Our fixed rate interest exposure was 100% and 91% as of December 31, 2022 and December 31, 2021, respectively. As of December 31, 2022, a change in interest rates of 1% would not have a material impact on consolidated interest expense. Information regarding our Senior Notes and Revolving Credit Agreement is contained in Note 14 to the Consolidated Financial Statements.

Foreign Currency Exchange Rates

Although the majority of our business is transacted in U.S. dollars, we do have market risk exposure to changes in foreign currency exchange rates, primarily as it relates to the value of the U.S. dollar versus the British Pound, Canadian dollar, and Euro. Any significant change against the U.S. dollar in the value of the currencies of those countries in which we do business could have an effect on our business, financial condition, and results of operations. If foreign exchange rates were to collectively weaken or strengthen against the U.S. dollar by 10%, net earnings would have decreased or increased, respectively, by approximately $7 million as it relates exclusively to foreign currency exchange rate exposures.

Financial instruments expose us to counter-party credit risk for non-performance and to market risk for changes in interest and foreign currency rates. We manage exposure to counter-party credit risk through specific minimum credit standards, diversification of counter-parties, and procedures to monitor concentrations of credit risk. We monitor the impact of market risk on the fair value and cash flows of our investments by investing primarily in investment grade interest-bearing securities, which have short-term maturities. We attempt to minimize possible changes in interest and currency exchange rates to amounts that are not material to our results of operations and cash flows.

Item 8. Financial Statements and Supplementary Data.

CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except per share data)	For the years ended December 31, 2022	2021	2020
Net sales			
Product sales	$ 2,135,882	$ 2,109,617	$ 2,041,086
Service sales	421,143	396,314	350,250
Total net sales	2,557,025	2,505,931	2,391,336
Cost of sales			
Cost of product sales	1,348,569	1,330,191	1,319,562
Cost of service sales	253,847	242,384	230,547
Total cost of sales	1,602,416	1,572,575	1,550,109
Gross profit	954,609	933,356	841,227
Research and development expenses	80,836	88,489	74,816
Selling expenses	121,586	116,956	109,537
General and administrative expenses	324,093	326,140	303,288
Loss on divestiture	4,651	—	—
Impairment of assets held for sale	—	19,088	33,043
Restructuring expenses	—	—	31,695
Operating income	423,443	382,683	288,848
Interest expense	46,980	40,240	35,545
Other income, net	12,732	12,067	9,748
Earnings before income taxes	389,195	354,510	263,051
Provision for income taxes	(94,847)	(87,351)	(61,659)
Net earnings	$ 294,348	$ 267,159	$ 201,392
Basic earnings per share	$ 7.67	$ 6.61	$ 4.83
Diluted earnings per share	$ 7.62	$ 6.58	$ 4.80
Dividends per share	$ 0.75	$ 0.71	$ 0.68
Weighted average shares outstanding:			
Basic	38,386	40,417	41,738
Diluted	38,649	40,602	41,999

See notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)	For the years ended December 31, 2022	2021	2020
Net earnings	$ 294,348	$ 267,159	$ 201,392
Other comprehensive income			
Foreign currency translation, net of tax [1]	(61,241)	(10,829)	41,282
Pension and postretirement adjustments, net of tax [2]	(7,210)	131,220	(26,864)
Other comprehensive income (loss), net of tax	(68,451)	120,391	14,418
Comprehensive income	$ 225,897	$ 387,550	$ 215,810

(1) The tax benefit (expense) included in other comprehensive income for foreign currency translation adjustments for 2022, 2021, and 2020 was immaterial.

(2) The tax benefit (expense) included in other comprehensive income for pension and postretirement adjustments for 2022, 2021, and 2020 was $3.1 million, ($42.3) million, and $8.3 million, respectively.

See notes to consolidated financial statements

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)	As of December 31, 2022	As of December 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	$ 256,974	$ 171,004
Receivables, net	724,603	647,148
Inventories, net	483,113	411,567
Assets held for sale	—	10,988
Other current assets	52,623	67,101
Total current assets	1,517,313	1,307,808
Property, plant, and equipment, net	342,708	360,031
Goodwill	1,544,635	1,463,026
Other intangible assets, net	620,897	538,077
Operating lease right-of-use assets, net	153,855	143,613
Prepaid pension asset	222,627	256,422
Other assets	47,567	34,568
Total assets	$ 4,449,602	$ 4,103,545
LIABILITIES		
Current liabilities:		
Current portion of long-term and short-term debt	$ 202,500	$ —
Accounts payable	266,525	211,640
Accrued expenses	177,536	147,701
Deferred revenue	242,483	260,157
Liabilities held for sale	—	12,655
Other current liabilities	82,395	102,714
Total current liabilities	971,439	734,867
Long-term debt	1,051,900	1,050,610
Deferred tax liabilities	123,001	147,349
Accrued pension and other postretirement benefit costs	58,348	91,329
Long-term operating lease liability	132,275	127,152
Long-term portion of environmental reserves	12,547	13,656
Other liabilities	107,973	112,092
Total liabilities	2,457,483	2,277,055
Contingencies and Commitments (Notes 10, 14, and 19)		
STOCKHOLDERS' EQUITY		
Common stock, $1 par value, 100,000,000 shares authorized as of December 31, 2022 and December 31, 2021; 49,187,378 shares issued as of December 31, 2022 and December 31, 2021; outstanding shares were 38,259,722 as of December 31, 2022 and 38,469,778 as of December 31, 2021	49,187	49,187
Additional paid in capital	134,553	127,104
Retained earnings	3,174,396	2,908,827
Accumulated other comprehensive loss	(258,916)	(190,465)
Common treasury stock, at cost (10,927,656 shares as of December 31, 2022 and 10,717,600 shares as of December 31, 2021)	(1,107,101)	(1,068,163)
Total stockholders' equity	1,992,119	1,826,490
Total liabilities and stockholders' equity	$ 4,449,602	$ 4,103,545

See notes to consolidated financial statements

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	For the years ended December 31, 2022	2021	2020
Cash flows from operating activities:			
Net earnings	$ 294,348	$ 267,159	$ 201,392
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	112,027	114,384	115,903
Loss on divestiture	4,651	—	—
Impairment of assets held for sale	—	19,088	33,043
(Gain) on sale/disposal of long-lived assets	(4,671)	(568)	—
Deferred income taxes	(23,635)	(10,200)	(7,048)
Share-based compensation	15,384	13,450	14,437
Foreign exchange loss on substantial liquidation of subsidiary	—	—	9,351
Non-cash restructuring charges	—	—	15,628
Changes in operating assets and liabilities, net of businesses acquired and disposed of:			
Receivables, net	(74,798)	(59,372)	71,147
Inventories, net	(60,620)	15,321	15,535
Progress payments	(3,099)	(3,672)	(7,689)
Accounts payable and accrued expenses	42,493	17,713	(55,513)
Deferred revenue	(17,646)	9,584	(33,179)
Income taxes	55,847	(12,988)	15,171
Pension and postretirement, net	(15,049)	(1,236)	(153,375)
Other	(30,456)	19,005	26,377
Net cash provided by operating activities	294,776	387,668	261,180
Cash flows from investing activities:			
Proceeds from sales and disposals of long-lived assets	9,841	4,045	2,930
Purchases of investments	(10,000)	—	—
Additions to property, plant, and equipment	(38,217)	(41,108)	(47,499)
Acquisition of businesses, net of cash acquired	(282,429)	—	(487,944)
Additional consideration paid on prior year acquisitions	(5,062)	(5,340)	—
Other	—	—	(17)
Net cash used for investing activities	(325,867)	(42,403)	(532,530)
Cash flows from financing activities:			
Borrowings under revolving credit facilities	1,697,647	455,950	570,675
Payment of revolving credit facilities	(1,791,547)	(362,050)	(570,675)
Borrowings of debt	300,000	—	300,000
Principal payments on debt	—	(100,000)	—
Repurchases of company stock	(56,870)	(343,129)	(200,018)
Proceeds from share-based compensation plans	9,997	9,705	11,148
Dividends paid	(28,779)	(28,660)	(28,175)
Other	(1,020)	(945)	(874)
Net cash provided by (used for) financing activities	129,428	(369,129)	82,081
Effect of exchange-rate changes on cash	(12,367)	(3,380)	(3,516)
Net increase (decrease) in cash and cash equivalents	85,970	(27,244)	(192,785)
Cash and cash equivalents at beginning of year	171,004	198,248	391,033
Cash and cash equivalents at end of year	256,974	171,004	198,248

See notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands)

	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock
January 1, 2020	$ 49,187	$ 116,070	$ 2,497,111	$ (325,274)	$ (562,722)
Net earnings	—	—	201,392	—	—
Other comprehensive income, net of tax	—	—	—	14,418	—
Dividends paid	—	—	(28,175)	—	—
Restricted stock	—	(4,115)	—	—	4,115
Employee stock purchase plan and stock options exercised	—	(3,286)	—	—	14,434
Share-based compensation	—	14,383	—	—	54
Repurchase of common stock [1]	—	—	—	—	(200,018)
Other	—	(517)	—	—	517
December 31, 2020	$ 49,187	$ 122,535	$ 2,670,328	$ (310,856)	$ (743,620)
Net earnings	—	—	267,159	—	—
Other comprehensive income, net of tax	—	—	—	120,391	—
Dividends paid	—	—	(28,660)	—	—
Restricted stock	—	(9,007)	—	—	9,007
Employee stock purchase plan	—	877	—	—	8,828
Share-based compensation	—	13,296	—	—	154
Repurchase of common stock [1]	—	—	—	—	(343,129)
Other	—	(597)	—	—	597
December 31, 2021	$ 49,187	$ 127,104	$ 2,908,827	$ (190,465)	$ (1,068,163)
Net earnings	—	—	294,348	—	—
Other comprehensive loss, net of tax	—	—	—	(68,451)	—
Dividends paid	—	—	(28,779)	—	—
Restricted stock	—	(8,523)	—	—	8,523
Employee stock purchase plan	—	1,273	—	—	8,724
Share-based compensation	—	15,205	—	—	179
Repurchase of common stock [1]	—	—	—	—	(56,870)
Other	—	(506)	—	—	506
December 31, 2022	$ 49,187	$ 134,553	$ 3,174,396	$ (258,916)	$ (1,107,101)

[1] For the years ended December 31, 2022, 2021, and 2020, the Corporation repurchased approximately 0.4 million, 2.7 million, and 2.0 million shares of its common stock, respectively.

See notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Curtiss-Wright Corporation and its subsidiaries (the Corporation or the Company) is a global integrated business that provides highly engineered products, solutions, and services mainly to aerospace & defense markets, as well as critical technologies in demanding commercial power, process, and industrial markets.

Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and its majority-owned subsidiaries. All intercompany transactions and accounts have been eliminated.

Use of Estimates

The financial statements of the Corporation have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP), which requires management to make estimates and judgments that affect the reported amount of assets, liabilities, revenue, and expenses and disclosure of contingent assets and liabilities in the accompanying financial statements. The most significant of these estimates includes the estimate of costs to complete on certain contracts using the over-time revenue recognition accounting method, cash flow estimates used for testing the recoverability of assets, pension plan and postretirement obligation assumptions, estimates for inventory obsolescence, fair value estimates around assets and assumed liabilities from acquisitions, estimates for the valuation and useful lives of intangible assets, legal reserves, and the estimate of future environmental costs. Actual results may differ from these estimates.

Cash and Cash Equivalents

Cash equivalents consist of money market funds and commercial paper that are readily convertible into cash, all with original maturity dates of three months or less.

Inventory

Inventories are stated at lower of cost or net realizable value. Production costs are comprised of direct material and labor and applicable manufacturing overhead.

Progress Payments

Certain long-term contracts provide for interim billings as costs are incurred on the respective contracts. Pursuant to contract provisions, agencies of the U.S. Government and other customers obtain control of promised goods or services to the extent that progress payments are received. Accordingly, these receipts have been reported as a reduction of unbilled receivables as presented in Note 5 to the Consolidated Financial Statements. In the event that progress payments received exceed revenue recognized to date on a specific contract, a contract liability has been established with such amount reported in the "Deferred revenue" line within the Consolidated Balance Sheet.

The Corporation also receives progress payments on development contracts related to certain aerospace and defense programs. Progress payments received on partially funded development contracts have been reported as a reduction of inventories, as presented in Note 6 to the Consolidated Financial Statements.

Property, Plant, and Equipment

Property, plant, and equipment are carried at cost less accumulated depreciation. Major renewals and betterments are capitalized, while maintenance and repairs that do not improve or extend the life of the asset are expensed in the period that they are incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets.

Average useful lives for property, plant, and equipment are as follows:

Buildings and improvements	5 to 40 years
Machinery, equipment, and other	3 to 15 years

See Note 7 to the Consolidated Financial Statements for further information on property, plant, and equipment.

Intangible Assets

Intangible assets are generally the result of acquisitions and consist primarily of purchased technology, customer related intangibles, trademarks, and technology licenses. Intangible assets are amortized on a straight-line basis over their estimated useful lives, which range from 1 to 20 years. See Note 9 to the Consolidated Financial Statements for further information on other intangible assets.

Impairment of Long-Lived Assets

The Corporation reviews the recoverability of all long-lived assets, including the related useful lives, whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset might not be recoverable. If required, the Corporation compares the estimated fair value determined by either the undiscounted future net cash flows or appraised value to the related asset's carrying value to determine whether there has been an impairment. If an asset is considered impaired, the asset is written down to fair value in the period in which the impairment becomes known. The Corporation recognized no significant impairment charges on assets held in use during the years ended December 31, 2022, 2021, and 2020.

Goodwill

Goodwill results from business acquisitions. The Corporation accounts for business acquisitions by allocating the purchase price to the tangible and intangible assets acquired and liabilities assumed. Assets acquired and liabilities assumed are recorded at their fair values, and the excess of the purchase price over the amounts allocated is recorded as goodwill. The recoverability of goodwill is subject to an annual impairment test or whenever an event occurs or circumstances change that would more likely than not result in an impairment. The impairment test is based on the estimated fair value of the underlying businesses. The Corporation's goodwill impairment test is performed annually in the fourth quarter of each year. See Note 8 to the Consolidated Financial Statements for further information on goodwill.

Fair Value of Financial Instruments

Accounting guidance requires certain disclosures regarding the fair value of financial instruments. Due to the short maturities of cash and cash equivalents, accounts receivable, accounts payable, and accrued expenses, the net book value of these financial instruments is deemed to approximate fair value. See Notes 11 and 14 to the Consolidated Financial Statements for further information on the Corporation's financial instruments.

Research and Development

The Corporation funds research and development programs for commercial products and independent research and development and bid and proposal work related to government contracts. Development costs include engineering for new customer requirements. Corporation-sponsored research and development costs are expensed as incurred.

Research and development costs associated with customer-sponsored programs are capitalized to inventory and are recorded in cost of sales when products are delivered or services performed. Funds received under shared development contracts are a reduction of the total development expenditures under the shared contract and are shown net as research and development costs.

Accounting for Share-Based Payments

The Corporation follows the fair value based method of accounting for share-based employee compensation, which requires the Corporation to expense all share-based employee compensation. Share-based employee compensation is a non-cash expense since the Corporation settles these obligations by issuing the shares of Curtiss-Wright Corporation instead of settling such obligations with cash payments.

Compensation expense for performance shares and time-based restricted stock is recognized over the requisite service period for the entire award based on the grant date fair value.

Income Taxes

The Corporation accounts for income taxes using the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The effect on deferred tax assets and liabilities of a change in tax laws is recognized in the results of operations in the period the new laws are enacted. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not that such assets will be realized.

The Corporation records amounts related to uncertain income tax positions by 1) prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements and 2) the measurement of the income tax benefits recognized from such positions. The Corporation's accounting policy is to classify uncertain income tax positions that are not expected to be resolved in one year as a non-current income tax liability and to classify interest and penalties as a component of interest expense and general and administrative expenses, respectively. See Note 13 to the Consolidated Financial Statements for further information.

Foreign Currency

For operations outside the United States of America that prepare financial statements in currencies other than the U.S. dollar, the Corporation translates assets and liabilities at period-end exchange rates and income statement amounts using weighted-average exchange rates for the period. The cumulative effect of translation adjustments is presented as a component of accumulated other comprehensive income (loss) within stockholders' equity. This balance is primarily affected by foreign currency exchange rate fluctuations. (Gains) and losses from foreign currency transactions are included in general and administrative expenses in the Consolidated Statement of Earnings, which amounted to ($2.6) million, $1.8 million, and $3.9 million for the years ended December 31, 2022, 2021, and 2020, respectively.

Derivatives

Forward Foreign Exchange and Currency Option Contracts

The Corporation uses financial instruments, such as forward exchange and currency option contracts, to hedge a portion of existing and anticipated foreign currency denominated transactions. The purpose of the Corporation's foreign currency risk management program is to reduce volatility in earnings caused by exchange rate fluctuations. All derivative financial instruments are recorded at fair value based upon quoted market prices for comparable instruments, with the gain or loss on these transactions recorded into earnings in the period in which they occur. The Corporation does not use derivative financial instruments for trading or speculative purposes.

Interest Rate Risks and Related Strategies

The Corporation's primary interest rate exposure results from changes in U.S. dollar interest rates. The Corporation's policy is to manage interest cost using a mix of fixed and variable rate debt. The Corporation periodically uses interest rate swaps to manage such exposures. Under these interest rate swaps, the Corporation exchanges, at specified intervals, the difference between fixed and floating interest amounts calculated by reference to an agreed-upon notional principal amount.

For interest rate swaps designated as fair value hedges (i.e., hedges against the exposure to changes in the fair value of an asset or a liability or an identified portion thereof that is attributable to a particular risk), changes in the fair value of the interest rate swaps offset changes in the fair value of the fixed rate debt due to changes in market interest rates.

2. REVENUE

The Corporation accounts for revenues in accordance with ASC 606, *Revenue from Contracts with Customers*. Under ASC 606, revenue is recognized when control of a promised good and/or service is transferred to a customer at a transaction price that reflects the consideration that the Corporation expects to be entitled to in exchange for that good and/or service.

Performance Obligations

The Corporation identifies a performance obligation for each promise in a contract to transfer a distinct good or service to the customer. As part of its assessment, the Corporation considers all goods and/or services promised in the contract, regardless of whether they are explicitly stated or implied by customary business practices. The Corporation's contracts may contain either a single performance obligation, including the promise to transfer individual goods or services that are not separately distinct

within the context of the respective contracts, or multiple performance obligations. For contracts with multiple performance obligations, the Corporation allocates the overall transaction price to each performance obligation using standalone selling prices, where available, or utilizes estimates for each distinct good or service in the contract where standalone prices are not available. In certain instances, the transaction price may include estimated amounts of variable consideration including but not limited to incentives, awards, price escalations, liquidated damages, and penalties, only to the extent that it is probable that a significant reversal of cumulative revenue recognized to date around such variable consideration will not occur. The Corporation estimates variable consideration to be included in the transaction price using either the expected value method or most likely amount method, contingent upon the facts and circumstances of the specific arrangement. Variable consideration associated with the Corporation's respective arrangements is not typically constrained.

The Corporation's performance obligations are satisfied either at a point-in-time or on an over-time basis. Typically, over-time revenue recognition is based on the utilization of an input measure used to measure progress, such as costs incurred to date relative to total estimated costs. Changes in total estimated costs are recognized using the cumulative catch-up method of accounting which recognizes the cumulative effect of the changes on current and prior periods in the current period. Accordingly, the effect of the changes on future periods of contract performance is recognized as if the revised estimate had been the original estimate. A significant change in an estimate on one or more contracts could have a material effect on the Corporation's consolidated financial position, results or operations, or cash flows. There were no significant changes in estimated contract costs during 2022, 2021, or 2020. If a performance obligation does not qualify for over-time revenue recognition, revenue is then recognized at the point-in-time in which control of the distinct good or service is transferred to the customer, typically based upon the terms of delivery.

The following table illustrates the approximate percentage of revenue recognized for performance obligations satisfied over-time versus at a point-in-time for the years ended December 31, 2022, 2021, and 2020:

	Year Ended December 31,		
	2022	2021	2020
Over-time	51 %	50 %	52 %
Point-in-time	49 %	50 %	48 %

Contract backlog represents the remaining performance obligations that have not yet been recognized as revenue. Backlog includes deferred revenue and amounts that will be invoiced and recognized as revenue in future periods. Total backlog was approximately $2.6 billion as of December 31, 2022, of which the Corporation expects to recognize approximately 89% as net sales over the next 36 months. The remainder will be recognized thereafter.

Disaggregation of Revenue

The following table presents the Corporation's total net sales disaggregated by end market and customer type:

Total Net Sales by End Market and Customer Type

	Year Ended December 31,		
(In thousands)	2022	2021	2020
Aerospace & Defense			
Aerospace Defense	$ 479,743	$ 452,661	$ 463,690
Ground Defense	219,739	220,290	107,448
Naval Defense	694,015	710,688	692,152
Commercial Aerospace	276,519	267,722	325,518
Total Aerospace & Defense Customers	$ 1,670,016	$ 1,651,361	$ 1,588,808
Commercial			
Power & Process	$ 472,300	$ 473,489	$ 474,842
General Industrial	414,709	381,081	327,686
Total Commercial Customers	$ 887,009	$ 854,570	$ 802,528
Total	$ 2,557,025	$ 2,505,931	$ 2,391,336

Contract Balances

Timing of revenue recognition and cash collection may result in billed receivables, unbilled receivables (contract assets), and deferred revenue (contract liabilities) on the Consolidated Balance Sheet. The Corporation's contract assets primarily relate to its rights to consideration for work completed but not billed as of the reporting date. Contract assets are transferred to billed receivables when the rights to consideration become unconditional. This is typical in situations where amounts are billed as work progresses in accordance with agreed-upon contractual terms or upon achievement of contractual milestones. The Corporation's contract liabilities primarily consist of customer advances received prior to revenue being earned. Revenues recognized for the years ended December 31, 2022, 2021, and 2020 included in the contract liabilities balance at the beginning of the respective years were approximately $219 million, $210 million, and $224 million, respectively. Changes in contract assets and contract liabilities as of December 31, 2022 were not materially impacted by any other factors. Contract assets and contract liabilities are reported in the "Receivables, net" and "Deferred revenue" lines, respectively, within the Consolidated Balance Sheet.

3. ACQUISITIONS

The Corporation continually evaluates potential acquisitions that either strategically fit within the Corporation's existing portfolio or expand the Corporation's portfolio into new product lines or adjacent markets. The Corporation has completed numerous acquisitions that have been accounted for as business combinations and have resulted in the recognition of goodwill in the Corporation's financial statements. This goodwill arises because the purchase prices for these businesses reflect the future earnings and cash flow potential in excess of the earnings and cash flows attributable to the current product and customer set at the time of acquisition. Thus, goodwill inherently includes the know-how of the assembled workforce, the ability of the workforce to further improve the technology and product offerings, and the expected cash flows resulting from these efforts. Goodwill may also include expected synergies resulting from the complementary strategic fit these businesses bring to existing operations.

The Corporation allocates the purchase price at the date of acquisition based upon its understanding of the fair value of the acquired assets and assumed liabilities. Only items identified as of the acquisition date are considered for subsequent adjustment. The Corporation will make appropriate adjustments to the purchase price allocation prior to completion of the measurement period, as required.

For the year ended December 31, 2022, the Corporation acquired two businesses for an aggregate purchase price of $282 million, net of cash acquired. The Corporation's current period acquisitions contributed $45 million of total net sales and $1 million of net losses for the year ended December 31, 2022 which are included in the Consolidated Statement of Earnings. Also, the Corporation paid $5 million during the year ended December 31, 2022 for the final portion of the purchase price on the acquisition of Dyna-Flo Control Valve Services Ltd. (Dyna-Flo), which was initially held back as security for potential indemnification claims against the seller in accordance with the terms of the Purchase Agreement.

For the year ended December 31, 2021, the Corporation did not complete any acquisitions. However, the Corporation paid $5 million during the year ended December 31, 2021 in regard to prior period acquisitions, which included a working capital adjustment on the acquisition of Pacific Star Communications, Inc. (PacStar), as well as a portion of the purchase price on the Dyna-Flo acquisition.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition for all acquisitions consummated:

(In thousands)	2022
Accounts receivable	$ 10,567
Inventory	24,088
Property, plant, and equipment	4,190
Intangible assets	147,074
Operating lease right-of-use assets, net	5,103
Other current and non-current assets	2,078
Current and non-current liabilities	(17,264)
Net tangible and intangible assets	175,836
Goodwill	106,593
Total Purchase price	$ 282,429
Goodwill deductible for tax purposes	$ 106,593

2022 Acquisitions

Keronite Group Limited ("Keronite")

On November 15, 2022, the Corporation completed the acquisition of Keronite for $34 million. The Purchase Agreement contains representations and warranties customary for a transaction of this type. The acquired business is a provider of Plasma Electrolytic Oxidation surface treatment applications and will operate within the Aerospace & Industrial segment. The acquisition is subject to post-closing adjustments with the purchase price allocation not yet complete.

Safran Aerosystems Arresting Company ("arresting systems acquisition")

On June 30, 2022, the Corporation completed its arresting systems acquisition for $249 million. The Purchase Agreement contains a purchase price adjustment mechanism and representations and warranties customary for a transaction of this type. The acquired business is a designer and manufacturer of mission-critical, fixed-wing aircraft emergency arresting system, and operates within the Naval & Power segment. The acquisition is subject to post-closing adjustments with the purchase price allocation not yet complete.

4. ASSETS HELD FOR SALE

During the fourth quarter of 2020, the Corporation committed to a plan to sell its industrial valve business in Germany, which met the criteria to be classified as held for sale at that time. Accordingly, the assets and liabilities of the business were presented as held for sale in the Corporation's Consolidated Balance Sheet, which resulted in impairment losses of $19 million and $33 million for the years ended December 31, 2021 and 2020, respectively.

In January 2022, the Corporation completed the sale of its industrial valve business in Germany, which was presented as held for sale in the Corporation's Consolidated Balance Sheet as of December 31, 2021, for gross cash proceeds of $3 million. The Corporation recorded a loss of $5 million upon sale closing during the first quarter of 2022.

5. RECEIVABLES

Receivables include current notes, amounts billed to customers, claims, other receivables, and unbilled revenue on long-term contracts, which consists of amounts recognized as sales but not billed. Substantially all amounts of unbilled receivables are expected to be billed and collected in the subsequent year. An immaterial amount of billed receivables are subject to retainage provisions. The amount of claims and unapproved change orders within our receivables balances is immaterial.

The Corporation is either a prime contractor or subcontractor to various agencies of the U.S. Government. Revenues derived directly and indirectly from government sources (primarily the U.S. Government) were 54% and 55% of total net sales in 2022 and 2021, respectively. Total receivables due from government sources (primarily the U.S Government) were $474.5 million and $401.0 million as of December 31, 2022 and 2021, respectively. Government (primarily the U.S. Government) unbilled receivables, net of progress payments, were $280.6 million and $253.5 million as of December 31, 2022 and 2021, respectively.

The composition of receivables as of December 31 is as follows:

(In thousands)	2022	2021
Billed receivables:		
Trade and other receivables	$ 412,682	$ 362,007
Unbilled receivables:		
Recoverable costs and estimated earnings not billed	316,682	291,758
Less: Progress payments applied	(67)	(1,297)
Net unbilled receivables	316,615	290,461
Less: Allowance for doubtful accounts	(4,694)	(5,320)
Receivables, net	$ 724,603	$ 647,148

6. INVENTORIES

Inventoried costs contain amounts relating to long-term contracts and programs with long production cycles, a portion of which will not be realized within one year. The caption "Inventoried costs related to U.S. Government and other long-term contracts" includes an immaterial amount of claims or other similar items subject to uncertainty concerning their determination or realization. Inventories are valued at the lower of cost or net realizable value.

The composition of inventories as of December 31 is as follows:

(In thousands)	2022	2021
Raw materials	$ 242,116	$ 191,066
Work-in-process	76,328	78,221
Finished goods	128,090	98,944
Inventoried costs related to U.S. Government and other long-term contracts (1)	39,685	48,619
Inventories, net of reserves	486,219	416,850
Less: Progress payments applied	(3,106)	(5,283)
Inventories, net	$ 483,113	$ 411,567

(1) As of December 31, 2022, this caption also includes capitalized development costs of $16.8 million related to certain aerospace and defense programs. These capitalized costs will be liquidated as units are produced and sold under contract. As of December 31, 2022, capitalized development costs of $11.0 million are not currently supported by existing firm orders.

7. PROPERTY, PLANT, AND EQUIPMENT

The composition of property, plant, and equipment as of December 31 is as follows:

(In thousands)	2022	2021
Land	$ 16,880	$ 17,615
Buildings and improvements	252,713	239,217
Machinery, equipment, and other	866,761	885,970
Property, plant, and equipment, at cost	1,136,354	1,142,802
Less: Accumulated depreciation	(793,646)	(782,771)
Property, plant, and equipment, net	$ 342,708	$ 360,031

Depreciation expense for the years ended December 31, 2022, 2021, and 2020 was $51 million, $55 million, and $55 million, respectively.

8. GOODWILL

The changes in the carrying amount of goodwill for 2022 and 2021 are as follows:

(In thousands)	Aerospace & Industrial	Defense Electronics	Naval & Power	Consolidated
December 31, 2020	$ 316,921	$ 703,915	$ 434,301	$ 1,455,137
Adjustments [1]	—	12,943	—	12,943
Foreign currency translation adjustment	(774)	(2,844)	(1,436)	(5,054)
December 31, 2021	$ 316,147	$ 714,014	$ 432,865	$ 1,463,026
Acquisitions	12,445	—	94,148	106,593
Adjustments	—	967	—	967
Foreign currency translation adjustment	(7,042)	(12,195)	(6,714)	(25,951)
December 31, 2022	$ 321,550	$ 702,786	$ 520,299	$ 1,544,635

[1] Amount primarily relates to post-closing adjustments on the Corporation's acquisition of PacStar in October 2020.

The purchase price allocations relating to the businesses acquired are initially based on estimates. The Corporation adjusts these estimates based upon final analysis, including input from third party appraisals, when deemed appropriate. The determination of fair value is finalized no later than twelve months from acquisition. Goodwill adjustments represent subsequent adjustments to the purchase price allocation for acquisitions.

The Corporation completed its annual goodwill impairment testing as of October 31, 2022, 2021, and 2020 and concluded that there was no impairment of goodwill.

9. OTHER INTANGIBLE ASSETS, NET

Intangible assets are generally the result of acquisitions and consist primarily of purchased technology, customer related intangibles, and trademarks. Intangible assets are amortized over useful lives that generally range between 1 and 20 years.

The following tables present the cumulative composition of the Corporation's intangible assets as of December 31, 2022 and December 31, 2021, respectively.

	2022			2021		
(In thousands)	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Technology	$ 306,160	$ (176,675)	$ 129,485	$ 274,615	$ (164,077)	$ 110,538
Customer-related intangibles	666,638	(298,160)	368,478	568,720	(270,816)	297,904
Programs [1]	144,000	(34,200)	109,800	144,000	(27,000)	117,000
Other intangible assets	53,879	(40,745)	13,134	49,559	(36,924)	12,635
Total	$ 1,170,677	$ (549,780)	$ 620,897	$ 1,036,894	$ (498,817)	$ 538,077

[1] Programs include values assigned to major programs of acquired businesses and represent the aggregate value associated with the customer relationships, contracts, technology, and trademarks underlying the associated program.

During the year ended December 31, 2022, the Corporation acquired intangible assets of $147 million as a result of the Corporation's Keronite and arresting systems acquisitions, which included Customer-related intangibles of $106 million, Technology of $36 million, and Other intangible assets of $5 million. The weighted average amortization periods for these aforementioned intangible assets are 16.1 years, 14.9 years, and 10.0 years, respectively. During the year ended December 31, 2021, the Corporation did not acquire any intangible assets. However, as a result of finalizing the purchase price allocation related to the Corporation's acquisition of PacStar, approximately $12 million of intangible assets were reclassified to goodwill during 2021.

Amortization expense for the years ended December 31, 2022, 2021, and 2020 was $61 million, $60 million, and $61 million, respectively. The estimated future amortization expense of intangible assets over the next five years is as follows:

(In millions)		
2023	$	65
2024	$	56
2025	$	54
2026	$	53
2027	$	50

10. LEASES

The Corporation conducts a portion of its operations from leased facilities, which include manufacturing and service facilities, administrative offices, and warehouses. In addition, the Corporation leases machinery and office equipment under operating leases. Our leases have remaining lease terms ranging from approximately 1 year to 15 years, some of which include options for renewals, escalations, or terminations. Rental expenses for all operating leases amounted to $42 million, $42 million, and $41 million for the years ended December 31, 2022, 2021, and 2020, respectively.

Generally, the Corporation's lease contracts do not provide a readily determinable interest rate. Accordingly, the Corporation determines the incremental borrowing rate as of the lease commencement date in order to calculate the present value of its lease payments. The incremental borrowing rate is determined based on information available at the lease commencement date, including the lease term, market rates for the Corporation's outstanding debt, as well as market rates for debt of companies with similar credit ratings.

The components of lease expense were as follows:

	Year Ended	
(In thousands)	December 31, 2022	December 31, 2021
Operating lease cost	$ 42,125	$ 41,663
Finance lease cost:		
Depreciation of finance leases	$ 1,037	$ 1,037
Interest on lease liabilities	390	431
Total finance lease cost	$ 1,427	$ 1,468

Supplemental cash flow information related to leases was as follows:

	Year Ended	
(In thousands)	December 31, 2022	December 31, 2021
Cash used for operating activities:		
Operating cash flows used for operating leases	$ (34,186)	$ (33,352)
Operating cash flows used for finance leases	(390)	(431)
Non-cash activity:		
Right-of-use assets obtained in exchange for operating lease obligations	$ 17,740	$ 9,040

Supplemental balance sheet information related to leases was as follows:

(In thousands, except lease term and discount rate)	As of December 31, 2022	2021
Operating Leases		
Operating lease right-of-use assets, net	$ 153,855	$ 143,613
Other current liabilities	$ 29,910	$ 25,389
Long-term operating lease liability	132,275	127,152
Total operating lease liabilities	$ 162,185	$ 152,541
Finance Leases		
Property, plant, and equipment	$ 15,561	$ 15,561
Accumulated depreciation	(8,645)	(7,608)
Property, plant, and equipment, net	$ 6,916	$ 7,953
Other current liabilities	$ 1,098	$ 1,019
Other liabilities	7,924	9,022
Total finance lease liabilities	$ 9,022	$ 10,041
Weighted average remaining lease term		
Operating leases	7.5 years	8.3 years
Finance leases	6.7 years	7.7 years
Weighted average discount rate		
Operating leases	3.80 %	3.51 %
Finance leases	4.05 %	4.05 %

Maturities of lease liabilities were as follows:

(In thousands)	As of December 31, 2022 Operating Leases	Finance Leases
2023	$ 35,688	$ 1,445
2024	32,830	1,481
2025	25,728	1,518
2026	21,025	1,556
2027	15,787	1,595
Thereafter	57,854	2,743
Total lease payments	188,912	10,338
Less: imputed interest	(26,727)	(1,316)
Total	$ 162,185	$ 9,022

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

Forward Foreign Exchange and Currency Option Contracts

The Corporation has foreign currency exposure, primarily in the United Kingdom, Canada, and Europe. The Corporation uses financial instruments, such as forward and option contracts, to hedge a portion of existing and anticipated foreign currency denominated transactions. The purpose of the Corporation's foreign currency risk management program is to reduce volatility in earnings caused by exchange rate fluctuations. Guidance on accounting for derivative instruments and hedging activities requires companies to recognize all of the derivative financial instruments as either assets or liabilities at fair value in the Consolidated Balance Sheets.

Interest Rate Risks and Related Strategies

The Corporation's primary interest rate exposure results from changes in U.S. dollar interest rates. The Corporation's policy is to manage interest cost using a mix of fixed and variable rate debt. The Corporation periodically uses interest rate swaps to manage such exposures. Under these interest rate swaps, the Corporation exchanges, at specified intervals, the difference between fixed and floating interest amounts calculated by reference to an agreed-upon notional principal amount. The Corporation's foreign exchange contracts and interest rate swaps are considered Level 2 instruments which are based on market based inputs or unobservable inputs and corroborated by market data such as quoted prices, interest rates, or yield curves.

For interest rate swaps designated as fair value hedges (i.e., hedges against the exposure to changes in the fair value of an asset or a liability or an identified portion thereof that is attributable to a particular risk), changes in the fair value of the interest rate swaps offset changes in the fair value of the fixed rate debt due to changes in market interest rates.

Effects on Consolidated Balance Sheet

As of December 31, 2022 and December 31, 2021, the fair values of the asset and liability derivative instruments were immaterial.

Effects on Consolidated Statement of Earnings

Undesignated hedges

The location and amount of losses recognized in income on forward exchange derivative contracts not designated for hedge accounting for the years ended December 31, were as follows:

(In thousands)	2022	2021	2020
Forward exchange contracts:			
General and administrative expenses	$ 8,378	$ 1,499	$ 2,312

Debt

The estimated fair value amounts were determined by the Corporation using available market information, which is primarily based on quoted market prices for the same or similar issues as of December 31, 2022. The fair values of our debt instruments are characterized as Level 2 measurements which are based on market-based inputs or unobservable inputs and corroborated by market data such as quoted prices, interest rates, or yield curves. The estimated fair values of the Corporation's fixed rate debt instruments as of December 31, 2022, net of debt issuance costs, totaled $1,151 million compared to a carrying value, net of debt issuance costs, of $1,248 million. The estimated fair values of the Corporation's fixed rate debt instruments as of December 31, 2021, net of debt issuance costs, totaled $1,003 million compared to a carrying value, net of debt issuance costs, of $949 million.

The fair values described above may not be indicative of net realizable value or reflective of future fair values. Furthermore, the use of different methodologies to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

12. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses consist of the following as of December 31:

(In thousands)	2022	2021
Accrued compensation	$ 87,835	$ 99,835
Accrued interest	16,412	13,092
Accrued commissions	6,807	5,533
Accrued insurance	6,418	6,202
Income taxes payable	38,187	3,235
Other	21,877	19,804
Total accrued expenses	$ 177,536	$ 147,701

Other current liabilities consist of the following as of December 31:

(In thousands)	2022	2021
Short-term operating lease liabilities	$ 29,910	$ 25,389
Warranty reserves	18,147	15,268
WEC legal reserve	10,000	15,000
Pension and other postretirement liabilities	5,013	8,054
Other	19,325	39,003
Total other current liabilities	$ 82,395	$ 102,714

13. INCOME TAXES

2017 Tax Cuts and Jobs Act

In conjunction with the enactment of the 2017 Tax Cuts and Jobs Act (the Tax Act), the Corporation recorded provisional income tax expense of $18.2 million for the year ended December 31, 2017 related to the one-time transition tax on certain foreign earnings. The finalized transition tax of $23.6 million was to be paid over 8 years pursuant to the Tax Act. The transition tax liability, which is expected to be paid in 2024 and 2025, was $7.4 million as of December 31, 2022 and December 31, 2021, respectively.

As of December 31, 2022, the Corporation reassessed its assertion around whether foreign undistributed earnings should continue to no longer be considered permanently reinvested. Consistent with the prior year findings, the Corporation continues to not record a liability for withholding taxes of a foreign subsidiary, which resulted in the reversal in 2021 of $2.8 million of tax liabilities previously recorded. The Corporation maintains its previous assertion for all other foreign subsidiaries, and has recorded a liability for withholding taxes that would arise upon distribution of the Corporation's foreign undistributed earnings.

During the fourth quarter of 2020, the Corporation committed to a plan to sell its industrial valve business in Germany. As a result, the tax consequences from those temporary differences resulting from the held for sale designation were no longer considered to be permanently reinvested. However, the Corporation did not record any provision, as it expected under tax law to recover the outside basis difference in a tax-free manner as occurred upon sale of the business in the first quarter of 2022. The global intangible low-taxed income (GILTI)-related impact associated with the sale is immaterial.

Except as noted above, the Corporation remains permanently reinvested to the extent of any outside basis differences in its foreign subsidiaries in excess of the amount of undistributed earnings as it is not practicable to determine the provision impact, if any, due to the complexities associated with this calculation.

Earnings before income taxes for the years ended December 31 consist of:

(In thousands)	2022	2021	2020
Domestic	$ 239,356	$ 271,694	$ 212,613
Foreign[(1)]	149,839	82,816	50,438
	$ 389,195	$ 354,510	$ 263,051

[(1)] The Corporation recognized a pre-tax loss of $5 million during the first quarter of 2022 pertaining to the sale of its industrial valve business in Germany, as well as pre-tax impairment losses of $19 million and $33 million in 2021 and 2020, respectively.

The provision for income taxes for the years ended December 31 consists of:

(In thousands)	2022	2021	2020
Current:			
Federal	$ 65,047	$ 57,910	$ 36,793
State	12,717	15,477	11,882
Foreign	34,520	22,034	21,841
Total current	112,284	95,421	70,516
Deferred:			
Federal	(11,413)	(7,167)	1,043
State	(4,442)	(477)	(527)
Foreign	(1,582)	(426)	(9,373)
Total deferred	(17,437)	(8,070)	(8,857)
Provision for income taxes	$ 94,847	$ 87,351	$ 61,659

The effective tax rate varies from the U.S. federal statutory tax rate for the years ended December 31, principally:

	2022	2021	2020
U.S. federal statutory tax rate	21.0 %	21.0 %	21.0 %
Add (deduct):			
State and local taxes, net of federal benefit	1.7	3.6	3.7
Foreign earnings[1]	0.7	0.2	(0.9)
Foreign loss on sale	0.2	—	—
Foreign asset impairment (held for sale)	—	1.6	1.2
Valuation allowance for foreign assets held for sale	—	0.2	1.3
R&D tax credits	(1.1)	(1.3)	(0.9)
Foreign-derived intangible income	(1.2)	(1.4)	(2.8)
All other, net	3.1	0.7	0.8
Effective tax rate	24.4 %	24.6 %	23.4 %

[1] Foreign earnings primarily include the net impact of differences between local statutory rates and the U.S. Federal statutory rate, the cost of repatriating foreign earnings, and the impact of changes to foreign valuation allowances, excluding items related to foreign assets classified as held for sale.

The components of the Corporation's deferred tax assets and liabilities as of December 31 are as follows:

(In thousands)	2022	2021
Deferred tax assets:		
Operating lease liabilities	$ 34,977	$ 32,868
Capitalized R&D expenses	23,785	—
Inventories, net	21,992	17,237
Net operating loss	9,096	5,384
Environmental reserves	8,677	9,262
Incentive compensation	8,531	6,936
Legal reserves	2,864	6,991
Other	40,965	32,665
Total deferred tax assets	150,887	111,343
Deferred tax liabilities:		
Goodwill amortization	103,174	98,947
Operating lease right-of-use assets, net	32,651	30,911
Other intangible amortization	59,966	59,056
Depreciation	15,433	13,694
Withholding taxes	13,200	12,776
Pension and other postretirement assets	29,053	29,385
Other	7,256	7,149
Total deferred tax liabilities	260,733	251,918
Valuation allowance	5,664	2,625
Net deferred tax liabilities	$ 115,510	$ 143,200

Deferred tax assets and liabilities are reflected on the Corporation's consolidated balance sheet as of December 31 as follows:

(In thousands)	2022	2021
Net noncurrent deferred tax assets	$ 7,491	$ 4,149
Net noncurrent deferred tax liabilities	123,001	147,349
Net deferred tax liabilities	$ 115,510	$ 143,200

The Corporation has income tax net operating loss carryforwards related to international operations of $21.0 million, of which $19.3 million have an indefinite life and $1.7 million which expire through 2026. The Corporation has federal and state income tax net loss carryforwards of $55.6 million, all of which are net operating losses that expire through 2041. The Corporation has recorded a deferred tax asset of $9.1 million, reflecting the benefit of the loss carryforwards related to international and domestic operations.

Management assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to utilize the existing deferred tax assets. As of December 31, 2022 the Corporation increased its valuation allowance by $2.9 million to $5.7 million, in order to measure only the portion of deferred tax assets that more likely than not will be realized. As of December 31, 2022, $3.4 million of the total valuation allowance relates to foreign tax credits arising from branch operations that the Corporation believes it will be unable to utilize. The Corporation recorded a tax provision of $2.7 million in the current year and $0.7 million in prior year related to the valuation allowance on branch foreign tax credits. The amount of the deferred tax asset considered realizable, however, could be adjusted if estimates of future taxable income during the carryforward period are reduced or if objective negative evidence in the form of cumulative losses is no longer present and additional weight may be given to subjective evidence such as projections for growth.

As of December 31, 2021, the Corporation recorded a deferred tax asset of $4.4 million on net operating losses of $14.7 million related to the held for sale industrial valve business in Germany. This resulted in a full valuation allowance against the deferred tax asset, as it is more likely than not that the losses will be forfeited as a result of the divestiture. Upon the closure of the sale of the industrial valve business in the first quarter of 2022, the Corporation removed both the deferred tax asset and associated valuation allowance, with no resulting tax impact.

Income tax payments, net of refunds, of $61.1 million, $107.1 million, and $54.0 million were made in 2022, 2021, and 2020, respectively.

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The Corporation has recorded a liability in Other liabilities for interest of $3.9 million and penalties of $2.6 million as of December 31, 2022.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

(In thousands)	2022	2021	2020
Balance as of January 1,	$ 17,018	$ 15,585	$ 12,676
Additions for tax positions of prior periods	3,004	2,877	1,497
Reductions for tax positions of prior periods	(1,732)	(1,861)	(615)
Additions for tax positions related to the current year	1,068	655	2,041
Settlements	(1,987)	(238)	(14)
Balance as of December 31,	$ 17,371	$ 17,018	$ 15,585

In many cases, the Corporation's uncertain tax positions are related to tax years that remain subject to examination by tax authorities.

The following describes the open tax years, by major tax jurisdiction, as of December 31, 2022:

United States (Federal)	2017	-	present
United States (Various states)	2011	-	present
United Kingdom	2021	-	present
Canada	2019	-	present

The Corporation does not expect any significant changes to the estimated amount of liability associated with its uncertain tax positions through the next twelve months. Included in total unrecognized tax benefits as of December 31, 2022, 2021, and 2020 is $15.1 million, $14.1 million, and $13.0 million, respectively, which if recognized, would favorably impact the effective income tax rate.

14. DEBT

Debt consists of the following as of December 31:

(In thousands)	2022 Carrying Value	2022 Estimated Fair Value	2021 Carrying Value	2021 Estimated Fair Value
Revolving credit agreement, due 2027	$ —	$ —	$ 93,900	$ 93,900
3.70% Senior notes due 2023	202,500	202,082	202,500	208,086
3.85% Senior notes due 2025	90,000	87,298	90,000	95,246
4.24% Senior notes due 2026	200,000	191,760	200,000	218,421
4.05% Senior notes due 2028	67,500	63,300	67,500	73,783
4.11% Senior notes due 2028	90,000	83,955	90,000	98,854
3.10% Senior notes due 2030	150,000	127,429	150,000	154,832
3.20% Senior notes due 2032	150,000	123,656	150,000	154,875
4.49% Senior notes due 2032	200,000	183,007	—	—
4.64% Senior notes due 2034	100,000	90,341	—	—
Total debt	1,250,000	1,152,828	1,043,900	1,097,997
Debt issuance costs, net	(1,631)	(1,631)	(949)	(949)
Unamortized interest rate swap proceeds [1]	6,031	6,031	7,659	7,659
Total debt, net	1,254,400	1,157,228	1,050,610	1,104,707
Less: current portion of long-term debt	202,500	202,082	—	—
Total long-term debt	$ 1,051,900	$ 955,146	$ 1,050,610	$ 1,104,707

[1] Represents the gain from termination of the Corporation's interest rate swap agreements on its 3.85% and 4.24% Senior Notes in February 2016, which will be amortized into interest expense over the remaining terms of the respective notes.

The weighted-average interest rate of the Corporation's Revolving Credit Agreement in 2022 and 2021 was 2.9% and 1.0%, respectively.

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The Corporation's total debt outstanding had a weighted-average interest rate of 3.4% in both 2022 and 2021, respectively.

Aggregate maturities of debt are as follows:

(In thousands)		
2023	$	202,500
2024		—
2025		90,000
2026		200,000
2027		—
Thereafter		757,500
Total	$	1,250,000

Interest payments of $42 million, $40 million, and $31 million were made in 2022, 2021, and 2020, respectively.

Revolving Credit Agreement

In May 2022, the Corporation terminated its existing credit agreement, which was set to expire in October 2023, and entered into a new credit agreement (“Credit Agreement”) with a syndicate of financial institutions. The Credit Agreement, which is set to expire in May 2027, increases the size of the Corporation’s revolving credit facility to $750 million, and expands the accordion feature to $250 million. The Corporation plans to use the Credit Agreement for general corporate purposes, which may include the funding of possible future acquisitions or supporting internal growth initiatives. As of December 31, 2022, the Corporation had $17 million in letters of credit supported by the Credit Agreement and no outstanding borrowings under the Credit Agreement. The unused credit available under the Credit Agreement as of December 31, 2022 was $733 million, which the Corporation had the ability to borrow in full without violating its debt to capitalization covenant.

The Credit Agreement contains covenants that the Corporation considers usual and customary for an agreement of this type for comparable commercial borrowers, including a maximum consolidated debt to capitalization ratio of 60% (65% for four consecutive quarters following an acquisition greater than $100 million). The Credit Agreement has customary events of default, such as non-payment of principal when due; nonpayment of interest, fees, or other amounts; cross-payment default and cross-acceleration.

Borrowings under the credit agreement accrue interest based on (i) the Secured Overnight Financing Rate (SOFR) or (ii) a base rate of the highest of (a) the Prime Rate in effect on such day, (b) the NYFRB Rate in effect on such day plus ½ of 1% and (c) the Adjusted Daily Term SOFR Rate. The interest rate and level of facility fees are dependent on certain financial ratios, as defined in the Credit Agreement. The Credit Agreement also provides customary fees, including administrative agent and commitment fees. In connection with the Credit Agreement, the Corporation paid customary transaction fees that have been deferred and are being amortized over the term of the Credit Agreement.

Senior Notes

On October 27, 2022, the Corporation issued $300 million of Senior Notes (the "2022 Notes"), consisting of $200 million of 4.49% notes that mature on October 27, 2032 and $100 million of 4.64% notes that mature on October 27, 2034. The 2022 Notes are senior unsecured obligations, equal in right of payment to the Corporation’s existing senior indebtedness. The Corporation, at its option, can prepay at any time all or any part of the 2022 Notes, subject to a make-whole payment in accordance with the terms of the Note Purchase Agreement. In connection with the issuance of the 2022 Notes, the Corporation paid customary fees that have been deferred and are being amortized over the term of the 2022 Notes. Under the terms of the Note Purchase Agreements, the Corporation is required to maintain certain financial ratios, the most restrictive of which are a debt to capitalization limit of 60% (65% for four consecutive quarters following an acquisition greater than $100 million) and an interest coverage ratio not to be less than 3 to 1. The debt to capitalization ratio (as defined per the Notes Purchase Agreement and Credit Agreement) is calculated using the same formula for all of the Corporation’s debt agreements and is a measure of the Corporation’s indebtedness to capitalization, where capitalization equals debt plus equity. The 2022 Notes also contain a cross default provision with respect to the Corporation’s other senior indebtedness.

On August 13, 2020, the Corporation issued $300 million of Senior Notes (the “2020 Notes”), consisting of $150 million of 3.10% Senior Notes that mature on August 13, 2030 and $150 million of 3.20% Senior Notes that mature on August 13, 2032. The 2020 Notes are senior unsecured obligations, equal in right of payment to the Corporation’s existing senior indebtedness. The Corporation, at its option, can prepay at any time all or any part of the 2020 Notes, subject to a make-whole payment in

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accordance with the terms of the Note Purchase Agreement. In connection with the issuance of the 2020 Notes, the Corporation paid customary fees that have been deferred and are being amortized over the term of the 2020 Notes. Under the terms of the Note Purchase Agreements, as amended, the Corporation is required to maintain certain financial ratios, the most restrictive of which are a debt to capitalization limit of 60% (65% for four consecutive quarters following an acquisition greater than $100 million) and an interest coverage ratio not to be less than 3 to 1. The debt to capitalization ratio (as defined per the Notes Purchase Agreement and Credit Agreement) is calculated using the same formula for all of the Corporation's debt agreements and is a measure of the Corporation's indebtedness to capitalization, where capitalization equals debt plus equity. The 2020 Notes also contain a cross default provision with respect to the Corporation's other senior indebtedness.

On February 26, 2013, the Corporation issued $500 million of Senior Notes (the "2013 Notes"). The 2013 Notes consisted of $225 million of 3.70% Senior Notes that mature on February 26, 2023, $100 million of 3.85% Senior Notes that mature on February 26, 2025, and $75 million of 4.05% Senior Notes that mature on February 26, 2028. $100 million of additional 4.11% Senior Notes were deferred and subsequently issued on September 26, 2013 that mature on September 26, 2028. On October 15, 2018, the Corporation made a discretionary $50 million prepayment on the $500 million 2013 Notes. The 2013 Notes are senior unsecured obligations, equal in right of payment to the Corporation's existing senior indebtedness. The Corporation, at its option, can prepay at any time all or any part of the 2013 Notes, subject to a make-whole payment in accordance with the terms of the Note Purchase Agreement. In connection with the issuance of the 2013 Notes, the Corporation paid customary fees that have been deferred and are being amortized over the term of the 2013 Notes. Under the terms of the Note Purchase Agreement, as amended, the Corporation is required to maintain certain financial ratios, the most restrictive of which are a debt to capitalization limit of 60% (65% for four consecutive quarters following an acquisition greater than $100 million) and an interest coverage ratio of less than 3 to 1. The debt to capitalization ratio (as defined per the Notes Purchase Agreement and Credit Agreement) is calculated using the same formula for all of the Corporation's debt agreements and is a measure of the Corporation's indebtedness to capitalization, where capitalization equals debt plus equity. The 2013 Notes also contain a cross default provision with respect to the Corporation's other senior indebtedness.

On December 8, 2011, the Corporation issued $300 million of Senior Notes (the "2011 Notes"). The 2011 Notes consist of $100 million of 3.84% Senior Notes that matured on December 1, 2021 and $200 million of 4.24% Senior Series Notes that mature on December 1, 2026. The 2011 Notes are senior unsecured obligations, equal in right of payment to our existing senior indebtedness. The Corporation, at its option, can prepay at any time all or any part of our 2011 Notes, subject to a make-whole payment in accordance with the terms of the Note Purchase Agreement. In connection with the 2011 Notes, the Corporation paid customary fees that have been deferred and are being amortized over the term of the 2011 Notes. Under the terms of the Note Purchase Agreement, as amended, the Corporation is required to maintain certain financial ratios, the most restrictive of which is a debt to capitalization limit of 60% (65% for four consecutive quarters following an acquisition greater than $100 million) and an interest coverage ratio of less than 3 to 1. The debt to capitalization ratio (as defined per the Notes Purchase Agreement and Credit Agreement) is calculated using the same formula for all of the Corporation's debt agreements and is a measure of the Corporation's indebtedness to capitalization, where capitalization equals debt plus equity. The 2011 Notes also contain a cross default provision with our other senior indebtedness.

As of December 31, 2022, the Corporation had the ability to borrow additional debt of $1.7 billion without violating our debt to capitalization covenant.

15. EARNINGS PER SHARE

The Corporation is required to report both basic earnings per share (EPS), based on the weighted-average number of common shares outstanding, and diluted earnings per share, based on the basic EPS adjusted for all potentially dilutive shares issuable.

As of December 31, 2022, 2021 and 2020, there were no anti-dilutive equity-based awards excluded from the calculation of diluted earnings per share.

Earnings per share calculations for the years ended December 31, 2022, 2021, and 2020, were as follows:

(In thousands, except per share data)	Net Earnings	Weighted-Average Shares Outstanding	Earnings per Share
2022			
Basic earnings per share	$ 294,348	38,386	$ 7.67
Dilutive effect of deferred stock compensation		263	
Diluted earnings per share	$ 294,348	38,649	$ 7.62
2021			
Basic earnings per share	$ 267,159	40,417	$ 6.61
Dilutive effect of deferred stock compensation		185	
Diluted earnings per share	$ 267,159	40,602	$ 6.58
2020			
Basic earnings per share	$ 201,392	41,738	$ 4.83
Dilutive effect of stock options and deferred stock compensation		261	
Diluted earnings per share	$ 201,392	41,999	$ 4.80

16. SHARE-BASED COMPENSATION PLANS

In May 2014, the Corporation adopted the Curtiss-Wright 2014 Omnibus Incentive Plan (the "2014 Omnibus Plan"). The plan replaced the Corporation's existing 2005 Long Term Incentive Plan and the 2005 Stock Plan for Non-Employee Directors (collectively the "2005 Stock Plans"). Beginning in May 2014, all awards were granted under the 2014 Omnibus Plan. The maximum aggregate number of shares of common stock that may be issued under the 2014 Omnibus Plan are 2,400,000 less one share of common stock for every one share of common stock granted under any prior plan after December 31, 2013 and prior to the effective date of the 2014 Omnibus Plan. In addition, any awards that were previously granted under any prior plan that terminate without issuance of shares shall be eligible for issuance under the 2014 Omnibus Plan. Awards under the 2014 Omnibus Plan may be in the form of stock options, stock appreciation rights, restricted stock units (RSU), other stock-based awards, performance share units (PSU), or cash-based performance units (PU).

During 2022, the Corporation granted share-based awards in the form of RSUs and PSUs. Previous grants under the 2005 Stock Plans included non-qualified stock options. Under our employee benefit program, the Corporation also provides an Employee Stock Purchase Plan (ESPP) to most active employees. Certain awards provide for accelerated vesting if there is a change in control.

The compensation cost for employee and non-employee director share-based compensation programs during 2022, 2021, and 2020 is as follows:

(In thousands)	2022	2021	2020
Employee Stock Purchase Plan	$ 1,764	$ 1,710	$ 1,625
Performance Share Units	5,069	4,850	4,909
Restricted Share Units	6,725	5,661	6,978
Other share-based payments	1,826	1,229	925
Total share-based compensation expense before income taxes	$ 15,384	$ 13,450	$ 14,437

Other share-based grants include service-based restricted stock awards to non-employee directors, who are treated as employees as prescribed by the accounting guidance on share-based payments. The compensation cost recognized follows the cost of the employee, which is primarily reflected as general and administrative expense in the Consolidated Statement of Earnings. No share-based compensation costs were capitalized during 2022, 2021, or 2020.

The following table summarizes the cash received from share-based awards on share-based compensation:

(In thousands)	2022	2021	2020
Cash received from share-based awards	$ 9,997	$ 9,705	$ 11,148

Stock Options

As of December 31, 2022 and 2021, the Corporation did not have any stock options outstanding. The total intrinsic value of stock options exercised during 2020 was $5.2 million.

Performance Share Units

The Corporation has granted performance share units to certain employees, whose three year cliff vesting is contingent upon the Corporation's total shareholder return over the three-year term beginning at the start of the fiscal year following the date of grant. Performance is measured by determining the percentile rank of the total shareholder return of the Corporation's common stock in relation to the total shareholder return of a self-constructed peer group (for awards granted in 2022) or compared to the S&P Midcap 400 Index (for awards granted in 2020 through 2021). The non-vested shares are subject to forfeiture if established performance goals are not met or employment is terminated other than due to death, disability, or retirement. Share plans are denominated in share-based units based on the fair market value of the Corporation's common stock on the date of grant. The performance share unit's compensation cost is amortized to expense on a straight-line basis over the three-year requisite service period.

Restricted Share Units

Restricted share units cliff vest at the end of the awards' vesting period. The restricted share units are service-based and thus compensation cost is amortized to expense on a straight-line basis over the requisite service period, which is typically three years. The non-vested restricted units are subject to forfeiture if employment is terminated other than due to death, disability, or retirement.

A summary of the Corporation's 2022 activity related to performance share units and restricted share units are as follows:

	Performance Share Units (PSUs)		Restricted Share Units (RSUs)	
	Shares/Units (000's)	Weighted-Average Fair Value	Shares/Units (000's)	Weighted-Average Fair Value
Nonvested as of December 31, 2021	113	$ 128.05	223	$ 106.34
Granted	22	218.58	49	149.73
Vested	(29)	138.85	(55)	114.31
Forfeited	(1)	136.77	(5)	115.68
Nonvested as of December 31, 2022	105	$ 143.69	212	$ 114.15
Expected to vest as of December 31, 2022	105	$ 143.69	212	$ 114.15

Nonvested PSUs had an intrinsic value of $17.6 million and unrecognized compensation costs of $5.2 million as of December 31, 2022. Nonvested RSUs had an intrinsic value of $35.4 million and unrecognized compensation costs of $10.5 million as of December 31, 2022. Unrecognized compensation costs related to PSUs and RSUs are expected to be recognized over 1.7 years and 2.2 years, respectively.

Employee Stock Purchase Plan

The Corporation's ESPP enables eligible employees to purchase the Corporation's common stock at a price per share equal to 85% of the fair market value at the end of each offering period. Each offering period of the ESPP lasts six months, commencing on January 1st and July 1st of each year. Compensation cost is recognized on a straight-line basis over the six-month vesting period during which employees perform related services.

17. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

The Corporation maintains nine separate and distinct pension and other post-retirement defined benefit plans, consisting of three domestic plans and six separate foreign pension plans. The domestic plans include a qualified pension plan, a non-qualified pension plan, and a postretirement health-benefits plan. The foreign plans consist of one defined benefit pension plan each in the United Kingdom, France, Canada, and Switzerland, and two in Mexico.

Domestic Plans

Qualified Pension Plan

The Corporation maintains a defined benefit pension plan (the “CW Pension Plan”) covering certain employee populations under six benefit formulas: a non-contributory non-union and union formula for certain Curtiss-Wright (CW) employees, a contributory union and non-union benefit formula for employees at the EMD business unit, and two benefit formulas providing annuity benefits for participants in the former Williams Controls salaried and union plans.

CW non-union employees hired prior to February 1, 2010 receive a final average pay benefit based on years of credited service, using the five highest consecutive years’ compensation during the last ten years of service. These employees became participants under the CW Pension Plan after one year of service and were vested after three years of service. CW non-union employees hired on or after the effective date were eligible for a cash balance benefit through December 31, 2013, and were transitioned to the new defined contribution plan, further described below. CW union employees who have negotiated a benefit under the CW Pension Plan are entitled to a benefit based on years of service multiplied by a monthly pension rate.

The formula for EMD employees is based on a career average pay benefit and covers both union and non-union employees and is designed to satisfy the requirements of relevant collective bargaining agreements. Employee contributions are withheld each pay period and are equal to 1.5% of salary. The benefits for the EMD employees are based on years of service and compensation. On December 31, 2012, the Corporation amended the CW Pension Plan to close the benefit to EMD employees hired after January 1, 2014.

Participants of the former Williams Controls Retirement Income Plan for salaried employees are either deferred vested participants or currently receiving benefits, as benefit accruals under the plan were frozen to future accruals effective January 1, 2003. Benefits in the salaried plan are based on average compensation and years of service.

Participants of the former Williams Controls UAW Local 492 Plan for union employees are entitled to a benefit based on years of service multiplied by a monthly pension rate, and may be eligible for supplemental benefits based upon attainment of certain age and service requirements.

Effective January 1, 2014, all active non-union employees participating in the final and career average pay formulas in the defined benefit plan will cease accruals 15 years from the effective date of the amendment. In addition to the sunset provision, cash balance benefit accruals for non-union participants ceased as of January 1, 2014. Non-union employees who were not currently receiving final or career average pay benefits became eligible to participate in a new defined contribution plan which provides both employer match and non-elective contribution components. Subsequent to the original amendment, the Corporation successfully negotiated the sunset provision into the bargaining agreements for all represented employees that received benefits through this plan.

As of December 31, 2022, and 2021, the Corporation had a noncurrent pension asset of $209.9 million and $233.8 million, respectively. The change in balance was primarily due to a lower return on plan assets during 2022.

Nonqualified Pension Plan

The Corporation also maintains a non-qualified restoration plan (the “CW Restoration Plan”) covering those employees of CW and EMD whose compensation or benefits exceed the IRS limitation for pension benefits. Benefits under the CW Restoration Plan are not funded, and, as such, the Corporation had an accrued pension liability of $40.4 million and $69.1 million as of December 31, 2022 and 2021, respectively. The Corporation’s contributions to the CW Restoration Plan are expected to be $3.2 million in 2023.

Other Post-Employment Benefits (OPEB) Plan

The Corporation provides post-employment benefits consisting of retiree health and life insurance to three distinct groups of employees/retirees: the CW Grandfathered plan, and plans assumed in the acquisitions of EMD and Williams Controls.

The Corporation also provides retiree health and life insurance benefits for substantially all Curtiss-Wright EMD employees. The plan provides basic health and welfare coverage for pre-65 participants based on years of service and are subject to certain caps. Effective January 1, 2011, the Corporation modified the benefit design for post-65 retirees by introducing Retiree Reimbursement Accounts (RRAs) to participants in lieu of the traditional benefit delivery. Participant accounts are funded a set amount annually that can be used to purchase supplemental coverage on the open market, effectively capping the benefit.

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The plan also provides retiree health and life insurance benefits for certain retirees of the Williams Controls salaried and union pension plans. Effective August 31, 2013, the Corporation modified the benefit design for post-65 retirees by introducing RRAs to align with the EMD delivery model.

The Corporation had an accrued postretirement benefit liability as of December 31, 2022 and 2021 of $20.0 million and $25.2 million, respectively. The Corporation expects to contribute $1.7 million to the plan during 2023. Activity associated with the postretirement benefit liability for the years ended December 31, 2022 and 2021 was immaterial.

Foreign Plans

As of December 31, 2022 and 2021, the total projected benefit obligation related to all foreign plans was $69.6 million and $107.2 million, respectively. As of December 31, 2022 the Corporation had a net pension asset of $9.8 million. As of December 31, 2021, the Corporation had a net pension asset of $12.9 million. The Corporation's contributions to the foreign plans are expected to be $2.0 million in 2023.

Components of net periodic benefit expense

The net pension and net postretirement benefit costs consisted of the following:

	Pension Benefits		
(In thousands)	2022	2021	2020
Service cost	$ 23,217	$ 26,735	$ 26,013
Interest cost	20,923	17,419	23,847
Expected return on plan assets	(54,855)	(60,286)	(67,217)
Amortization of prior service cost	(318)	(251)	(269)
Recognized net actuarial loss	17,198	28,905	23,062
Cost of settlements/curtailments	4,499	3,310	2,395
Special termination benefits	—	52	—
Net periodic benefit cost	$ 10,664	$ 15,884	$ 7,831

The cost of settlements/curtailments indicated above represents events that are accounted for under guidance on employers' accounting for settlements and curtailments of defined benefit pension plans. In 2022 and 2021, the Company recognized settlement charges related to the retirement of former executives. In 2020, settlement charges were incurred in Mexico and Switzerland. In addition, a curtailment was recognized in Mexico in 2020 as a result of the Corporation's restructuring initiatives.

The following table outlines the Corporation's consolidated disclosure of the pension benefits information described previously. The Corporation had no foreign postretirement plans. All plans were valued using a December 31, 2022 measurement date.

	Pension Benefits	
(In thousands)	2022	2021
Change in benefit obligation:		
Beginning of year	$ 979,070	$ 1,044,035
Service cost	23,217	26,735
Interest cost	20,923	17,419
Plan participants' contributions	1,229	1,304
Actuarial (gain) loss	(201,592)	(37,825)
Benefits paid	(75,770)	(68,965)
Actual expenses	(1,681)	(1,491)
Acquisitions	496	—
Divestitures	(4,341)	—
Amendments	—	(477)
Special termination benefits	—	52
Currency translation adjustments	(8,117)	(1,717)
End of year	$ 733,434	$ 979,070

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Change in plan assets:		
Beginning of year	$ 1,156,616	$ 1,050,509
Actual return on plan assets	(182,519)	163,881
Employer contribution	24,865	12,766
Plan participants' contributions	1,229	1,304
Benefits paid	(75,770)	(68,965)
Actual expenses	(1,681)	(1,491)
Currency translation adjustments	(10,038)	(1,388)
End of year	$ 912,702	$ 1,156,616
Funded status	$ 179,268	$ 177,546

	Pension Benefits	
(In thousands)	2022	2021
Amounts recognized on the balance sheet		
Noncurrent assets	$ 222,627	$ 256,422
Current liabilities	(3,272)	(6,257)
Noncurrent liabilities[(1)]	(40,087)	(72,619)
Total	$ 179,268	$ 177,546
Amounts recognized in accumulated other comprehensive income (AOCI)		
Net actuarial loss (gain)	$ 133,813	$ 120,676
Prior service cost	(239)	(544)
Total	$ 133,574	$ 120,132
Information for plans with an accumulated benefit obligation in excess of plan assets:		
Projected benefit obligation	$ 64,669	$ 101,667
Accumulated benefit obligation	61,368	95,755
Fair value of plan assets	21,311	22,792

[(1)] As of December 31, 2021, this caption includes accrued pension and other postretirement benefit costs of $4.4 million, reflected in the "Liabilities held for sale" caption within the Consolidated Balance Sheet.

Plan Assumptions

	Pension Benefits	
	2022	2021
Weighted-average assumptions in determination of benefit obligation:		
Discount rate	4.95 %	2.72 %
Rate of compensation increase	3.34 %	3.40 %
Health care cost trends:		
Rate assumed for subsequent year	N/A	N/A
Ultimate rate reached in 2032	N/A	N/A
Weighted-average assumptions in determination of net periodic benefit cost:		
Discount rate	2.72 %	2.36 %
Expected return on plan assets	5.47 %	6.18 %
Rate of compensation increase	3.40 %	3.41 %
Health care cost trends:		
Rate assumed for subsequent year	N/A	N/A
Ultimate rate reached in 2032	N/A	N/A

The Corporation applies the spot rate, or full yield curve, approach for developing discount rates. The discount rate for each plan's past service liabilities and service cost is determined by discounting the plan's expected future benefit payments using a yield curve developed from high quality bonds that are rated Aa or better by Moody's as of the measurement date. The yield curve calculation matches the notional cash inflows of the hypothetical bond portfolio with the expected benefit payments to arrive at one effective rate for these components. Interest cost is determined by applying the spot rate from the full yield curve to each anticipated benefit payment, based on the anticipated optional form elections.

The overall expected return on assets assumption is based on a combination of historical performance of the pension fund and expectations of future performance. Expected future performance is determined by weighting the expected returns for each asset class by the plan's asset allocation. The expected returns are based on long-term capital market assumptions utilizing a ten-year time horizon through consultation with investment advisors. While consideration is given to recent performance and historical returns, the assumption represents a long-term prospective return.

Pension Plan Assets

The overall objective for plan assets is to earn a rate of return over time to meet anticipated benefit payments in accordance with plan provisions. The long-term investment objective of the domestic retirement plan is to achieve a total rate of return, net of fees, which exceeds the actuarial overall expected return on asset assumptions used for funding purposes and which provides an appropriate premium over inflation. The intermediate-term objective of the domestic retirement plan, defined as three to five years, is to outperform each of the capital markets in which assets are invested, net of fees. During periods of extreme market volatility, preservation of capital takes a higher precedence than outperforming the capital markets.

The Finance Committee of the Corporation's Board of Directors is responsible for formulating investment policies, developing investment manager guidelines and objectives, and approving and managing qualified advisors and investment managers. The guidelines established define permitted investments within each asset class and apply certain restrictions such as limits on concentrated holdings, and prohibits selling securities short, buying on margin, and the purchase of any securities issued by the Corporation.

The Corporation maintains the funds of the CW Pension Plan under a trust that is diversified across investment classes and among investment managers to achieve an optimal balance between risk and return. In the first quarter of 2022, the Corporation implemented an asset de-risking strategy in recognition of the strong funded status of the plan and a desire to reduce volatility as the plan approaches the cessation of accruals in 2028. As a part of its strategy shift, the Corporation transitioned to an Outsourced Chief Investment Officer ("OCIO") model that introduces asset allocation constraints that increase the fixed income allocation over time and with changes in the funded status. Accordingly, our established target allocations for each of the following asset classes: domestic equity securities, international equity securities, and debt securities have changed. Below are the Corporation's actual and current target allocations for the CW Pension Plan, representing 91% of consolidated assets:

	As of December 31, 2022	2021	Target Exposure	Expected Range
Asset class				
Domestic equities	33%	56%	32%	27%-37%
International equities	11%	15%	13%	9%-17%
Total equity	44%	71%	45%	35%-55%
Fixed income	56%	29%	55%	45%-65%

As of December 31, 2022 and 2021, cash funds in the CW Pension Plan represented approximately 4% and 3% of portfolio assets, respectively.

Foreign plan assets represent 9% of consolidated plan assets, with most of the assets supporting the U.K. plan. Generally, the foreign plans follow a similar asset allocation strategy and are more heavily weighted in fixed income resulting in a weighted expected return on assets assumption of 6% for all foreign plans.

The Corporation may from time to time require the reallocation of assets in order to bring the retirement plans into conformity with these ranges. The Corporation may also authorize alterations or deviations from these ranges where appropriate for achieving the objectives of the retirement plans.

Fair Value Measurements

The following table presents consolidated plan assets (in thousands) using the fair value hierarchy as of December 31, 2022.

Asset Category	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 36,788	$ 3,632	$ 33,156	$ —
Equity securities- Mutual funds [1]	771,655	655,995	115,660	—
Bond funds [2]	343,630	229,973	113,657	—
Other [3]	4,543	—	—	4,543
December 31, 2021	$ 1,156,616	$ 889,600	$ 262,473	$ 4,543
Cash and cash equivalents	$ 33,272	$ 730	$ 32,542	$ —
Equity securities - Mutual funds [1]	388,343	370,028	18,315	—
Bond funds [2]	481,169	373,963	107,206	—
Other [3]	9,918	4,167	—	5,751
December 31, 2022	$ 912,702	$ 748,888	$ 158,063	$ 5,751

(1) This category consists of domestic and international equity securities. It is comprised of U.S. securities benchmarked against the S&P 500 index and Russell Mid Cap and Russell 2000 indices, international mutual funds benchmarked against the MSCI EAFE and EM indices, global equity index mutual funds associated with our U.K. based pension plans, and balanced funds associated with the U.K. and Canadian based pension plans.

(2) This category consists of This category consists of domestic and international bonds. The domestic fixed income securities consist of a portfolio of investment grade corporate debt, below investment-grade issues, fixed income exchange traded funds, and U.S. Treasury securities of intermediate and long-term duration for liability matching fixed income. International bonds consist of bond mutual funds for institutional investors associated with the Switzerland and U.K. based pension plans.

(3) This category consists of a domestic real estate fund and real estate investment trusts in Switzerland.

Valuation

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Equity securities and exchange-traded equity and bond mutual funds are valued using a market approach based on the quoted market prices of identical instruments. Pooled institutional funds are valued at their net asset values and are calculated by the sponsor of the fund.

Fixed income securities are primarily valued using a market approach utilizing various underlying pricing sources and methodologies. Real estate investment trusts are priced at net asset value based on valuations of the underlying real estate holdings using inputs such as discounted cash flows, independent appraisals, and market-based comparable data.

Cash balances in the United States are held in a pooled fund and classified as a Level 2 asset. Non-U.S. cash is valued using a market approach based on quoted market prices of identical instruments.

Activity associated with Level 3 assets held during the years ended December 31, 2022 and 2021 was immaterial.

Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid from the plans:

(In thousands)		Pension Plans
2023	$	49,927
2024		52,943
2025		54,251
2026		56,270
2027		55,995
2028 — 2032		281,544

Defined Contribution Retirement Plans

The Corporation offers all of its full-time domestic employees the opportunity to participate in a defined contribution plan. Effective January 1, 2014, all non-union employees who were not currently receiving final or career average pay benefits became eligible to receive employer contributions in the Corporation's sponsored 401(k) plan. The employer contributions include both employer match and non-elective contribution components, up to a maximum employer contribution of 7% of eligible compensation. During the year ended December 31, 2022, the expense relating to the plan was $20.9 million, consisting of $11.0 million in matching contributions to the plan in 2022, and $9.9 million in non-elective contributions, primarily paid in January 2023. Cumulative contributions of approximately $107 million are expected to be made from 2023 through 2027.

18. SEGMENT INFORMATION

The Corporation’s segments are composed of similar product groupings that serve the same or similar end markets. Based on this approach, the Corporation has three reportable segments: Aerospace & Industrial, Defense Electronics, and Naval & Power, as described below in further detail.

The Aerospace & Industrial reportable segment is comprised of businesses that provide a diversified offering of highly engineered products and services supporting critical applications primarily across the commercial aerospace and general industrial markets. The products offered include electronic throttle control devices and transmission shifters, electro-mechanical actuation control components, and surface technology services such as shot peening, laser peening and engineered coatings.

The Defense Electronics reportable segment is comprised of businesses that primarily provide products to the defense markets and to a lesser extent the commercial aerospace market. The products offered include commercial off-the-shelf (COTS) embedded computing board level modules, integrated subsystems, turret aiming and stabilization products, weapons handling systems, avionics and electronics, flight test equipment, and aircraft data management solutions.

The Naval & Power reportable segment is comprised of businesses that provide products to the naval defense market and to a lesser extent the power & process markets. The products offered include main coolant pumps, power-dense compact motors, generators, secondary propulsion systems, pumps, pump seals, valves, control rod drive mechanisms, fastening systems, specialized containment doors, airlock hatches, spent fuel management products, and fluid sealing products.

The Corporation's measure of segment profit or loss is operating income. Interest expense and income taxes are not reported on an operating segment basis as they are not considered in the segments' performance evaluation by the Corporation's chief operating decision-maker, its Chief Executive Officer.

Operating results by reportable segment are as follows:

	Year Ended December 31,		
(In thousands)	2022	2021	2020
Net sales			
Aerospace & Industrial	$ 838,885	$ 789,054	$ 807,144
Defense Electronics	693,709	727,828	610,413
Naval & Power	1,030,918	995,509	977,109
Less: Intersegment Revenues	(6,487)	(6,460)	(3,330)
Total Consolidated	$ 2,557,025	$ 2,505,931	$ 2,391,336

(In thousands)	2022	2021	2020
Operating income (expense)			
Aerospace & Industrial	$ 136,996	$ 121,817	$ 99,714
Defense Electronics	154,568	159,089	118,748
Naval & Power	177,582	141,660	108,151
Corporate and Eliminations (1)	(45,703)	(39,883)	(37,765)
Total Consolidated	$ 423,443	$ 382,683	$ 288,848
Depreciation and amortization expense			
Aerospace & Industrial	$ 34,336	$ 36,999	$ 37,690
Defense Electronics	35,120	38,136	36,188
Naval & Power	39,712	35,937	37,894
Corporate	2,859	3,312	4,131
Total Consolidated	$ 112,027	$ 114,384	$ 115,903
Segment assets			
Aerospace & Industrial	$ 1,041,562	$ 991,508	$ 1,019,203
Defense Electronics	1,546,331	1,536,369	1,542,686
Naval & Power	1,488,867	1,270,099	1,256,416
Corporate	372,842	294,581	175,445
Assets held for sale	—	10,988	27,584
Total Consolidated	$ 4,449,602	$ 4,103,545	$ 4,021,334
Capital expenditures			
Aerospace & Industrial	$ 18,554	$ 16,799	$ 20,025
Defense Electronics	3,504	3,922	3,317
Naval & Power	13,652	18,106	21,283
Corporate	2,507	2,281	2,874
Total Consolidated	$ 38,217	$ 41,108	$ 47,499

(1) Corporate and Eliminations includes pension expense, environmental remediation and administrative expenses, legal, foreign currency transactional gains and losses, and other expenses.

Reconciliations

	Year Ended December 31,		
(In thousands)	2022	2021	2020
Earnings before taxes:			
Total reportable segment operating income	$ 469,146	$ 422,566	$ 326,613
Corporate and Eliminations	(45,703)	(39,883)	(37,765)
Interest expense	46,980	40,240	35,545
Other income, net	12,732	12,067	9,748
Total consolidated earnings before tax	$ 389,195	$ 354,510	$ 263,051

	As of December 31,		
(In thousands)	2022	2021	2020
Assets:			
Total assets for reportable segments	$ 4,076,760	$ 3,797,976	$ 3,818,305
Assets held for sale	—	10,988	27,584
Non-segment cash	122,198	7,537	49,157
Other assets	250,644	287,044	126,288
Total consolidated assets	$ 4,449,602	$ 4,103,545	$ 4,021,334

Geographic Information

	Year Ended December 31,		
(In thousands)	2022	2021	2020
Revenues			
United States of America	$ 1,879,001	$ 1,856,997	$ 1,758,424
United Kingdom	102,965	93,154	90,628
Other foreign countries	575,059	555,780	542,284
Consolidated total	$ 2,557,025	$ 2,505,931	$ 2,391,336

	As of December 31,		
(In thousands)	2022	2021	2020
Long-Lived Assets - Property, plant, and equipment, net			
United States of America	$ 254,317	$ 261,658	$ 271,299
United Kingdom	27,049	31,594	34,221
Other foreign countries	61,342	66,779	72,680
Consolidated total	$ 342,708	$ 360,031	$ 378,200

19. CONTINGENCIES AND COMMITMENTS

From time to time, the Corporation and its subsidiaries are involved in legal proceedings that are incidental to the operation of our business. Some of these proceedings allege damages relating to asbestos and environmental exposures, intellectual property matters, copyright infringement, personal injury claims, employment and employee benefit matters, government contract issues, commercial or contractual disputes, and acquisitions or divestitures. The Corporation continues to defend vigorously against all claims. Although the ultimate outcome of any legal matter cannot be predicted with certainty, based on present information, including assessment of the merits of the particular claim, as well as current accruals and insurance coverage, the Corporation does not believe that the disposition of any of these matters, individually or in the aggregate, will have a material adverse effect on its consolidated financial condition, results of operations, and cash flows.

Legal Proceedings

The Corporation has been named in a number of lawsuits that allege injury from exposure to asbestos. To date, the Corporation has not been found liable for or paid any material sum of money in settlement in any asbestos-related case. The Corporation

believes its minimal use of asbestos in its past operations and the relatively non-friable condition of asbestos in its products make it unlikely that it will face material liability in any asbestos litigation, whether individually or in the aggregate. The Corporation maintains insurance coverage for these potential liabilities and believes adequate coverage exists to cover any unanticipated asbestos liability. The Corporation is party to a number of other legal actions and claims, none of which individually or in the aggregate, in the opinion of management, are expected to have a material effect on the Corporation's results of operations or financial position.

Letters of Credit and Other Arrangements

The Corporation enters into standby letters of credit agreements and guarantees with financial institutions and customers primarily relating to guarantees of repayment, future performance on certain contracts to provide products and services, and to secure advance payments from certain international customers. As of December 31, 2022 and 2021, there were $17 million and $21 million of stand-by letters of credit outstanding, respectively, and $3 million and $5 million of bank guarantees outstanding, respectively.

The Corporation, through its Electro-Mechanical Division (EMD) business unit, has three Pennsylvania Department of Environmental Protection (PADEP) radioactive materials licenses that are utilized in the continued operation of the EMD business. In connection with these licenses, the Corporation has known conditional asset retirement obligations related to asset decommissioning activities to be performed in the future, when the Corporation terminates these licenses. For two of the three licenses, the Corporation has recorded an asset retirement obligation of approximately $8 million. For its third license, the Corporation has not recorded an asset retirement obligation as it is not reasonably estimable due to insufficient information about the timing and method of settlement of the obligation. Accordingly, this obligation has not been recorded in the Consolidated Financial Statements. A liability for this obligation will be recorded in the period when sufficient information regarding timing and method of settlement becomes available to make a reasonable estimate of the liability's fair value. The Corporation is required to provide the Nuclear Regulatory Commission financial assurance demonstrating its ability to cover the cost of decommissioning its Cheswick, Pennsylvania facility upon closure, though the Corporation does not intend to close this facility. The Corporation has provided this financial assurance in the form of a $35 million surety bond.

AP1000 Program

EMD is the reactor coolant pump (RCP) supplier for the Westinghouse Electric Company (WEC) AP1000 nuclear power plants in China and the United States. The terms of the AP1000 U.S. and China contracts include liquidated damage provisions for failure to meet contractual delivery dates if the Corporation caused the delay and the delay was not excusable. While the Corporation did not meet certain contractual delivery dates under its AP1000 U.S. and China contracts, there are significant counterclaims and uncertainties as to which parties are responsible for the delay.

In February 2022, the Corporation and WEC executed a settlement agreement to resolve all open claims and counterclaims under the AP1000 U.S. and China contracts. Under the terms of the settlement agreement, the Corporation paid WEC $15 million in March 2022 and is required to pay WEC a final amount of $10 million in the first quarter of 2023 in exchange for the Corporation's full release from all open claims under such contracts, whether known or unknown. Under the settlement, the parties also negotiated and executed a right of first refusal for all future AP1000 projects. As of December 31, 2021, the Corporation was adequately accrued regarding this matter.

20. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The total cumulative balance of each component of accumulated other comprehensive income (loss), net of tax, is as follows:

(In thousands)	Foreign currency translation adjustments, net	Total pension and postretirement adjustments, net	Accumulated other comprehensive income (loss)
December 31, 2020	$ (88,737)	$ (222,119)	$ (310,856)
Other comprehensive loss before reclassifications [1]	(10,829)	107,211	96,382
Amounts reclassified from accumulated other comprehensive income [1]	—	24,009	24,009
Net current period other comprehensive income (loss)	(10,829)	131,220	120,391
December 31, 2021	$ (99,566)	$ (90,899)	$ (190,465)
Other comprehensive loss before reclassifications [1]	(61,241)	(23,447)	(84,688)
Amounts reclassified from accumulated other comprehensive income [1]	—	16,237	16,237
Net current period other comprehensive loss	(61,241)	(7,210)	(68,451)
December 31, 2022	$ (160,807)	$ (98,109)	$ (258,916)

(1) All amounts are after tax.

Details of amounts reclassified from accumulated other comprehensive income (loss) are below:

	Amount reclassified from Accumulated other comprehensive income (loss)		Affected line item in the Consolidated Statement of Earnings
(In thousands)	2022	2021	
Defined benefit pension and postretirement plans			
Amortization of prior service costs	$ 345	$ 555	Other income, net
Recognized net actuarial losses	(17,198)	(28,905)	Other income, net
Settlements	(4,499)	(3,310)	Other income, net
	(21,352)	(31,660)	Earnings before income taxes
	5,115	7,651	Provision for income taxes
Total reclassifications	$ (16,237)	$ (24,009)	Net earnings

* * * * * *

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Report of the Corporation

The Consolidated Financial Statements appearing in Item 8 of this Annual Report on Form 10-K have been prepared by the Corporation in conformity with accounting principles generally accepted in the United States of America. The financial statements necessarily include some amounts that are based on the best estimates and judgments of the Corporation. Other financial information in this Annual Report on Form 10-K is consistent with that in the Consolidated Financial Statements.

The Corporation maintains accounting systems, procedures, and internal accounting controls designed to provide reasonable assurance that assets are safeguarded and that transactions are executed in accordance with the appropriate corporate authorization and are properly recorded. The accounting systems and internal accounting controls are augmented by written policies and procedures, organizational structure providing for a division of responsibilities, selection and training of qualified personnel, and an internal audit program. Management of the Corporation has completed an assessment of the Corporation's internal controls over financial reporting and has included "Management's Annual Report on Internal Control Over Financial Reporting" in Item 9A of this Annual Report on Form 10-K.

Deloitte & Touche LLP, our independent registered public accounting firm, performed an integrated audit of the Corporation's Consolidated Financial Statements that also included forming an opinion on the internal controls over financial reporting of the Corporation for the year ended December 31, 2022. An audit includes examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The objective of their audit is the expression of an opinion on the Corporation's Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States of America, in all material respects, and on the internal controls over financial reporting as of December 31, 2022.

The Audit Committee of the Board of Directors, composed entirely of directors who are independent of the Corporation, appoints the independent registered public accounting firm for ratification by stockholders and, among other things, considers the scope of the independent registered public accounting firm's examination, the audit results, and the adequacy of internal accounting controls of the Corporation. The independent registered public accounting firm and the internal auditor have direct access to the Audit Committee, and they meet with the committee from time to time, with and without management present, to discuss accounting, auditing, non-audit consulting services, internal control, and financial reporting matters.

Report of Independent Registered Public Accounting Firm

To the stockholders and the Board of Directors of Curtiss-Wright Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Curtiss-Wright Corporation and subsidiaries (the "Company") as of December 31, 2022 and 2021, the related consolidated statements of earnings, comprehensive income, cash flows and stockholders' equity, for each of the three years in the period ended December 31, 2022, and the related notes and the schedule listed in the Index at Item 15 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2022, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 22, 2023, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the 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 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 financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the 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.

Goodwill – Certain Reporting Units – Refer to Notes 1 and 8 to the financial statements

Critical Audit Matter Description

The Company tests for goodwill impairment annually, at the reporting unit level, in the fourth quarter. Additionally, goodwill is tested for impairment when an event occurs or if circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The goodwill balance was $1.5 billion as of December 31, 2022, of which amounts were assigned to two reporting units which were subject to a quantitative assessment to assess if the fair value of the respective reporting unit exceeded its carrying value.

When performing the quantitative assessment, the Company considered both comparative market multiples as well as estimated discounted cash flows for the reporting units. The significant estimates and assumptions include, but are not limited to, revenue growth rates, operating margins, and future economic and market conditions. The discount rates are based upon the reporting unit's weighted average cost of capital. The estimated fair values of these reporting units exceeded their carrying amounts and there was no impairment of goodwill.

We identified goodwill for these two reporting units as a critical audit matter because of the significant judgments made by management to estimate their fair value. This required a high degree of auditor judgment and an increased extent of effort, including the need to involve our fair value specialists, when performing audit procedures to evaluate the reasonableness of management's estimates and assumptions related to forecasts of future revenue growth rates, operating margins, and future economic and market conditions, and the selection of market multiples and discount rates.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the forecasts of future revenue growth rates, operating margins, and future economic and market conditions (the “forecasts”), and the selection of market multiples and discount rates for these two reporting units included the following:

- We tested the effectiveness of controls over management’s goodwill impairment evaluation, including those over the determination of the fair value, such as controls related to forecasts and management’s selection of market multiples and discount rates.

- We evaluated management’s ability to accurately forecast future revenue growth rates, operating margins, and future economic and market conditions by comparing actual results to management’s historical forecasts.

- We evaluated the reasonableness of management’s forecasts by comparing the forecasts to:

  – Historical operating results of the reporting unit.
  – Internal communications to senior management.
  – Third-party industry reports for similar products.

- With the assistance of our fair value specialists, we evaluated the reasonableness of the selected (1) market multiples and (2) discount rates by:

  – Researching and analyzing valuation market multiples for guideline public companies.
  – Testing the source information underlying the determination of the discount rates and the mathematical accuracy of the calculations.
  – Developing a range of independent estimates and comparing those to the discount rates selected by management.

/s/ Deloitte & Touche LLP

Morristown, New Jersey
February 22, 2023

We have served as the Company's auditor since 2003.

Report of Independent Registered Public Accounting Firm

To the stockholders and the Board of Directors of Curtiss-Wright Corporation

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Curtiss-Wright Corporation and subsidiaries (the "Company") as of December 31, 2022, 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 Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2022, of the Company and our report dated February 22, 2023, expressed an unqualified opinion on those financial statements.

As described in Management's Annual Report on Internal Control Over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Safran Aerosystems Arresting Company, and Keronite Group Limited, which were acquired on June 30, 2022 and November 15, 2022, respectively, and whose financial statements constitute 2% of total net sales and 3% of total assets of the consolidated financial statement amounts (excluding acquired intangible assets and goodwill) as of and for year ended December 31, 2022. Accordingly, our audit did not include the internal control over financial reporting at Safran Aerosystems Arresting Company, and Keronite Group Limited.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the 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 audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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 (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) 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 (3) 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.

/s/ Deloitte & Touche LLP

Morristown, New Jersey

February 22, 2023

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Disclosure Controls and Procedures

As of December 31, 2022, the Corporation's management, including the Corporation's Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the Corporation's disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on such evaluation, the Corporation's Chief Executive Officer and Chief Financial Officer concluded that the Corporation's disclosure controls and procedures are effective as of December 31, 2022 insofar as they are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms, and they include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Management's Annual Report On Internal Control Over Financial Reporting

The Corporation's management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended.

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

The Corporation's management assessed the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2022. In making this assessment, the Corporation's management used the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. However, under guidelines established by the SEC, companies are allowed to exclude acquired businesses from management's report on internal control over financial reporting for the first year subsequent to acquisition. Accordingly, in making its assessment of internal control over financial reporting as of December 31, 2022, management excluded the internal control activities of the Corporation's current period acquisitions: Keronite and arresting systems acquisition. The aforementioned acquisitions constituted approximately 2% of total net sales and 3% of total assets (excluding acquired intangible assets and goodwill) as of and for the year ended December 31, 2022. Based on management's assessment, management believes that as of December 31, 2022, the Corporation's internal control over financial reporting is effective based on the established criteria.

The Corporation's internal controls over financial reporting as of December 31, 2022 have been audited by Deloitte & Touche LLP (PCAOB ID No. 34), an independent registered public accounting firm, and their report thereon is included in Item 8 of this Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections.

Not applicable.

PART III

The information required by Items 10, 11, 12, 13, and 14 of Part III of this Annual Report on Form 10-K, to the extent not set forth herein, is incorporated herein by reference from the registrant's definitive proxy statement relating to the annual meeting of stockholders to be held on May 4, 2023 which definitive proxy statement shall be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates. Information required by Item 401(b) of

Regulation S-K is included in Part I of this report under the caption "Executive Officers" and information required by Item 201(d) of Regulation S-K is included in Part II of this report under the caption "Securities Authorized For Issuance Under Equity Compensation Plans."

PART IV

Item 15. Exhibits, Financial Statement Schedule.

(b) Exhibits

		Incorporated by Reference		Filed
Exhibit No.	Exhibit Description	Form	Filing Date	Herewith
2.1	Agreement and Plan of Merger and Recapitalization, dated as of February 1, 2005, by and between the Registrant and CW Merger Sub, Inc.	8-K	February 3, 2005	
3.1	Amended and Restated Certificate of Incorporation	8-A12B/A	May 24, 2005	
3.2	Amended and Restated By-Laws	8-K	May 18, 2015	
4.1	Form of stock certificate for Common Stock	8-A12B/A	May 24, 2005	
4.2	Description of Registrant's Securities	DEF 14A	May 24, 2005	
10.1	Form of Long Term Incentive Award Agreement, between the Registrant and the executive officers of the Registrant*	10-K	March 7, 2006	
10.2	Revised Standard Employment Severance Agreement with Senior Management of the Registrant*	10-K	February 25, 2021	
10.3	Amended and Restated Retirement Benefits Restoration Plan as amended January 1, 2009.*	10-K	February 25, 2011	
10.4	Instrument of Amendment No. 1 to Amended and Restated Retirement Benefits Restoration Plan as amended January 1, 2009*	10-K	February 24, 2012	

10.5	Instrument of Amendment No. 2 to Amended and Restated Retirement Benefits Restoration Plan as amended January 1, 2009*	10-K	February 19, 2015
10.6	Instrument of Amendment No. 3 to Amended and Restated Retirement Benefits Restoration Plan as amended January 1, 2009*	10-K	February 19, 2015
10.7	Instrument of Amendment No. 4 to Amended and Restated Retirement Benefits Restoration Plan as amended January 1, 2009*	10-K	February 25, 2016
10.8	Curtiss-Wright Corporation Retirement Plan, as Amended and Restated effective January 1, 2019*	10-K	February 24, 2022
10.9	Instrument of Amendment No. 1 to Curtiss-Wright Corporation Retirement Plan, as Amended and Restated effective January 1, 2019*	10-K	February 24, 2022
10.10	Curtiss-Wright Corporation Savings and Investment Plan, as Amended and Restated effective as of January 1, 2015*	10-K	February 25, 2016
10.11	Instrument of Amendment No. 1 to the Curtiss-Wright Corporation Savings and Investment Plan, as Amended and Restated effective January 1, 2015*	10-K	February 25, 2016
10.12	Instrument of Amendment No. 2 to the Curtiss-Wright Corporation Savings and Investment Plan, as Amended and Restated effective January 1, 2015*	10-K	February 21, 2017
10.13	Instrument of Amendment No. 3 to the Curtiss-Wright Corporation Savings and Investment Plan, as Amended and Restated effective January 1, 2015*	10-K	February 21, 2017
10.14	Instrument of Amendment No. 4 to the Curtiss-Wright Corporation Savings and Investment Plan, as Amended and Restated effective January 1, 2015*	10-K	February 21, 2017
10.15	Instrument of Amendment No. 5 to the Curtiss-Wright Corporation Savings and Investment Plan, as Amended and Restated effective January 1, 2015*	10-K	February 22, 2018
10.16	Instrument of Amendment No. 6 to the Curtiss-Wright Corporation Savings and Investment Plan, as Amended and Restated effective January 1, 2015*	10-K	February 22, 2018
10.17	Instrument of Amendment No. 7 to the Curtiss-Wright Corporation Savings and Investment Plan, as Amended and Restated effective January 1, 2015*	10-K	February 27, 2019
10.18	Instrument of Amendment No. 8 to the Curtiss-Wright Corporation Savings and Investment Plan, as Amended and Restated effective January 1, 2015*	10-K	February 27, 2019
10.19	Instrument of Amendment No. 9 to the Curtiss-Wright Corporation Savings and Investment Plan, as Amended and Restated effective January 1, 2015*	10-K	February 27, 2019
10.20	Instrument of Amendment No. 10 to the Curtiss-Wright Corporation Savings and Investment Plan, as Amended and Restated effective January 1, 2015*	10-Q	August 1, 2019
10.21	Instrument of Amendment No. 11 to the Curtiss-Wright Corporation Savings and Investment Plan, as Amended and Restated effective January 1, 2015*	10-Q	August 1, 2019
10.22	Instrument of Amendment No. 12 to the Curtiss-Wright Corporation Savings and Investment Plan, as Amended and Restated effective January 1, 2015*	10-K	February 27, 2020
10.23	Instrument of Amendment No. 13 to the Curtiss-	10-K	February 25, 2

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10.23	Instrument of Amendment No. 13 to the Curtiss-Wright Corporation Savings and Investment Plan, as Amended and Restated effective January 1, 2015*	10-K	February 23, 2021

10.24	Instrument of Amendment No. 14 to the Curtiss-Wright Corporation Savings and Investment Plan, as Amended and Restated effective January 1, 2015*	10-K	February 24, 2022	
10.25	Instrument of Amendment No. 15 to the Curtiss-Wright Corporation Savings and Investment Plan, as Amended and Restated effective January 1, 2015*	10-K	February 24, 2022	
10.26	Instrument of Amendment No. 16 to the Curtiss-Wright Corporation Savings and Investment Plan, as Amended and Restated effective January 1, 2015*			X
10.27	Curtiss-Wright Corporation 2014 Omnibus Incentive Plan*	14A	March 21, 2014	
10.28	Curtiss-Wright Corporation Retirement Savings Restoration Plan*	10-K	February 19, 2015	
10.29	Instrument of Amendment No. 1 to the Curtiss-Wright Corporation Retirement Savings Restoration Plan*	10-K	February 25, 2016	
10.30	Form of indemnification Agreement entered into by the Registrant with each of its directors	10-Q	May 7, 2012	
10.31	Amended and Restated Curtiss-Wright Electro-Mechanical Corporation Savings Plan, dated January 1, 2010*	10-K	February 25, 2011	
10.32	Instrument of Amendment No.1 to the Amended and Restated Curtiss-Wright Electro-Mechanical Corporation Savings Plan, dated January 1, 2010*	10-K	February 24, 2012	
10.33	Instrument of Amendment No. 2 to the Amended and Restated Curtiss-Wright Electro-Mechanical Corporation Savings Plan, dated January 1, 2010*	10-K	February 21, 2013	
10.34	Instrument of Amendment No.3 to the Amended and Restated Curtiss-Wright Electro-Mechanical Corporation Savings Plan, dated January 1, 2010*	10-K	February 21, 2013	
10.35	Instrument of Amendment No.4 to the Amended and Restated Curtiss-Wright Electro-Mechanical Corporation Savings Plan, dated January 1, 2010*	10-K	February 21, 2014	
10.36	Curtiss-Wright Corporation 2005 Stock Plan for Non-Employee Directors*	14A	April 5, 2005	
10.37	Amended and Revised Curtiss-Wright Corporation Executive Deferred Compensation Plan, as amended November 2006*	10-K	February 27, 2007	
10.38	Instrument of Amendment No. 1 to the Amended and Revised Curtiss-Wright Corporation Executive Deferred Compensation Plan, as amended August 29, 2008*	10-K	February 24, 2012	
10.39	Instrument of Amendment No. 2 to the Amended and Revised Curtiss-Wright Corporation Executive Deferred Compensation Plan, as amended August 29, 2008*	10-K	February 19, 2015	
10.40	Instrument of Amendment No. 3 to the Amended and Revised Curtiss-Wright Corporation Executive Deferred Compensation Plan, as amended August 29, 2008*	10-K	February 25, 2016	
10.41	Standard Change In Control Severance Protection Agreement, dated February 16, 2021, between the Registrant and Key Executives of the Registrant*	10-K	February 25, 2021	
10.42	Curtiss-Wright Corporation Employee Stock Purchase Plan, as amended May 10, 2018*	14A	March 23, 2018	
10.43	Incentive Compensation Plan, as amended November 15, 2010 *	14A	March 24, 2011	

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10.44	Restricted Stock Unit Agreement, dated February 6, 2019, by and between the Registrant and Lynn M. Bamford*	10-K	February 24, 2022
10.45	Restricted Stock Unit Agreement, dated February 6, 2019, by and between the Registrant and Kevin M. Rayment*	10-K	February 24, 2022
10.46	Restricted Stock Unit Agreement, dated December 16, 2021, by and between the Registrant and K. Christopher Farkas*	10-K	February 24, 2022
10.47	Restricted Stock Unit Agreement, dated December 16, 2021, by and between the Registrant and Paul J. Ferdenzi*	10-K	February 24, 2022
10.48	Restricted Stock Unit Agreement, dated December 16, 2021, by and between the Registrant and Gary A. Ogilby*	10-K	February 24, 2022
10.49	Restricted Stock Unit Agreement, dated December 16, 2021, by and between the Registrant and Robert F. Freda*	10-K	February 24, 2022
10.50	Trust Agreement, dated January 20, 1998, between the Registrant and PNC Bank, National Association	10-Q	May 13, 1998
10.51	Note Purchase Agreement between the Registrant and certain Institutional Investors, dated December 8, 2011	8-K	December 13, 2011
10.52	Restrictive Legends on Notes subject to Note Purchase Agreement between the Registrant and certain Institutional Investors, dated December 8, 2011	8-K	December 13, 2011
10.53	First Amendment and Waiver to Note Purchase Agreement between the Registrant and certain Institutional Investors, dated October 27, 2022	8-K	December 21, 2022
10.54	Second Amendment to Note Purchase Agreement between the Registrant and certain Institutional Investors, dated December 16, 2022	8-K	December 21, 2022
10.55	Note Purchase Agreement between the Registrant and certain Institutional Investors, dated February 26, 2013	8-K	February 27, 2013
10.56	Restrictive Legends on Notes subject to Note Purchase Agreement between the Registrant and certain Institutional Investors, dated February 26, 2013	8-K	February 27, 2013
10.57	First Amendment and Waiver to Note Purchase Agreement between the Registrant and certain Institutional Investors, dated October 27, 2022	8-K	December 21, 2022
10.58	Second Amendment to Note Purchase Agreement between the Registrant and certain Institutional Investors, dated December 16, 2022	8-K	December 21, 2022

10.59	Fourth Amended and Restated Credit Agreement dated as of October May 17, 2022 among the Company and Certain Subsidiaries of the Company as Borrowers; the Lenders party thereto; J.P. Morgan Chase Bank, N.A., as Administrative Agent, Swing Line Lender, and L/C Issuer; J.P. Morgan Chase Bank, N.A., BOFA Securities, Inc., and Wells Fargo Securities, LLC, as Bank of America N.A., as Administrative Agent, Swingline Lender, and L/C Issuer; Merrill Lynch, Pierce, Fenner & Smith Incorporated, JPMorgan Chase Bank, N.A., and Wells Fargo Securities, LLC, as Joint Lead Arrangers and Joint Bookrunners; Bank of America , N.A. and Wells Fargo, National Association, as Syndication Agents; and JPMorgan Chase Bank, N.A., and Wells Fargo, N.A., as Syndication Agents; and Citizens Bank, N.A., as Documentation Agents	8-K	May 18, 2022	
10.60	Note Purchase Agreement between the Registrant and certain Institutional Investors, dated August 13, 2020	8-K	August 19, 2020	
10.61	Restrictive Legends on Notes subject to Note Purchase Agreement between the Registrant and certain Institutional Investors, dated August 13, 2020	8-K	August 19, 2020	
10.62	First Amendment to Note Purchase Agreement between the Registrant and certain Institutional Investors, dated December 16, 2022	8-K	December 21, 2022	
10.63	Note Purchase Agreement between the Registrant and certain Institutional Investors, dated October 27, 2022			X
10.64	Restrictive Legends on Notes subject to Note Purchase Agreement between the Registrant and certain Institutional Investors, dated October 27, 2022			X
21.00	Subsidiaries of the Registrant			X
23.00	Consent of Independent Registered Public Accounting Firm			X
31.10	Certification of Lynn M. Bamford, Chair and CEO, Pursuant to Rule 13a - 14(a)			X
31.20	Certification of K. Christopher Farkas, Chief Financial Officer, Pursuant to Rule 13a - 14(a)			X
32.00	Certification of Lynn M. Bamford, Chair and CEO, and K. Christopher Farkas, Chief Financial Officer, Pursuant to 18 U.S.C. Section 1350			X

* Indicates contract or compensatory plan or arrangement

101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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Item 16. Form 10-K Summary

None.

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
SCHEDULE II – VALUATION and QUALIFYING ACCOUNTS
for the years ended December 31, 2022, 2021, and 2020
(In thousands)

		Additions			
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
Deducted from assets to which they apply:					
December 31, 2022					
Tax valuation allowance	2,625	3,920	1 (1)	882	5,664
Total	$ 2,625	$ 3,920	$ 1	$ 882	$ 5,664
December 31, 2021					
Tax valuation allowance	1,240	1,864	(22) (1)	457	2,625
Total	$ 1,240	$ 1,864	$ (22)	$ 457	$ 2,625
December 31, 2020					
Tax valuation allowance	3,386	3,439	50 (1)	5,635 (2)	1,240
Total	$ 3,386	$ 3,439	$ 50	$ 5,635	$ 1,240

(1) Primarily foreign currency translation adjustments.
(2) $3.8 million relates to net operating losses reclassified as held for sale.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CURTISS-WRIGHT CORPORATION
(Registrant)

Date: February 22, 2023 By: /s/ Lynn M. Bamford
Lynn M. Bamford
Chair 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.

Date: February 22, 2023 By: /s/ K. Christopher Farkas
K. Christopher Farkas
Vice President and Chief Financial Officer

Date: February 22, 2023 By: /s/ Gary A. Ogilby
Gary A. Ogilby
Vice President and Corporate Controller

Date: February 22, 2023 By: /s/ David C. Adams
David C. Adams
Director

Date: February 22, 2023 By: /s/ Dean M. Flatt
Dean M. Flatt
Director

Date: February 22, 2023 By: /s/ S. Marce Fuller
S. Marce Fuller
Director

Date: February 22, 2023 By: /s/ Bruce D. Hoechner
Bruce D. Hoechner
Director

Date: February 22, 2023 By: /s/ Glenda J. Minor
Glenda J. Minor
Director

Date: February 22, 2023 By: /s/ Anthony J. Moraco
Anthony J. Moraco
Director

Date: February 22, 2023 By: /s/ John B. Nathman
John B. Nathman
Director

Date: February 22, 2023 By: /s/ Robert J. Rivet
Robert J. Rivet
Director

Date: February 22, 2023 By: /s/ Peter C. Wallace
Peter C. Wallace
Director

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

FORM 10-Q

☒ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2022

or

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _________ to _______

Commission File Number 1-134

CURTISS-WRIGHT CORPORATION
(Exact name of Registrant as specified in its charter)

Delaware	13-0612970
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
130 Harbour Place Drive, Suite 300 Davidson, North Carolina	28036
(Address of principal executive offices)	(Zip Code)

(704) 869-4600
(Registrant's telephone number, including area code)

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	CW	New York Stock Exchange

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 of time 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 check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§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 the 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. ☐

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

Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, par value $1.00 per share: 38,445,431 shares as of April 30, 2022.

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES

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PART 1- FINANCIAL INFORMATION
Item 1. Financial Statements

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(UNAUDITED)

(In thousands, except per share data)	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
Net sales		
Product sales	$ 453,421	$ 508,975
Service sales	106,040	88,084
Total net sales	559,461	597,059
Cost of sales		
Cost of product sales	294,527	329,454
Cost of service sales	63,532	57,848
Total cost of sales	358,059	387,302
Gross profit	201,402	209,757
Research and development expenses	20,549	21,863
Selling expenses	28,092	29,596
General and administrative expenses	87,600	73,232
Loss on divestiture	4,651	—
Operating income	60,510	85,066
Interest expense	9,530	9,959
Other income, net	2,997	4,843
Earnings before income taxes	53,977	79,950
Provision for income taxes	(13,292)	(20,481)
Net earnings	$ 40,685	$ 59,469
Net earnings per share:		
Basic earnings per share	$ 1.06	$ 1.45
Diluted earnings per share	$ 1.05	$ 1.45
Dividends per share	0.18	0.17
Weighted-average shares outstanding:		
Basic	38,456	40,933
Diluted	38,668	41,103

See notes to condensed consolidated financial statements

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)
(In thousands)

	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
Net earnings	$ 40,685	$ 59,469
Other comprehensive income (loss)		
Foreign currency translation adjustments, net of tax [1]	$ (6,825)	$ (3,960)
Pension and postretirement adjustments, net of tax [2]	5,766	5,600
Other comprehensive income (loss), net of tax	(1,059)	1,640
Comprehensive income	$ 39,626	$ 61,109

[1] The tax benefit included in foreign currency translation adjustments for the three months ended March 31, 2022 and 2021 was immaterial.

[2] The tax expense included in pension and postretirement adjustments for the three months ended March 31, 2022 and 2021 was $1.4 million and $1.7 million, respectively.

See notes to condensed consolidated financial statements

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(In thousands, except per share data)

	March 31, 2022	December 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	$ 136,682	$ 171,004
Receivables, net	661,129	647,148
Inventories, net	448,122	411,567
Assets held for sale	—	10,988
Other current assets	63,942	67,101
Total current assets	1,309,875	1,307,808
Property, plant, and equipment, net	355,363	360,031
Goodwill	1,458,899	1,463,026
Other intangible assets, net	523,913	538,077
Operating lease right-of-use assets, net	147,224	143,613
Prepaid pension asset	260,238	256,422
Other assets	33,855	34,568
Total assets	**$ 4,089,367**	**$ 4,103,545**
Liabilities		
Current liabilities:		
Current portion of long-term debt	$ 202,500	$ —
Accounts payable	168,772	211,640
Accrued expenses	109,077	144,466
Income taxes payable	1,478	3,235
Deferred revenue	224,679	260,157
Liabilities held for sale	—	12,655
Other current liabilities	93,745	102,714
Total current liabilities	800,251	734,867
Long-term debt	967,744	1,050,610
Deferred tax liabilities, net	150,085	147,349
Accrued pension and other postretirement benefit costs	84,610	91,329
Long-term operating lease liability	128,897	127,152
Long-term portion of environmental reserves	13,924	13,656
Other liabilities	94,436	112,092
Total liabilities	2,239,947	2,277,055
Contingencies and commitments (Note 13)		
Stockholders' equity		
Common stock, $1 par value,100,000,000 shares authorized as of March 31, 2022 and December 31, 2021; 49,187,378 shares issued as of March 31, 2022 and December 31, 2021; outstanding shares were 38,471,738 as of March 31, 2022 and 38,469,778 as of December 31, 2021	49,187	49,187
Additional paid in capital	122,603	127,104
Retained earnings	2,942,580	2,908,827
Accumulated other comprehensive loss	(191,524)	(190,465)
Common treasury stock, at cost (10,715,640 shares as of March 31, 2022 and 10,717,600 shares as of December 31, 2021)	(1,073,426)	(1,068,163)
Total stockholders' equity	1,849,420	1,826,490
Total liabilities and stockholders' equity	**$ 4,089,367**	**$ 4,103,545**

See notes to condensed consolidated financial statements

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CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(In thousands)	Three Months Ended March 31, 2022	2021
Cash flows from operating activities:		
Net earnings	$ 40,685	$ 59,469
Adjustments to reconcile net earnings to net cash used for operating activities:		
Depreciation and amortization	27,363	28,595
Loss on divestiture	4,651	—
Gain on sale/disposal of long-lived assets	(3,070)	(349)
Deferred income taxes	803	3,629
Share-based compensation	3,809	3,327
Change in operating assets and liabilities, net of businesses acquired:		
Receivables, net	(13,414)	(27,593)
Inventories, net	(38,149)	(18,059)
Progress payments	(395)	(1,114)
Accounts payable and accrued expenses	(79,492)	(71,528)
Deferred revenue	(35,154)	(14,836)
Income taxes payable	6,927	16,247
Pension and postretirement liabilities, net	(6,034)	1,182
Other current and long-term assets and liabilities	(32,845)	(5,573)
Net cash used for operating activities	(124,315)	(26,603)
Cash flows from investing activities:		
Proceeds from sale/disposal of long-lived assets	5,567	1,022
Additions to property, plant, and equipment	(10,896)	(8,537)
Additional consideration paid on prior year acquisitions	(5,062)	(5,340)
Net cash used for investing activities	(10,391)	(12,855)
Cash flows from financing activities:		
Borrowings under revolving credit facility	241,198	65,301
Payment of revolving credit facility	(121,198)	(65,301)
Repurchases of common stock	(18,857)	(11,797)
Proceeds from share-based compensation	5,284	4,919
Other	(248)	(229)
Net cash provided by (used for) financing activities	106,179	(7,107)
Effect of exchange-rate changes on cash	(5,795)	(4,614)
Net decrease in cash and cash equivalents	(34,322)	(51,179)
Cash and cash equivalents at beginning of period	171,004	198,248
Cash and cash equivalents at end of period	$ 136,682	$ 147,069

See notes to condensed consolidated financial statements

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)
(In thousands)

	For the three months ended March 31, 2021				
	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock
December 31, 2020	$ 49,187	$ 122,535	$ 2,670,328	$ (310,856)	$ (743,620)
Net earnings	—	—	59,469	—	—
Other comprehensive income, net of tax	—	—	—	1,640	—
Dividends declared	—	—	(6,968)		—
Restricted stock	—	(6,407)	—	—	6,407
Employee stock purchase plan	—	411	—	—	4,508
Share-based compensation	—	3,230	—	—	97
Repurchase of common stock [(1)]	—	—	—	—	(11,797)
Other	—	(597)	—	—	597
March 31, 2021	$ 49,187	$ 119,172	$ 2,722,829	$ (309,216)	$ (743,808)

	For the three months ended March 31, 2022				
	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock
December 31, 2021	$ 49,187	$ 127,104	$ 2,908,827	$ (190,465)	$ (1,068,163)
Net earnings	—	—	40,685	—	—
Other comprehensive loss, net of tax	—	—	—	(1,059)	—
Dividends declared	—	—	(6,932)	—	—
Restricted stock	—	(8,523)	—	—	8,523
Employee stock purchase plan	—	814	—	—	4,470
Share-based compensation	—	3,714	—	—	95
Repurchase of common stock [(1)]	—	—	—	—	(18,857)
Other	—	(506)	—	—	506
March 31, 2022	$ 49,187	$ 122,603	$ 2,942,580	$ (191,524)	$ (1,073,426)

[(1)] For both the three months ended March 31, 2022 and 2021, the Corporation repurchased approximately 0.1 million shares of its common stock.

See notes to condensed consolidated financial statements

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
NOTES to CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. BASIS OF PRESENTATION

Curtiss-Wright Corporation and its subsidiaries (the "Corporation" or the "Company") is a global integrated business that provides highly engineered products, solutions, and services mainly to aerospace & defense (A&D) markets, as well as critical technologies in demanding commercial power, process, and industrial markets.

The unaudited condensed consolidated financial statements include the accounts of Curtiss-Wright and its majority-owned subsidiaries. All intercompany transactions and accounts have been eliminated.

The unaudited condensed consolidated financial statements of the Corporation have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in annual financial statements have been condensed or omitted as permitted by such rules and regulations. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments necessary for a fair presentation of these financial statements.

Management is required to make estimates and judgments that affect the reported amount of assets, liabilities, revenue, and expenses and disclosure of contingent assets and liabilities in the accompanying financial statements. Actual results may differ from these estimates. The most significant of these estimates includes the estimate of costs to complete using the over-time revenue recognition accounting method, pension plan and postretirement obligation assumptions, estimates for inventory obsolescence, fair value estimates around assets and assumed liabilities from acquisitions, estimates for the valuation and useful lives of intangible assets, legal reserves, and the estimate of future environmental costs. Changes in estimates of contract sales, costs, and profits are recognized using the cumulative catch-up method of accounting. This method recognizes in the current period the cumulative effect of the changes on current and prior periods. Accordingly, the effect of the changes on future periods of contract performance is recognized as if the revised estimate had been the original estimate. During the three months ended March 31, 2022 and 2021, there were no significant changes in estimated contract costs. In the opinion of management, all adjustments considered necessary for a fair presentation have been reflected in these financial statements.

The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Corporation’s 2021 Annual Report on Form 10-K. The results of operations for interim periods are not necessarily indicative of trends or of the operating results for a full year.

2. REVENUE

The Corporation recognizes revenue when control of a promised good and/or service is transferred to a customer in an amount that reflects the consideration that the Corporation expects to be entitled to in exchange for that good and/or service.

Performance Obligations

The Corporation identifies a performance obligation for each promise in a contract to transfer a distinct good or service to the customer. As part of its assessment, the Corporation considers all goods and/or services promised in the contract, regardless of whether they are explicitly stated or implied by customary business practices. The Corporation’s contracts may contain either a single performance obligation, including the promise to transfer individual goods or services that are not separately distinct within the context of the respective contracts, or multiple performance obligations. For contracts with multiple performance obligations, the Corporation allocates the overall transaction price to each performance obligation using standalone selling prices, where available, or utilizes estimates for each distinct good or service in the contract where standalone prices are not available.

The Corporation’s performance obligations are satisfied either at a point-in-time or on an over-time basis. Typically, over-time revenue recognition is based on the utilization of an input measure used to measure progress, such as costs incurred to date relative to total estimated costs. If a performance obligation does not qualify for over-time revenue recognition, revenue is then recognized at the point-in-time in which control of the distinct good or service is transferred to the customer, typically based upon the terms of delivery.

The following table illustrates the approximate percentage of revenue recognized for performance obligations satisfied over-time versus at a point-in-time for the three months ended March 31, 2022 and 2021:

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
NOTES to CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

	Three Months Ended March 31,	
	2022	2021
Over-time	53 %	52 %
Point-in-time	47 %	48 %

Contract backlog represents the remaining performance obligations that have not yet been recognized as revenue. Backlog includes deferred revenue and amounts that will be invoiced and recognized as revenue in future periods. Total backlog was approximately $2.3 billion as of March 31, 2022, of which the Corporation expects to recognize approximately 89% as net sales over the next 36 months. The remainder will be recognized thereafter.

Disaggregation of Revenue

The following table presents the Corporation's total net sales disaggregated by end market and customer type:

Total Net Sales by End Market and Customer Type	Three Months Ended March 31,	
(In thousands)	2022	2021
Aerospace & Defense		
Aerospace Defense	$ 98,004	$ 111,016
Ground Defense	39,108	55,746
Naval Defense	162,967	177,905
Commercial Aerospace	60,892	57,269
Total Aerospace & Defense customers	$ 360,971	$ 401,936
Commercial		
Power & Process	$ 104,788	$ 105,504
General Industrial	93,702	89,619
Total Commercial customers	$ 198,490	$ 195,123
Total	$ 559,461	$ 597,059

Contract Balances

Timing of revenue recognition and cash collection may result in billed receivables, unbilled receivables (contract assets), and deferred revenue (contract liabilities) on the Condensed Consolidated Balance Sheet. The Corporation's contract assets primarily relate to its rights to consideration for work completed but not billed as of the reporting date. Contract assets are transferred to billed receivables when the rights to consideration become unconditional. This is typical in situations where amounts are billed as work progresses in accordance with agreed-upon contractual terms or upon achievement of contractual milestones. The Corporation's contract liabilities primarily consist of customer advances received prior to revenue being earned. Revenue recognized during the three months ended March 31, 2022 and 2021 included in contract liabilities at the beginning of the respective years was approximately $79 million and $77 million, respectively. Contract assets and contract liabilities are reported in the "Receivables, net" and "Deferred revenue" lines, respectively, within the Condensed Consolidated Balance Sheet.

3. ASSETS HELD FOR SALE

In January 2022, the Corporation completed the sale of its industrial valve business in Germany, which was presented as held for sale in the Corporation's Consolidated Balance Sheet as of December 31, 2021, for gross cash proceeds of $3 million. The Corporation recorded a loss of $5 million upon sale closing during the first quarter of 2022.

4. RECEIVABLES

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
NOTES to CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Receivables primarily include amounts billed to customers, unbilled charges on long-term contracts consisting of amounts recognized as sales but not billed, and other receivables. Substantially all amounts of unbilled receivables are expected to be billed and collected within one year. An immaterial amount of unbilled receivables are subject to retainage provisions. The amount of claims and unapproved change orders within our receivables balances are immaterial.

The composition of receivables is as follows:

(In thousands)	March 31, 2022	December 31, 2021
Billed receivables:		
Trade and other receivables	$ 352,905	$ 362,007
Unbilled receivables:		
Recoverable costs and estimated earnings not billed	314,240	291,758
Less: Progress payments applied	(1,202)	(1,297)
Net unbilled receivables	313,038	290,461
Less: Allowance for doubtful accounts	(4,814)	(5,320)
Receivables, net	$ 661,129	$ 647,148

5. INVENTORIES

Inventoried costs contain amounts relating to long-term contracts and programs with long production cycles, a portion of which will not be realized within one year. Long-term contract inventory includes an immaterial amount of claims or other similar items subject to uncertainty concerning their determination or realization. Inventories are valued at the lower of cost or net realizable value.

The composition of inventories is as follows:

(In thousands)	March 31, 2022	December 31, 2021
Raw materials	$ 217,900	$ 191,066
Work-in-process	81,618	78,221
Finished goods	106,167	98,944
Inventoried costs related to U.S. Government and other long-term contracts (1)	47,387	48,619
Inventories, net of reserves	453,072	416,850
Less: Progress payments applied	(4,950)	(5,283)
Inventories, net	$ 448,122	$ 411,567

(1) This caption includes capitalized development costs of $24.9 million as of March 31, 2022 related to certain aerospace and defense programs. These capitalized costs will be liquidated as units are produced under contract. As of March 31, 2022, capitalized development costs of $17.1 million are not currently supported by existing firm orders.

6. GOODWILL

The changes in the carrying amount of goodwill for the three months ended March 31, 2022 are as follows:

(In thousands)	Aerospace & Industrial	Defense Electronics	Naval & Power	Consolidated
December 31, 2021	$ 316,147	$ 714,014	$ 432,865	$ 1,463,026
Adjustments	—	(469)	—	(469)
Foreign currency translation adjustment	(1,629)	(1,861)	(168)	(3,658)
March 31, 2022	$ 314,518	$ 711,684	$ 432,697	$ 1,458,899

7. OTHER INTANGIBLE ASSETS, NET

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CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
NOTES to CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

The following tables present the cumulative composition of the Corporation's intangible assets:

	March 31, 2022			December 31, 2021		
(In thousands)	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Technology	$ 274,264	$ (167,627)	$ 106,637	$ 274,615	$ (164,077)	$ 110,538
Customer related intangibles	568,019	(277,504)	290,515	568,720	(270,816)	297,904
Programs [(1)]	144,000	(28,800)	115,200	144,000	(27,000)	117,000
Other intangible assets	49,512	(37,951)	11,561	49,559	(36,924)	12,635
Total	$ 1,035,795	$ (511,882)	$ 523,913	$ 1,036,894	$ (498,817)	$ 538,077

[(1)] Programs include values assigned to major programs of acquired businesses and represent the aggregate value associated with the customer relationships, contracts, technology, and trademarks underlying the associated program.

Total intangible amortization expense for the three months ended March 31, 2022 was $14 million, as compared to $15 million in the comparable prior year period. The estimated future amortization expense of intangible assets over the next five years is as follows:

(In millions)	
2022	$ 55
2023	$ 52
2024	$ 48
2025	$ 45
2026	$ 44

8. FAIR VALUE OF FINANCIAL INSTRUMENTS

Forward Foreign Exchange and Currency Option Contracts

The Corporation has foreign currency exposure primarily in the United Kingdom, Europe, and Canada. The Corporation uses financial instruments, such as forward and option contracts, to hedge a portion of existing and anticipated foreign currency denominated transactions. The purpose of the Corporation's foreign currency risk management program is to reduce volatility in earnings caused by exchange rate fluctuations. Guidance on accounting for derivative instruments and hedging activities requires companies to recognize all of the derivative financial instruments as either assets or liabilities at fair value in the Condensed Consolidated Balance Sheets based upon quoted market prices for comparable instruments.

Interest Rate Risks and Related Strategies

The Corporation's primary interest rate exposure results from changes in U.S. dollar interest rates. The Corporation's policy is to manage interest cost using a mix of fixed and variable rate debt.

Effects on Condensed Consolidated Balance Sheets

As of March 31, 2022 and December 31, 2021, the fair values of the asset and liability derivative instruments were immaterial.

Effects on Condensed Consolidated Statements of Earnings

Undesignated hedges

The (losses) and gains and on forward exchange derivative contracts not designated for hedge accounting are recognized to general and administrative expenses within the Condensed Consolidated Statements of Earnings. The respective (losses) and gains for the three months ended March 31, 2022 and 2021 were immaterial.

Debt

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
NOTES to CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

The estimated fair value amounts were determined by the Corporation using available market information that is primarily based on quoted market prices for the same or similar issuances as of March 31, 2022. Accordingly, all of the Corporation's debt is valued as a Level 2 financial instrument. The fair values described below may not be indicative of net realizable value or reflective of future fair values. Furthermore, the use of different methodologies to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

	March 31, 2022		December 31, 2021	
(In thousands)	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Revolving credit agreement, due 2023	$ 213,900	$ 213,900	$ 93,900	$ 93,900
3.70% Senior notes due 2023	202,500	204,456	202,500	208,086
3.85% Senior notes due 2025	90,000	90,363	90,000	95,246
4.24% Senior notes due 2026	200,000	204,427	200,000	218,421
4.05% Senior notes due 2028	67,500	68,571	67,500	73,783
4.11% Senior notes due 2028	90,000	91,645	90,000	98,854
3.10% Senior notes due 2030	150,000	142,137	150,000	154,832
3.20% Senior notes due 2032	150,000	141,071	150,000	154,875
Total debt	1,163,900	1,156,570	1,043,900	1,097,997
Debt issuance costs, net	(908)	(908)	(949)	(949)
Unamortized interest rate swap proceeds	7,252	7,252	7,659	7,659
Total debt, net	$ 1,170,244	$ 1,162,914	1,050,610	1,104,707

9. PENSION PLANS

Defined Benefit Pension Plans

The following table is a consolidated disclosure of all domestic and foreign defined pension plans as described in the Corporation's 2021 Annual Report on Form 10-K.

The components of net periodic pension cost were as follows:

	Three Months Ended March 31,	
(In thousands)	2022	2021
Service cost	$ 6,063	$ 6,870
Interest cost	5,288	4,306
Expected return on plan assets	(13,857)	(15,180)
Amortization of prior service cost	(86)	(63)
Amortization of unrecognized actuarial loss	4,006	7,143
Cost of settlements	1,842	—
Net periodic pension cost	$ 3,256	$ 3,076

The Corporation did not make any contributions to the Curtiss-Wright Pension Plan during 2021, and does not expect to do so in 2022. Contributions to the foreign benefit plans are not expected to be material in 2022.

During the three months ended March 31, 2022, the Company recognized a settlement charge related to the retirement of a former executive. The settlement charge represents an event that is accounted for under guidance on employers' accounting for settlements and curtailments of defined benefit pension plans.

Defined Contribution Retirement Plan

The Company also maintains a defined contribution plan for all non-union employees who are not currently receiving final or career average pay benefits for its U.S. subsidiaries. The employer contributions include both employer match and non-elective contribution components up to a maximum employer contribution of 7% of eligible compensation. During the three months ended March 31, 2022 and 2021, the expense relating to the plan was $5.7 million and $5.3 million, respectively.

10. EARNINGS PER SHARE

Diluted earnings per share was computed based on the weighted-average number of shares outstanding plus all potentially dilutive common shares. A reconciliation of basic to diluted shares used in the earnings per share calculation is as follows:

	Three Months Ended March 31,	
(In thousands)	2022	2021
Basic weighted-average shares outstanding	38,456	40,933
Dilutive effect of deferred stock compensation	212	170
Diluted weighted-average shares outstanding	38,668	41,103

For the three months ended March 31, 2022 and 2021, approximately 26,000 and 88,000 shares, respectively, issuable under equity-based awards were excluded from the calculation of diluted earnings per share as they were anti-dilutive based on the average stock price during the period.

11. SEGMENT INFORMATION

The Corporation's measure of segment profit or loss is operating income. Interest expense and income taxes are not reported on an operating segment basis as they are not considered in the segments' performance evaluation by the Corporation's chief operating decision-maker, its Chief Executive Officer.

Net sales and operating income by reportable segment were as follows:

	Three Months Ended March 31,	
(In thousands)	2022	2021
Net sales		
Aerospace & Industrial	$ 191,850	$ 181,138
Defense Electronics	143,938	182,298
Naval & Power	225,315	235,580
Less: Intersegment revenues	(1,642)	(1,957)
Total consolidated	$ 559,461	$ 597,059
Operating income (expense)		
Aerospace & Industrial	$ 24,853	$ 19,025
Defense Electronics	23,290	36,623
Naval & Power	27,288	38,057
Corporate and other (1)	(14,921)	(8,639)
Total consolidated	$ 60,510	$ 85,066

(1) Includes pension and other postretirement benefit expense, certain environmental costs related to remediation at legacy sites, foreign currency transactional gains and losses, and certain other expenses.

Adjustments to reconcile operating income to earnings before income taxes are as follows:

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
NOTES to CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

	Three Months Ended March 31,	
(In thousands)	2022	2021
Total operating income	$ 60,510	$ 85,066
Interest expense	9,530	9,959
Other income, net	2,997	4,843
Earnings before income taxes	$ 53,977	$ 79,950

(In thousands)	March 31, 2022	December 31, 2021
Identifiable assets		
Aerospace & Industrial	$ 1,011,295	$ 991,508
Defense Electronics	1,518,990	1,536,369
Naval & Power	1,266,159	1,270,099
Corporate and Other	292,923	294,581
Assets held for sale	—	10,988
Total consolidated	$ 4,089,367	$ 4,103,545

12. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The cumulative balance of each component of accumulated other comprehensive income (AOCI), net of tax, is as follows:

(In thousands)	Foreign currency translation adjustments, net	Total pension and postretirement adjustments, net	Accumulated other comprehensive income (loss)
December 31, 2020	$ (88,737)	$ (222,119)	$ (310,856)
Other comprehensive income (loss) before reclassifications [1]	(10,829)	107,211	96,382
Amounts reclassified from accumulated other comprehensive loss [1]	—	24,009	24,009
Net current period other comprehensive income (loss)	(10,829)	131,220	120,391
December 31, 2021	$ (99,566)	$ (90,899)	$ (190,465)
Other comprehensive income (loss) before reclassifications [1]	(6,825)	1,393	(5,432)
Amounts reclassified from accumulated other comprehensive income (loss) [1]	—	4,373	4,373
Net current period other comprehensive income (loss)	(6,825)	5,766	(1,059)
March 31, 2022	$ (106,391)	$ (85,133)	$ (191,524)

[1] All amounts are after tax.

Details of amounts reclassified from accumulated other comprehensive income (loss) are below:

(In thousands)	Amount reclassified from AOCI	Affected line item in the statement where net earnings is presented
Defined benefit pension and other postretirement benefit plans		
Amortization of prior service costs	$ 86	Other income, net
Amortization of actuarial losses	(4,006)	Other income, net
Settlements	(1,842)	Other income, net
	(5,762)	Earnings before income taxes
	1,389	Provision for income taxes
Total reclassifications	$ (4,373)	Net earnings

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13. CONTINGENCIES AND COMMITMENTS

From time to time, the Corporation and its subsidiaries are involved in legal proceedings that are incidental to the operation of our business. Some of these proceedings allege damages relating to asbestos and environmental exposures, intellectual property matters, copyright infringement, personal injury claims, employment and employee benefit matters, government contract issues, commercial or contractual disputes, and acquisitions or divestitures. The Corporation continues to defend vigorously against all claims. Although the ultimate outcome of any legal matter cannot be predicted with certainty, based on present information, including assessment of the merits of the particular claim, as well as current accruals and insurance coverage, the Corporation does not believe that the disposition of any of these matters, individually or in the aggregate, will have a material adverse effect on its condensed consolidated financial condition, results of operations, and cash flows.

Legal Proceedings

The Corporation has been named in a number of lawsuits that allege injury from exposure to asbestos. To date, the Corporation has not been found liable for or paid any material sum of money in settlement in any asbestos-related case. The Corporation believes its minimal use of asbestos in its past operations as well as its acquired businesses' operations and the relatively non-friable condition of asbestos in its historical products makes it unlikely that it will face material liability in any asbestos litigation, whether individually or in the aggregate. The Corporation maintains insurance coverage and indemnification agreements for these potential liabilities and believes adequate coverage exists to cover any unanticipated asbestos liability.

Letters of Credit and Other Financial Arrangements

The Corporation enters into standby letters of credit agreements and guarantees with financial institutions and customers primarily relating to guarantees of repayment, future performance on certain contracts to provide products and services, and to secure advance payments from certain international customers. As of March 31, 2022 and December 31, 2021, there were $19.5 million and $21.1 million of stand-by letters of credit outstanding, respectively. As of March 31, 2022 and December 31, 2021, there were $2.7 million and $4.5 million of bank guarantees outstanding, respectively. In addition, the Corporation is required to provide the Nuclear Regulatory Commission financial assurance demonstrating its ability to cover the cost of decommissioning its Cheswick, Pennsylvania facility upon closure, though the Corporation does not intend to close this facility. The Corporation has provided this financial assurance in the form of a $35.2 million surety bond.

AP1000 Program

In February 2022, the Corporation and Westinghouse Electric Company (WEC) executed a settlement agreement to resolve all open claims and counterclaims under the AP1000 U.S. and China contracts. Under the terms of the settlement agreement, the Corporation paid WEC $15 million in March 2022 and is required to pay WEC a final amount of $10 million in the first quarter of 2023 in exchange for the Corporation's full release from all open claims under such contracts, whether known or unknown, as well as negotiating and executing a right of first refusal for all future AP1000 projects. As of December 31, 2021, the Corporation was adequately accrued regarding this matter.

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CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
PART I- ITEM 2
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FORWARD-LOOKING STATEMENTS

Except for historical information, this Quarterly Report on Form 10-Q may be deemed to contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Examples of forward-looking statements include, but are not limited to: (a) projections of or statements regarding return on investment, future earnings, interest income, sales, volume, other income, earnings or loss per share, growth prospects, capital structure, and other financial terms, (b) statements of plans and objectives of management, (c) statements of future economic performance and potential impacts from COVID-19, including the impacts to supply and demand, and measures taken by governments and private industry in response, (d) statements of future economic performance and potential impacts due to the conflict between Russia and Ukraine, and (e) statements of assumptions, such as economic conditions underlying other statements. Such forward-looking statements can be identified by the use of forward-looking terminology such as "anticipates," "believes," "continue," "could," "estimate," "expects," "intend," "may," "might," "outlook," "potential," "predict," "should," "will," as well as the negative of any of the foregoing or variations of such terms or comparable terminology, or by discussion of strategy. No assurance may be given that the future results described by the forward-looking statements will be achieved. While we believe these forward-looking statements are reasonable, they are only predictions and are subject to known and unknown risks, uncertainties, and other factors, many of which are beyond our control, which could cause actual results, performance, or achievement to differ materially from anticipated future results, performance, or achievement expressed or implied by such forward-looking statements. These risks and uncertainties include, but are not limited to, those described in "Item 1A. Risk Factors" of our 2021 Annual Report on Form 10-K, and elsewhere in that report, those described in this Quarterly Report on Form 10-Q, and those described from time to time in our future reports filed with the Securities and Exchange Commission. Such forward-looking statements in this Quarterly Report on Form 10-Q include, without limitation, those contained in Item 1. Financial Statements and Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Given these risks and uncertainties, you are cautioned not to place undue reliance on such forward-looking statements. These forward-looking statements speak only as of the date they were made, and we assume no obligation to update forward-looking statements to reflect actual results or changes in or additions to the factors affecting such forward-looking statements.

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COMPANY ORGANIZATION

Curtiss-Wright Corporation is a global integrated business that provides highly engineered products, solutions, and services mainly to aerospace & defense markets, as well as critical technologies in demanding commercial power, process, and industrial markets. We report our operations through our Aerospace & Industrial, Defense Electronics, and Naval & Power segments. We operate across a diversified array of niche markets through engineering and technological leadership, precision manufacturing, and strong relationships with our customers. Approximately 66% of our 2022 revenues are expected to be generated from A&D-related markets.

In March 2020, the World Health Organization characterized the outbreak of COVID-19 as a pandemic. The pandemic has adversely affected certain elements of our business, including our supply chain, transportation networks, and production levels. The extent to which COVID-19 continues to adversely impact our operations depends on future developments, including the impact of the global rollout of COVID-19 vaccines, the emergence and impact of any new COVID-19 variants, as well as the issuance of vaccine mandates by the Biden administration. However, given the diversified breadth of our company, we believe that we are well-positioned to mitigate any material risks arising as a result of COVID-19 or any of its variants. From an operational perspective, our current cash balance, coupled with expected cash flows from operating activities for the remainder of the year as well as our current borrowing capacity under the Revolving Credit Agreement, are expected to be more than sufficient to meet operating cash requirements, planned capital expenditures, interest payments on long-term debt obligations, payments on lease obligations, pension and postretirement funding requirements, and dividend payments through the current year and beyond.

RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to help the reader understand the results of operations and financial condition of the Corporation for the three months ended March 31, 2022. The financial information as of March 31, 2022 should be read in conjunction with the financial statements for the year ended December 31, 2021 contained in our Form 10-K.

The MD&A is organized into the following sections: Condensed Consolidated Statements of Earnings, Results by Business Segment, and Liquidity and Capital Resources. Our discussion will be focused on the overall results of operations followed by a more detailed discussion of those results within each of our reportable segments.

Our three reportable segments are generally concentrated in a few end markets; however, each may have sales across several end markets. An end market is defined as an area of demand for products and services. The sales for the relevant markets will be discussed throughout the MD&A.

Analytical Definitions

Throughout management's discussion and analysis of financial condition and results of operations, the terms "incremental" and "organic" are used to explain changes from period to period. The term "incremental" is used to highlight the impact acquisitions and divestitures had on the current year results. The results of operations for acquisitions are incremental for the first twelve months from the date of acquisition. Additionally, the results of operations of divested businesses are removed from the comparable prior year period for purposes of calculating "organic" and "incremental" results. The definition of "organic" excludes the loss from sale of our industrial valves business in Germany as well as the effects of foreign currency translation.

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
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FINANCIAL CONDITION and RESULTS OF OPERATIONS, continued

Condensed Consolidated Statements of Earnings

	Three Months Ended March 31,		
(In thousands)	2022	2021	% change
Sales			
Aerospace & Industrial	$ 191,112	$ 180,331	6 %
Defense Electronics	143,069	181,212	(21 %)
Naval & Power	225,280	235,516	(4 %)
Total sales	$ 559,461	$ 597,059	(6 %)
Operating income			
Aerospace & Industrial	$ 24,853	$ 19,025	31 %
Defense Electronics	23,290	36,623	(36 %)
Naval & Power	27,288	38,057	(28 %)
Corporate and other	(14,921)	(8,639)	(73 %)
Total operating income	$ 60,510	$ 85,066	(29 %)
Interest expense	9,530	9,959	4 %
Other income, net	2,997	4,843	(38) %
Earnings before income taxes	53,977	79,950	(32 %)
Provision for income taxes	(13,292)	(20,481)	35 %
Net earnings	$ 40,685	$ 59,469	(32 %)
New orders	$ 634,265	$ 579,447	9 %

Components of sales and operating income increase (decrease):

	Three Months Ended March 31, 2022 vs. 2021	
	Sales	Operating Income
Organic	(6 %)	(22 %)
Acquisitions	— %	— %
Loss on divestiture	— %	(6 %)
Foreign currency	— %	(1 %)
Total	(6 %)	(29 %)

Sales during the three months ended March 31, 2022 decreased $38 million, or 6%, to $559 million, compared with the prior year period. On a segment basis, sales from the Defense Electronics and Naval & Power segments decreased $38 million and $11 million, respectively, with sales from the Aerospace & Industrial segment increasing $11 million. Changes in sales by segment are discussed in further detail in the results by business segment section below.

Operating income during the three months ended March 31, 2022 decreased $25 million, or 29%, to $61 million, compared with the prior year period, while operating margin decreased 340 basis points to 10.8%, compared with the same period in 2021. In the Defense Electronics segment, decreases in operating income and operating margin were primarily due to unfavorable overhead absorption on lower sales as well as unfavorable mix, which more than offset the benefits of our ongoing

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operational excellence initiatives. Operating income and operating margin in the Naval & Power segment decreased primarily due to a loss on sale of our industrial valves business in Germany, unfavorable overhead absorption on lower sales in the naval defense market, and unfavorable mix in the power & process market. These decreases were partially offset by increases in operating income and operating margin in the Aerospace & Industrial segment, primarily due to favorable absorption on higher sales, as well as the benefits of our ongoing operational excellence initiatives.

Non-segment operating expense during the three months ended March 31, 2022 increased $6 million, or 73%, to $15 million, primarily due to costs associated with shareholder activism in the current period.

Interest expense of $10 million was essentially flat compared to the prior year period.

Other income, net during the three months ended March 31, 2022 decreased $2 million, or 38%, to $3 million, primarily due to pension settlement charges recognized in the current period related to the retirement of a former executive.

The effective tax rate for the three months ended March 31, 2022 of 24.6% decreased as compared to an effective tax rate of 25.6% in the prior year period, primarily due to higher stock compensation benefits in the current period.

Comprehensive income for the three months ended March 31, 2022 was $40 million, compared to comprehensive income of $61 million in the prior year period. The change was primarily due to the following:

- Net earnings decreased $19 million, primarily due to lower operating income.
- Foreign currency translation adjustments for the three months ended March 31, 2022 resulted in a $7 million comprehensive loss, compared to a $4 million comprehensive loss in the prior period. The comprehensive loss during the current period was primarily attributed to decreases in the British Pound.

New orders increased $55 million during the three months ended March 31, 2022 from the comparable prior year period, primarily due to the timing of naval defense orders in the Naval & Power segment, as well as an increase in new orders for industrial vehicles and commercial aerospace products in the Aerospace & Industrial segment. These increases were partially offset by the timing of orders across all defense-related markets in the Defense Electronics segment due to ongoing supply chain disruption. Changes in new orders by segment are discussed in further detail in the "Results by Business Segment" section below.

RESULTS BY BUSINESS SEGMENT

Aerospace & Industrial

The following tables summarize sales, operating income and margin, and new orders within the Aerospace & Industrial segment.

	Three Months Ended March 31,		
(In thousands)	2022	2021	% change
Sales	$ 191,112	$ 180,331	6 %
Operating income	24,853	19,025	31 %
Operating margin	13.0 %	10.6 %	240 bps
New orders	$ 228,314	$ 199,115	15 %

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Components of sales and operating income increase (decrease):

	Three Months Ended March 31, 2022 vs. 2021	
	Sales	Operating Income
Organic	7 %	33 %
Acquisitions	— %	— %
Foreign currency	(1 %)	(2 %)
Total	6 %	31 %

Sales in the Aerospace & Industrial segment are primarily generated from the commercial aerospace and general industrial markets, and to a lesser extent the defense and power & process markets.

Sales during the three months ended March 31, 2022 increased $11 million, or 6%, to $191 million from the prior year period, primarily due to higher demand for actuation and sensors products as well as surface treatment services on narrow-body platforms in the commercial aerospace market. Sales also benefited from higher demand for industrial vehicle products in the general industrial market.

Operating income increased $6 million, or 31%, to $25 million during the three months ended March 31, 2022 compared to the prior year period, while operating margin increased 240 basis points to 13.0%. The increases in operating income and operating margin were primarily due to favorable overhead absorption on higher sales, as well as the benefits of our ongoing operational excellence initiatives.

New orders during the three months ended March 31, 2022 increased $29 million from the comparable prior year period, primarily due to an increase in new orders for industrial vehicles and commercial aerospace equipment.

<u>Defense Electronics</u>

The following tables summarize sales, operating income and margin, and new orders within the Defense Electronics segment.

	Three Months Ended March 31,		
(In thousands)	2022	2021	% change
Sales	$ 143,069	$ 181,212	(21 %)
Operating income	23,290	36,623	(36 %)
Operating margin	16.3 %	20.2 %	(390 bps)
New orders	$ 159,688	$ 182,300	(12 %)

Components of sales and operating income increase (decrease):

	Three Months Ended March 31, 2022 vs. 2021	
	Sales	Operating Income
Organic	(21 %)	(37 %)
Acquisitions	— %	— %
Foreign currency	— %	1 %
Total	(21 %)	(36 %)

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Sales in the Defense Electronics segment are primarily to the defense markets and, to a lesser extent, the commercial aerospace market.

Sales during the three months ended March 31, 2022 decreased $38 million, or 21%, to $143 million from the prior year period, primarily due to timing across all defense markets. In the ground defense market, sales decreased $17 million primarily due to ongoing supply chain headwinds, which contributed to lower sales of embedded computing and tactical communications equipment on various programs. Sales in the aerospace defense market decreased $14 million primarily due to the delayed signing of the FY22 defense budget, which resulted in lower sales of embedded computing equipment on various programs. Sales in the naval defense market were negatively impacted by the timing of orders on various submarine and surface combat ship programs.

Operating income during the three months ended March 31, 2022 decreased $13 million, or 36%, to $23 million, and operating margin decreased 390 basis points from the prior year period to 16.3%. The decreases in operating income and operating margin were primarily due to unfavorable overhead absorption on lower sales and unfavorable mix.

New orders during the three months ended March 31, 2022 decreased $23 million from the comparable prior year period, primarily due to the timing of orders across all defense-related markets due to ongoing supply chain disruption.

Naval & Power

The following tables summarize sales, operating income and margin, and new orders within the Naval & Power segment.

	Three Months Ended March 31,		
(In thousands)	2022	2021	% change
Sales	$ 225,280	$ 235,516	(4 %)
Operating income	27,288	38,057	(28 %)
Operating margin	12.1 %	16.2 %	(410 bps)
New orders	$ 246,263	$ 198,032	24 %

Components of sales and operating income increase (decrease):

	Three Months Ended March 31, 2022 vs. 2021	
	Sales	Operating Income
Organic	(4 %)	(14 %)
Acquisitions	— %	— %
Loss on divestiture	— %	(14 %)
Foreign currency	— %	— %
Total	(4 %)	(28 %)

Sales in the Naval & Power segment are primarily to the naval defense and power & process markets.

Sales during the three months ended March 31, 2022 decreased $11 million, or 4%, to $225 million from the prior year period. In the naval defense market, sales decreased $6 million primarily due to lower sales on the CVN-80 aircraft carrier and Virginia-class submarine programs, partially offset by higher demand on the Columbia-class submarine program. In the power & process market, higher nuclear aftermarket sales were more than offset by the wind down on the China Direct AP1000 program.

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Operating income during the three months ended March 31, 2022 decreased $11 million, or 28%, to $27 million, and operating margin decreased 410 basis points from the prior year period to 12.1%. The decreases in operating income and operating margin were primarily due to a loss on sale of our industrial valves business in Germany, unfavorable overhead absorption on lower sales in the naval defense market, and unfavorable mix in the power & process market.

New orders increased $48 million during the three months ended March 31, 2022 from the comparable prior year period, primarily due to the timing of naval defense orders.

SUPPLEMENTARY INFORMATION

The table below depicts sales by end market and customer type, as it helps provide an enhanced understanding of our businesses and the markets in which we operate. The table has been included to supplement the discussion of our operating results.

Net Sales by End Market and Customer Type	Three Months Ended March 31,		
(In thousands)	2022	2021	% change
Aerospace & Defense markets:			
Aerospace Defense	$ 98,004	$ 111,016	(12 %)
Ground Defense	39,108	55,746	(30 %)
Naval Defense	162,967	177,905	(8 %)
Commercial Aerospace	60,892	57,269	6 %
Total Aerospace & Defense	$ 360,971	$ 401,936	(10 %)
Commercial markets:			
Power & Process	104,788	105,504	(1 %)
General Industrial	93,702	89,619	5 %
Total Commercial	$ 198,490	$ 195,123	2 %
Total Curtiss-Wright	$ 559,461	$ 597,059	(6 %)

Aerospace & Defense markets
Sales during the three months ended March 31, 2022 decreased $41 million, or 10%, to $361 million, primarily due to lower sales in the aerospace defense, ground defense, and naval defense markets. Sales in the aerospace defense and ground defense markets decreased primarily due to timing of sales of embedded computing and tactical communications equipment on various programs. Sales decreases in the naval defense market were primarily due to lower sales on the CVN-80 aircraft carrier and Virginia-class submarine programs, partially offset by higher demand on the Columbia-class submarine program.

Commercial markets
Sales during the three months ended March 31, 2022 increased $3 million, or 2%, to $198 million, primarily due to higher demand for industrial vehicle products in the general industrial market.

LIQUIDITY AND CAPITAL RESOURCES

Sources and Use of Cash

We derive the majority of our operating cash inflow from receipts on the sale of goods and services and cash outflow for the procurement of materials and labor; cash flow is therefore subject to market fluctuations and conditions. Most of our long-term contracts allow for several billing points (progress or milestone) that provide us with cash receipts as costs are incurred throughout the project rather than upon contract completion, thereby reducing working capital requirements. In some cases, these payments can exceed the costs incurred on a project. Management continually evaluates cash utilization alternatives,

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including share repurchases, acquisitions, increased dividends, and paying down debt, to determine the most beneficial use of available capital resources. We believe that our cash and cash equivalents, cash flow from operations, available borrowings under the credit facility, and ability to raise additional capital through the credit markets, are sufficient to meet both the short-term and long-term capital needs of the organization.

Condensed Consolidated Statements of Cash Flows	Three Months Ended	
(In thousands)	March 31, 2022	March 31, 2021
Cash provided by (used in):		
Operating activities	$ (124,315)	$ (26,603)
Investing activities	(10,391)	(12,855)
Financing activities	106,179	(7,107)
Effect of exchange-rate changes on cash	(5,795)	(4,614)
Net decrease in cash and cash equivalents	(34,322)	(51,179)

Net cash used in operating activities increased $98 million from the prior year period, primarily due to lower net earnings, higher inventory receipts, the timing of advanced cash receipts, and a legal settlement payment made to WEC during the current period.

Net cash used in investing activities decreased $2 million from the prior year period, primarily due to higher current period proceeds from disposal of long-lived assets.

Net cash provided by financing activities increased $113 million from the prior year period, primarily due to higher current period net borrowings of $120 million under our revolving credit facility. Refer to the "Financing Activities" section below for further details.

Financing Activities

Debt

The Corporation's debt outstanding had an average interest rate of 3.2% and 3.5% for the three months ended March 31, 2022 and 2021, respectively. The Corporation's average debt outstanding was $1,112 million and $1,057 million for the three months ended March 31, 2022 and 2021, respectively.

Credit Agreement

As of March 31, 2022, the Corporation had $214 million of outstanding borrowings under the 2012 Senior Unsecured Revolving Credit Agreement (the "Credit Agreement" or "credit facility") and approximately $19 million in letters of credit supported by the credit facility. The unused credit available under the Credit Agreement as of March 31, 2022 was $267 million which could be borrowed without violating any of our debt covenants.

Repurchase of common stock

During the three months ended March 31, 2022, the Corporation used $19 million of cash to repurchase approximately 0.1 million outstanding shares under its share repurchase program. During the three months ended March 31, 2021, the Corporation used $12 million of cash to repurchase approximately 0.1 million outstanding shares under its share repurchase program.

Cash Utilization

Management continually evaluates cash utilization alternatives, including share repurchases, acquisitions, and increased dividends to determine the most beneficial use of available capital resources. We believe that our cash and cash equivalents, cash flow from operations, available borrowings under the credit facility, and ability to raise additional capital through the credit markets are sufficient to meet both the short-term and long-term capital needs of the organization.

Debt Compliance

As of the date of this report, we were in compliance with all debt agreements and credit facility covenants, including our most restrictive covenant, which is our debt to capitalization limit of 60%. The debt to capitalization limit is a measure of our indebtedness (as defined per the notes purchase agreement and credit facility) to capitalization, where capitalization equals debt plus equity, and is the same for and applies to all of our debt agreements and credit facility.

As of March 31, 2022, we had the ability to borrow additional debt of $1.5 billion without violating our debt to capitalization covenant.

CRITICAL ACCOUNTING POLICIES

Our condensed consolidated financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America. Preparation of these statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. These estimates and assumptions are affected by the application of our accounting policies. Critical accounting policies are those that require application of management's most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain and may change in subsequent periods. A summary of significant accounting policies and a description of accounting policies that are considered critical may be found in our 2021 Annual Report on Form 10-K, filed with the U.S. Securities and Exchange Commission on February 24, 2022, in the Notes to the Consolidated Financial Statements, Note 1, and the Critical Accounting Policies section of Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our market risk during the three months ended March 31, 2022. Information regarding market risk and market risk management policies is more fully described in "Item 7A. Quantitative and Qualitative Disclosures about Market Risk" of our 2021 Annual Report on Form 10-K.

Item 4. CONTROLS AND PROCEDURES

As of March 31, 2022, our management, including our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on such evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective as of March 31, 2022 insofar as they are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms, and they include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

During the quarter ended March 31, 2022, there have been no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

From time to time, we are involved in legal proceedings that are incidental to the operation of our business. Some of these proceedings allege damages relating to asbestos and environmental exposures, intellectual property matters, copyright infringement, personal injury claims, employment and employee benefit matters, government contract issues, commercial or contractual disputes, and acquisitions or divestitures. We continue to defend vigorously against all claims. Although the ultimate outcome of any legal matter cannot be predicted with certainty, based on present information, including assessment of the merits of the particular claim, as well as current accruals and insurance coverage, we do not believe that the disposition of any of these matters, individually or in the aggregate, will have a material adverse effect on our condensed consolidated financial condition, results of operations, and cash flows.

We have been named in pending lawsuits that allege injury from exposure to asbestos. To date, we have not been found liable or paid any material sum of money in settlement in any asbestos-related case. We believe that the minimal use of asbestos in our past operations and the relatively non-friable condition of asbestos in our products make it unlikely that we will face material liability in any asbestos litigation, whether individually or in the aggregate. We maintain insurance coverage for these potential liabilities and we believe adequate coverage exists to cover any unanticipated asbestos liability.

Item 1A. RISK FACTORS

There have been no material changes in our Risk Factors during the three months ended March 31, 2022. Information regarding our Risk Factors is more fully described in "Item 1A. Risk Factors" of our 2021 Annual Report on Form 10-K.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table provides information about our repurchase of equity securities that are registered by us pursuant to Section 12 of the Securities Exchange Act of 1934, as amended, during the quarter ended March 31, 2022.

	Total Number of shares purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program	Maximum Dollar amount of shares that may yet be Purchased Under the Program
January 1 - January 31	75,510	$ 138.61	75,510	$ 246,542,772
February 1 - February 28	28,146	$ 134.90	103,656	$ 242,745,897
March 1 - March 31	30,496	$ 150.70	134,152	$ 238,150,044
For the quarter ended March 31, 2022	134,152	$ 140.58	134,152	$ 238,150,044

In December 2021, the Corporation adopted two written trading plans in connection with its previously authorized share repurchase program, which allowed for the purchase of its outstanding common stock up to $550 million, of which $238 million remains available for repurchase as of March 31, 2022. The first trading plan includes share repurchases of $50 million, to be executed equally throughout the 2022 calendar year. The second trading plan, which included opportunistic share repurchases up to $100 million and executed through a 10b5-1 program, was completed as of December 31, 2021.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

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There have been no material changes in our procedures by which our security holders may recommend nominees to our board of directors during the three months ended March 31, 2022. Information regarding security holder recommendations and nominations for directors is more fully described in the section entitled "Stockholder Nominations for Director" of our 2022 Proxy Statement on Schedule 14A, which is incorporated by reference to our 2021 Annual Report on Form 10-K.

Item 6. EXHIBITS

Exhibit No.	Exhibit Description	Incorporated by Reference		Filed
		Form	Filing Date	Herewith
3.1	Amended and Restated Certificate of Incorporation of the Registrant	8-A12B/A	May 24, 2005	
3.2	Amended and Restated Bylaws of the Registrant	8-K	May 18, 2015	
31.1	Certification of Lynn M. Bamford, President and CEO, Pursuant to Rules 13a – 14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended			X
31.2	Certification of K. Christopher Farkas, Chief Financial Officer, Pursuant to Rules 13a – 14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended			X
32	Certification of Lynn M. Bamford, President and CEO, and K. Christopher Farkas, Chief Financial Officer, Pursuant to 18 U.S.C. Section 1350			X
101.INS	XBRL Instance Document			X
101.SCH	XBRL Taxonomy Extension Schema Document			X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document			X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document			X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document			X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document			X

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

CURTISS-WRIGHT CORPORATION
(Registrant)

By: /s/ K. Christopher Farkas

K. Christopher Farkas
Vice President and Chief Financial Officer
Dated: May 5, 2022

UCC-117

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

FORM 10-Q

☒ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2022

or

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _________ to _______

Commission File Number 1-134

CURTISS-WRIGHT CORPORATION
(Exact name of Registrant as specified in its charter)

Delaware	13-0612970
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
130 Harbour Place Drive, Suite 300 Davidson, North Carolina	28036
(Address of principal executive offices)	(Zip Code)

(704) 869-4600
(Registrant's telephone number, including area code)

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	CW	New York Stock Exchange

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 of time 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 check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§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 the 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. ☐

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

Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, par value $1.00 per share: 38,394,586 shares as of July 31, 2022.

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES

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PART 1- FINANCIAL INFORMATION
Item 1. Financial Statements

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(UNAUDITED)

(In thousands, except per share data)	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Net sales				
Product sales	$ 505,416	$ 515,392	$ 958,837	$ 1,024,367
Service sales	103,941	106,103	209,981	194,187
Total net sales	609,357	621,495	1,168,818	1,218,554
Cost of sales				
Cost of product sales	316,389	331,881	610,916	661,335
Cost of service sales	64,454	64,895	127,986	122,743
Total cost of sales	380,843	396,776	738,902	784,078
Gross profit	228,514	224,719	429,916	434,476
Research and development expenses	23,868	23,194	44,417	45,057
Selling expenses	30,407	29,564	58,499	59,160
General and administrative expenses	76,134	77,378	163,734	150,610
Loss on divestiture	—	—	4,651	—
Operating income	98,105	94,583	158,615	179,649
Interest expense	9,788	10,180	19,318	20,139
Other income, net	4,555	440	7,552	5,283
Earnings before income taxes	92,872	84,843	146,849	164,793
Provision for income taxes	(22,000)	(23,435)	(35,292)	(43,916)
Net earnings	$ 70,872	$ 61,408	$ 111,557	$ 120,877
Net earnings per share:				
Basic earnings per share	$ 1.84	$ 1.50	$ 2.90	$ 2.95
Diluted earnings per share	$ 1.83	$ 1.49	$ 2.89	$ 2.94
Dividends per share	0.19	0.18	0.37	0.35
Weighted-average shares outstanding:				
Basic	38,429	40,915	38,438	40,921
Diluted	38,654	41,088	38,657	41,092

See notes to condensed consolidated financial statements

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)
(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	**2021**	**2022**	**2021**
Net earnings	$ 70,872	$ 61,408	$ 111,557	$ 120,877
Other comprehensive income (loss)				
Foreign currency translation adjustments, net of tax [1]	$ (40,336)	$ 7,243	$ (47,161)	$ 3,283
Pension and postretirement adjustments, net of tax [2]	3,988	4,442	9,754	10,042
Other comprehensive income (loss), net of tax	(36,348)	11,685	(37,407)	13,325
Comprehensive income	$ 34,524	$ 73,093	$ 74,150	$ 134,202

(1) The tax expense included in foreign currency translation adjustments for the three and six months ended June 30, 2022 was $0.9 million and $1.1 million, respectively. The tax benefit included in foreign currency translation adjustments for the three and six months ended June 30, 2021 was immaterial.

(2) The tax expense included in pension and postretirement adjustments for the three and six months ended June 30, 2022 was $0.5 million and $1.9 million, respectively. The tax expense included in pension and postretirement adjustments for the three and six months ended June 30, 2021 was $1.5 million and $3.1 million, respectively.

See notes to condensed consolidated financial statements

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(In thousands, except per share data)

	June 30, 2022	December 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	$ 171,414	$ 171,004
Receivables, net	699,632	647,148
Inventories, net	482,790	411,567
Assets held for sale	—	10,988
Other current assets	84,584	67,101
Total current assets	1,438,420	1,307,808
Property, plant, and equipment, net	348,062	360,031
Goodwill	1,531,999	1,463,026
Other intangible assets, net	638,873	538,077
Operating lease right-of-use assets, net	145,325	143,613
Prepaid pension asset	263,719	256,422
Other assets	36,130	34,568
Total assets	**$ 4,402,528**	**$ 4,103,545**
Liabilities		
Current liabilities:		
Current portion of long-term debt	202,500	—
Accounts payable	171,589	211,640
Accrued expenses	133,706	147,701
Deferred revenue	215,188	260,157
Liabilities held for sale	—	12,655
Due to seller	247,215	—
Other current liabilities	89,009	102,714
Total current liabilities	1,059,207	734,867
Long-term debt	1,006,577	1,050,610
Deferred tax liabilities, net	149,213	147,349
Accrued pension and other postretirement benefit costs	84,404	91,329
Long-term operating lease liability	126,006	127,152
Long-term portion of environmental reserves	13,100	13,656
Other liabilities	96,382	112,092
Total liabilities	2,534,889	2,277,055
Contingencies and commitments (Note 14)		
Stockholders' equity		
Common stock, $1 par value, 100,000,000 shares authorized as of June 30, 2022 and December 31, 2021; 49,187,378 shares issued as of June 30, 2022 and December 31, 2021; outstanding shares were 38,381,875 as of June 30, 2022 and 38,469,778 as of December 31, 2021	49,187	49,187
Additional paid in capital	126,316	127,104
Retained earnings	3,006,164	2,908,827
Accumulated other comprehensive loss	(227,872)	(190,465)
Common treasury stock, at cost (10,805,503 shares as of June 30, 2022 and 10,717,600 shares as of December 31, 2021)	(1,086,156)	(1,068,163)
Total stockholders' equity	1,867,639	1,826,490
Total liabilities and stockholders' equity	**$ 4,402,528**	**$ 4,103,545**

See notes to condensed consolidated financial statements

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CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(In thousands)	Six Months Ended June 30, 2022	2021
Cash flows from operating activities:		
Net earnings	$ 111,557	$ 120,877
Adjustments to reconcile net earnings to net cash provided by (used for) operating activities		
Depreciation and amortization	53,645	57,616
Loss on divestiture	4,651	—
Gain on sale/disposal of long-lived assets	(3,004)	(590)
Deferred income taxes	(4,516)	6,293
Share-based compensation	7,580	6,725
Change in operating assets and liabilities, net of businesses acquired:		
Receivables, net	(47,826)	(53,787)
Inventories, net	(58,620)	(15,214)
Progress payments	(954)	(2,680)
Accounts payable and accrued expenses	(55,406)	(58,217)
Deferred revenue	(45,397)	6,663
Pension and postretirement liabilities, net	(4,376)	(4,017)
Other current and long-term assets and liabilities	(50,605)	(15,193)
Net cash provided by (used for) operating activities	(93,271)	48,476
Cash flows from investing activities:		
Proceeds from sale/disposal of long-lived assets	6,319	2,982
Additions to property, plant, and equipment	(19,492)	(17,771)
Additional consideration paid on prior year acquisitions	(5,062)	(5,340)
Net cash used for investing activities	(18,235)	(20,129)
Cash flows from financing activities:		
Borrowings under revolving credit facilities	653,547	163,507
Payments of revolving credit facilities	(494,347)	(163,507)
Repurchases of common stock	(31,645)	(24,395)
Proceeds from share-based compensation	5,284	4,919
Dividends paid	(14,220)	(6,961)
Other	(499)	(462)
Net cash (used for)/provided by financing activities	118,120	(26,899)
Effect of exchange-rate changes on cash	(6,204)	(2,188)
Net increase (decrease) in cash and cash equivalents	410	(740)
Cash and cash equivalents at beginning of period	171,004	198,248
Cash and cash equivalents at end of period	$ 171,414	$ 197,508

See notes to condensed consolidated financial statements

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)
(In thousands)

	For the six months ended June 30, 2022				
	Common Stock	**Additional Paid in Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Income (Loss)**	**Treasury Stock**
December 31, 2021	$ 49,187	$ 127,104	$ 2,908,827	$ (190,465)	$ (1,068,163)
Net earnings	—	—	111,557	—	—
Other comprehensive loss, net of tax	—	—	—	(37,407)	—
Dividends declared	—	—	(14,220)	—	—
Restricted stock	—	(8,523)	—	—	8,523
Employee stock purchase plan	—	814	—	—	4,470
Share-based compensation	—	7,427	—	—	153
Repurchase of common stock (1)	—	—	—	—	(31,645)
Other	—	(506)	—	—	506
June 30, 2022	$ 49,187	$ 126,316	$ 3,006,164	$ (227,872)	$ (1,086,156)

	For the three months ended June 30, 2022				
	Common Stock	**Additional Paid in Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Income (Loss)**	**Treasury Stock**
March 31, 2022	$ 49,187	$ 122,603	$ 2,942,580	$ (191,524)	$ (1,073,426)
Net earnings	—	—	70,872	—	—
Other comprehensive loss, net of tax	—	—	—	(36,348)	—
Dividends declared	—	—	(7,288)	—	—
Share-based compensation	—	3,713	—	—	58
Repurchase of common stock (1)	—	—	—	—	(12,788)
June 30, 2022	$ 49,187	$ 126,316	$ 3,006,164	$ (227,872)	$ (1,086,156)

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)
(In thousands)

	For the six months ended June 30, 2021				
	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock
December 31, 2020	$ 49,187	$ 122,535	$ 2,670,328	$ (310,856)	$ (743,620)
Net earnings	—	—	120,877	—	—
Other comprehensive income, net of tax	—	—	—	13,325	—
Dividends declared	—	—	(14,321)	—	—
Restricted stock	—	(9,007)	—	—	9,007
Employee stock purchase plan	—	411	—	—	4,508
Share-based compensation	—	6,604	—	—	121
Repurchase of common stock (1)	—	—	—	—	(24,395)
Other	—	(597)	—	—	597
June 30, 2021	$ 49,187	$ 119,946	$ 2,776,884	$ (297,531)	$ (753,782)

	For the three months ended June 30, 2021				
	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock
March 31, 2021	$ 49,187	$ 119,172	$ 2,722,829	$ (309,216)	$ (743,808)
Net earnings	—	—	61,408	—	—
Other comprehensive income, net of tax	—	—	—	11,685	—
Dividends declared	—	—	(7,353)	—	—
Restricted stock	—	(2,600)	—	—	2,600
Share-based compensation	—	3,374	—	—	24
Repurchase of common stock (1)	—	—	—	—	(12,598)
June 30, 2021	$ 49,187	$ 119,946	$ 2,776,884	$ (297,531)	$ (753,782)

See notes to condensed consolidated financial statements

(1) For the three and six months ended June 30, 2022, the Corporation repurchased approximately 0.1 million and 0.2 million shares of its common stock, respectively. For the three and six months ended June 30, 2021, the Corporation repurchased approximately 0.1 million and 0.2 million shares of its common stock, respectively.

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
NOTES to CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. BASIS OF PRESENTATION

Curtiss-Wright Corporation and its subsidiaries (the "Corporation" or the "Company") is a global integrated business that provides highly engineered products, solutions, and services mainly to aerospace & defense (A&D) markets, as well as critical technologies in demanding commercial power, process, and industrial markets.

The unaudited condensed consolidated financial statements include the accounts of Curtiss-Wright and its majority-owned subsidiaries. All intercompany transactions and accounts have been eliminated.

The unaudited condensed consolidated financial statements of the Corporation have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in annual financial statements have been condensed or omitted as permitted by such rules and regulations. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments necessary for a fair presentation of these financial statements.

Management is required to make estimates and judgments that affect the reported amount of assets, liabilities, revenue, and expenses and disclosure of contingent assets and liabilities in the accompanying financial statements. Actual results may differ from these estimates. The most significant of these estimates includes the estimate of costs to complete using the over-time revenue recognition accounting method, pension plan and postretirement obligation assumptions, estimates for inventory obsolescence, fair value estimates around assets and assumed liabilities from acquisitions, estimates for the valuation and useful lives of intangible assets, legal reserves, and the estimate of future environmental costs. Changes in estimates of contract sales, costs, and profits are recognized using the cumulative catch-up method of accounting. This method recognizes in the current period the cumulative effect of the changes on current and prior periods. Accordingly, the effect of the changes on future periods of contract performance is recognized as if the revised estimate had been the original estimate. During the three and six months ended June 30, 2022 and 2021, there were no significant changes in estimated contract costs. In the opinion of management, all adjustments considered necessary for a fair presentation have been reflected in these financial statements.

The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Corporation’s 2021 Annual Report on Form 10-K. The results of operations for interim periods are not necessarily indicative of trends or of the operating results for a full year.

2. REVENUE

The Corporation recognizes revenue when control of a promised good and/or service is transferred to a customer in an amount that reflects the consideration that the Corporation expects to be entitled to in exchange for that good and/or service.

<u>Performance Obligations</u>

The Corporation identifies a performance obligation for each promise in a contract to transfer a distinct good or service to the customer. As part of its assessment, the Corporation considers all goods and/or services promised in the contract, regardless of whether they are explicitly stated or implied by customary business practices. The Corporation’s contracts may contain either a single performance obligation, including the promise to transfer individual goods or services that are not separately distinct within the context of the respective contracts, or multiple performance obligations. For contracts with multiple performance obligations, the Corporation allocates the overall transaction price to each performance obligation using standalone selling prices, where available, or utilizes estimates for each distinct good or service in the contract where standalone prices are not available.

The Corporation’s performance obligations are satisfied either at a point-in-time or on an over-time basis. Typically, over-time revenue recognition is based on the utilization of an input measure used to measure progress, such as costs incurred to date relative to total estimated costs. If a performance obligation does not qualify for over-time revenue recognition, revenue is then recognized at the point-in-time in which control of the distinct good or service is transferred to the customer, typically based upon the terms of delivery.

The following table illustrates the approximate percentage of revenue recognized for performance obligations satisfied over-time versus at a point-in-time for the three and six months ended June 30, 2022 and 2021:

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
NOTES to CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Over-time	53 %	52 %	53 %	52 %
Point-in-time	47 %	48 %	47 %	48 %

Contract backlog represents the remaining performance obligations that have not yet been recognized as revenue. Backlog includes deferred revenue and amounts that will be invoiced and recognized as revenue in future periods. Total backlog was approximately $2.4 billion as of June 30, 2022, of which the Corporation expects to recognize approximately 88% as net sales over the next 36 months. The remainder will be recognized thereafter.

Disaggregation of Revenue

The following table presents the Corporation's total net sales disaggregated by end market and customer type:

Total Net Sales by End Market and Customer Type	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2022	2021	2022	2021
Aerospace & Defense				
Aerospace Defense	$ 94,545	$ 99,977	$ 192,549	$ 210,993
Ground Defense	44,393	48,221	83,501	103,967
Naval Defense	172,786	177,724	335,753	355,629
Commercial Aerospace	68,192	71,555	129,084	128,824
Total Aerospace & Defense	$ 379,916	$ 397,477	$ 740,887	$ 799,413
Commercial				
Power & Process	$ 125,355	$ 125,333	$ 230,143	$ 230,837
General Industrial	104,086	98,685	197,788	188,304
Total Commercial	$ 229,441	$ 224,018	$ 427,931	$ 419,141
Total	$ 609,357	$ 621,495	$ 1,168,818	$ 1,218,554

Contract Balances

Timing of revenue recognition and cash collection may result in billed receivables, unbilled receivables (contract assets), and deferred revenue (contract liabilities) on the Condensed Consolidated Balance Sheet. The Corporation's contract assets primarily relate to its rights to consideration for work completed but not billed as of the reporting date. Contract assets are transferred to billed receivables when the rights to consideration become unconditional. This is typical in situations where amounts are billed as work progresses in accordance with agreed-upon contractual terms or upon achievement of contractual milestones. The Corporation's contract liabilities primarily consist of customer advances received prior to revenue being earned. Revenue recognized during the three and six months ended June 30, 2022 included in the contract liabilities balance as of January 1, 2022 was approximately $56 million and $135 million, respectively. Revenue recognized during the three and six months ended June 30, 2021 included in the contract liabilities balance as of January 1, 2021 was approximately $65 million and $142 million, respectively. Contract assets and contract liabilities are reported in the "Receivables, net" and "Deferred revenue" lines, respectively, within the Condensed Consolidated Balance Sheet.

3. ACQUISITIONS

The Corporation continually evaluates potential acquisitions that either strategically fit within the Corporation's existing portfolio or expand the Corporation's portfolio into new product lines or adjacent markets. The Corporation has completed numerous acquisitions that have been accounted for as business combinations and have resulted in the recognition of goodwill in the Corporation's financial statements. This goodwill arises because the acquisition purchase price reflects the future

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CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
NOTES to CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

earnings and cash flow potential in excess of the earnings and cash flows attributable to the current product and customer set at the time of acquisition. Thus, goodwill inherently includes the know-how of the assembled workforce, the ability of the workforce to further improve the technology and product offerings, and the expected cash flows resulting from these efforts. Goodwill may also include expected synergies resulting from the complementary strategic fit these businesses bring to existing operations.

The Corporation allocates the purchase price at the date of acquisition based upon its understanding of the fair value of the acquired assets and assumed liabilities. In the months after closing, as the Corporation obtains additional information about these assets and liabilities, including through tangible and intangible asset appraisals, and as the Corporation learns more about the newly acquired business, it is able to refine the estimates of fair value and more accurately allocate the purchase price. Only items identified as of the acquisition date are considered for subsequent adjustment. The Corporation will make appropriate adjustments to the purchase price allocation prior to completion of the measurement period, as required.

During the six months ended June 30, 2022, the Corporation acquired one business for an aggregate purchase price of $247 million, which is described in more detail below, and represents a non-cash investing activity in the Condensed Consolidated Statement of Cash Flows. During the six months ended June 30, 2021, the Corporation did not complete any acquisitions.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition for the acquisition consummated during the six months ended June 30, 2022.

(In thousands)	2022
Accounts receivable	$ 9,970
Inventory	22,790
Property, plant, and equipment	1,683
Other current and non-current assets	1,872
Intangible assets	130,500
Operating lease right-of-use assets, net	1,197
Current and non-current liabilities	(9,607)
Net tangible and intangible assets	158,405
Goodwill	88,810
Total purchase price	$ 247,215
Due to seller	$ 247,215
Cash paid to date	$ —
Goodwill deductible for tax purposes	$ 88,810

2022 Acquisition

Safran Aerosystems Arresting Company (SAA)

On June 30, 2022, the Corporation completed the acquisition of SAA for $247 million. The Purchase Agreement contains a purchase price adjustment mechanism and representations and warranties customary for a transaction of this type. SAA is a designer and manufacturer of mission-critical, fixed-wing aircraft emergency arresting systems. The acquired business will operate within the Naval & Power segment. The acquisition is subject to post-closing adjustments with the purchase price allocation not yet complete.

4. ASSETS HELD FOR SALE

In January 2022, the Corporation completed the sale of its industrial valve business in Germany, which was presented as held for sale in the Corporation's Consolidated Balance Sheet as of December 31, 2021, for gross cash proceeds of $3 million. The Corporation recorded a loss of $5 million upon sale closing during the first quarter of 2022.

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
NOTES to CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

5. RECEIVABLES

Receivables primarily include amounts billed to customers, unbilled charges on long-term contracts consisting of amounts recognized as sales but not billed, and other receivables. Substantially all amounts of unbilled receivables are expected to be billed and collected within one year. An immaterial amount of unbilled receivables are subject to retainage provisions. The amount of claims and unapproved change orders within our receivables balances are immaterial.

The composition of receivables is as follows:

(In thousands)	June 30, 2022	December 31, 2021
Billed receivables:		
Trade and other receivables	$ 414,195	$ 362,007
Unbilled receivables (contract assets):		
Recoverable costs and estimated earnings not billed	291,485	291,758
Less: Progress payments applied	(688)	(1,297)
Net unbilled receivables	290,797	290,461
Less: Allowance for doubtful accounts	(5,360)	(5,320)
Receivables, net	$ 699,632	$ 647,148

6. INVENTORIES

Inventoried costs contain amounts relating to long-term contracts and programs with long production cycles, a portion of which will not be realized within one year. Long-term contract inventory includes an immaterial amount of claims or other similar items subject to uncertainty concerning their determination or realization. Inventories are valued at the lower of cost or net realizable value.

The composition of inventories is as follows:

(In thousands)	June 30, 2022	December 31, 2021
Raw materials	$ 239,575	$ 191,066
Work-in-process	87,193	78,221
Finished goods	118,655	98,944
Inventoried costs related to U.S. Government and other long-term contracts (1)	42,110	48,619
Inventories, net of reserves	487,533	416,850
Less: Progress payments applied	(4,743)	(5,283)
Inventories, net	$ 482,790	$ 411,567

(1) This caption includes capitalized development costs of $19.8 million as of June 30, 2022 related to certain aerospace and defense programs. These capitalized costs will be liquidated as units are produced under contract. As of June 30, 2022, capitalized development costs of $12.3 million are not currently supported by existing firm orders.

7. GOODWILL

The changes in the carrying amount of goodwill for the six months ended June 30, 2022 are as follows:

(In thousands)	Aerospace & Industrial	Defense Electronics	Naval & Power	Consolidated
December 31, 2021	$ 316,147	$ 714,014	$ 432,865	$ 1,463,026
Acquisitions	—	—	88,810	88,810
Adjustments	—	967	—	967
Foreign currency translation adjustment	(6,335)	(10,445)	(4,024)	(20,804)
June 30, 2022	$ 309,812	$ 704,536	$ 517,651	$ 1,531,999

8. OTHER INTANGIBLE ASSETS, NET

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(UNAUDITED)

The following tables present the cumulative composition of the Corporation's intangible assets:

	June 30, 2022			December 31, 2021		
(In thousands)	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Technology	$ 302,999	$ (168,995)	$ 134,004	$ 274,615	$ (164,077)	$ 110,538
Customer related intangibles	657,605	(280,993)	376,612	568,720	(270,816)	297,904
Programs [1]	144,000	(30,600)	113,400	144,000	(27,000)	117,000
Other intangible assets	53,484	(38,627)	14,857	49,559	(36,924)	12,635
Total	$ 1,158,088	$ (519,215)	$ 638,873	$ 1,036,894	$ (498,817)	$ 538,077

[1] Programs include values assigned to major programs of acquired businesses and represent the aggregate value associated with the customer relationships, contracts, technology, and trademarks underlying the associated program.

During the six months ended June 30, 2022, the Corporation acquired intangible assets of $130.5 million, which included Customer-related intangibles of $94.6 million, Technology of $31.5 million, and Other intangible assets of $4.4 million. The weighted average amortization periods for these aforementioned intangible assets are 15.9 years, 15.0 years, and 10.0 years, respectively.

Total intangible amortization expense for the six months ended June 30, 2022 was $28 million, as compared to $30 million in the comparable prior year period. The estimated future amortization expense of intangible assets over the next five years is as follows:

(In millions)	
2022	$ 63
2023	$ 66
2024	$ 55
2025	$ 52
2026	$ 51

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

Forward Foreign Exchange and Currency Option Contracts

The Corporation has foreign currency exposure primarily in the United Kingdom, Europe, and Canada. The Corporation uses financial instruments, such as forward and option contracts, to hedge a portion of existing and anticipated foreign currency denominated transactions. The purpose of the Corporation's foreign currency risk management program is to reduce volatility in earnings caused by exchange rate fluctuations. Guidance on accounting for derivative instruments and hedging activities requires companies to recognize all of the derivative financial instruments as either assets or liabilities at fair value in the Condensed Consolidated Balance Sheets based upon quoted market prices for comparable instruments.

Interest Rate Risks and Related Strategies

The Corporation's primary interest rate exposure results from changes in U.S. dollar interest rates. The Corporation's policy is to manage interest cost using a mix of fixed and variable rate debt.

Effects on Condensed Consolidated Balance Sheets

As of June 30, 2022 and December 31, 2021, the fair values of the asset and liability derivative instruments were immaterial.

Effects on Condensed Consolidated Statements of Earnings

Undesignated hedges

The gains and losses on forward exchange derivative contracts not designated for hedge accounting are recognized to general and administrative expenses within the Condensed Consolidated Statements of Earnings. The losses for the three and six months ended June 30, 2022 were $5 million and $6 million, respectively. The gains for the three and six months ended June 30, 2021 were immaterial.

Debt

The estimated fair value amounts were determined by the Corporation using available market information that is primarily based on quoted market prices for the same or similar issuances as of June 30, 2022. Accordingly, all of the Corporation's debt is valued as a Level 2 financial instrument. The fair values described below may not be indicative of net realizable value or reflective of future fair values. Furthermore, the use of different methodologies to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

	June 30, 2022		December 31, 2021	
(In thousands)	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Revolving credit agreement, due 2027	$ 253,100	$ 253,100	$ 93,900	$ 93,900
3.70% Senior notes due 2023	202,500	202,266	202,500	208,086
3.85% Senior notes due 2025	90,000	88,790	90,000	95,246
4.24% Senior notes due 2026	200,000	198,087	200,000	218,421
4.05% Senior notes due 2028	67,500	65,836	67,500	73,783
4.11% Senior notes due 2028	90,000	87,593	90,000	98,854
3.10% Senior notes due 2030	150,000	133,963	150,000	154,832
3.20% Senior notes due 2032	150,000	131,206	150,000	154,875
Total debt	1,203,100	1,160,841	1,043,900	1,097,997
Debt issuance costs, net	(868)	(868)	(949)	(949)
Unamortized interest rate swap proceeds	6,845	6,845	7,659	7,659
Total debt, net	$ 1,209,077	$ 1,166,818	$ 1,050,610	$ 1,104,707

Revolving Credit Agreement

In May 2022, the Corporation terminated its existing credit agreement, which was set to expire in October 2023, and entered into a new credit agreement ("Credit Agreement") with a syndicate of financial institutions. The Credit Agreement, which is set to expire in May 2027, increases the size of the Corporation's revolving credit facility to $750 million, and expands the accordion feature to $250 million. The proceeds available under the Credit Agreement are to be used for general corporate purposes, which may include the funding of possible future acquisitions or supporting internal growth initiatives.

10. PENSION PLANS

Defined Benefit Pension Plans

The following table is a consolidated disclosure of all domestic and foreign defined benefit pension plans as described in the Corporation's 2021 Annual Report on Form 10-K.

The components of net periodic pension cost for the three and six months ended June 30, 2022 and 2021 were as follows:

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
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(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2022	2021	2022	2021
Service cost	$ 5,970	$ 7,120	$ 12,033	$ 13,990
Interest cost	5,418	4,511	10,706	8,817
Expected return on plan assets	(13,858)	(15,191)	(27,715)	(30,371)
Amortization of prior service cost	(87)	(369)	(173)	(432)
Amortization of unrecognized actuarial loss	3,845	7,574	7,851	14,717
Cost of settlements	—	3,075	1,842	3,075
Net periodic pension cost	$ 1,288	$ 6,720	$ 4,544	$ 9,796

The Corporation did not make any contributions to the Curtiss-Wright Pension Plan during 2021, and does not expect to do so in 2022. Contributions to the foreign benefit plans are not expected to be material in 2022.

During the six months ended June 30, 2022, as well as during the three and six months ended June 30, 2021, the Company recognized settlement charges related to the retirement of former executives. The settlement charges represent events that are accounted for under guidance on employers' accounting for settlements and curtailments of defined benefit pension plans.

Defined Contribution Retirement Plan

The Company also maintains a defined contribution plan for all non-union employees who are not currently receiving final or career average pay benefits for its U.S. subsidiaries. The employer contributions include both employer match and non-elective contribution components up to a maximum employer contribution of 7% of eligible compensation. During the three and six months ended June 30, 2022, the expense relating to the plan was $4.6 million and $10.3 million, respectively. During the three and six months ended June 30, 2021, the expense relating to the plan was $4.3 million and $9.6 million, respectively.

11. EARNINGS PER SHARE

Diluted earnings per share was computed based on the weighted-average number of shares outstanding plus all potentially dilutive common shares. A reconciliation of basic to diluted shares used in the earnings per share calculation is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2022	2021	2022	2021
Basic weighted-average shares outstanding	38,429	40,915	38,438	40,921
Dilutive effect of deferred stock compensation	225	173	219	171
Diluted weighted-average shares outstanding	38,654	41,088	38,657	41,092

For the three and six months ended June 30, 2022, approximately 37,000 and 31,000 shares, respectively, issuable under equity-based awards were excluded from the calculation of diluted earnings per share as they were anti-dilutive based on the average stock price during the period. There were approximately 34,000 and 61,000 anti-dilutive equity-based awards for the three and six months ended June 30, 2021, respectively.

12. SEGMENT INFORMATION

The Corporation's measure of segment profit or loss is operating income. Interest expense and income taxes are not reported on an operating segment basis as they are not considered in the segments' performance evaluation by the Corporation's chief operating decision-maker, its Chief Executive Officer.

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
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(UNAUDITED)

Net sales and operating income by reportable segment were as follows:

(In thousands)	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Net sales				
Aerospace & Industrial	$ 209,311	$ 200,254	$ 401,161	$ 381,392
Defense Electronics	150,404	163,468	294,342	345,766
Naval & Power	251,313	259,496	476,628	495,076
Less: Intersegment revenues	(1,671)	(1,723)	(3,313)	(3,680)
Total consolidated	$ 609,357	$ 621,495	$ 1,168,818	$ 1,218,554
Operating income (expense)				
Aerospace & Industrial	$ 32,464	$ 31,977	$ 57,317	$ 51,002
Defense Electronics	24,460	29,271	47,750	65,894
Naval & Power	50,001	43,095	77,289	81,152
Corporate and other [1]	(8,820)	(9,760)	(23,741)	(18,399)
Total consolidated	$ 98,105	$ 94,583	$ 158,615	$ 179,649

[1] Includes pension and other postretirement benefit expense, certain environmental costs related to remediation at legacy sites, foreign currency transactional gains and losses, and certain other expenses.

Adjustments to reconcile operating income to earnings before income taxes are as follows:

(In thousands)	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Total operating income	$ 98,105	$ 94,583	$ 158,615	$ 179,649
Interest expense	9,788	10,180	19,318	20,139
Other income, net	4,555	440	7,552	5,283
Earnings before income taxes	$ 92,872	$ 84,843	$ 146,849	$ 164,793

(In thousands)	June 30, 2022	December 31, 2021
Identifiable assets		
Aerospace & Industrial	$ 1,006,902	$ 991,508
Defense Electronics	1,541,806	1,536,369
Naval & Power	1,551,343	1,270,099
Corporate and Other	302,477	294,581
Assets held for sale	—	10,988
Total consolidated	$ 4,402,528	$ 4,103,545

13. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The cumulative balance of each component of accumulated other comprehensive income (AOCI), net of tax, is as follows:

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
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(UNAUDITED)

(In thousands)	Foreign currency translation adjustments, net	Total pension and postretirement adjustments, net	Accumulated other comprehensive income (loss)
December 31, 2020	$ (88,737)	$ (222,119)	$ (310,856)
Other comprehensive income (loss) before reclassifications [(1)]	(10,829)	107,211	96,382
Amounts reclassified from accumulated other comprehensive income [(1)]	—	24,009	24,009
Net current period other comprehensive income (loss)	(10,829)	131,220	120,391
December 31, 2021	$ (99,566)	$ (90,899)	$ (190,465)
Other comprehensive income (loss) before reclassifications [(1)]	(47,161)	2,091	(45,070)
Amounts reclassified from accumulated other comprehensive income [(1)]	—	7,663	7,663
Net current period other comprehensive income (loss)	(47,161)	9,754	(37,407)
June 30, 2022	$ (146,727)	$ (81,145)	$ (227,872)

[(1)] All amounts are after tax.

Details of amounts reclassified from accumulated other comprehensive income (loss) are below:

(In thousands)	Amount reclassified from AOCI	Affected line item in the statement where net earnings is presented
Defined benefit pension and other postretirement benefit plans		
Amortization of prior service costs	$ 173	Other income, net
Amortization of actuarial losses	(7,851)	Other income, net
Settlements	(1,842)	Other income, net
	(9,520)	Earnings before income taxes
	1,857	Provision for income taxes
Total reclassifications	$ (7,663)	Net earnings

14. CONTINGENCIES AND COMMITMENTS

From time to time, the Corporation and its subsidiaries are involved in legal proceedings that are incidental to the operation of our business. Some of these proceedings allege damages relating to asbestos and environmental exposures, intellectual property matters, copyright infringement, personal injury claims, employment and employee benefit matters, government contract issues, commercial or contractual disputes, and acquisitions or divestitures. The Corporation continues to defend vigorously against all claims. Although the ultimate outcome of any legal matter cannot be predicted with certainty, based on present information, including assessment of the merits of the particular claim, as well as current accruals and insurance coverage, the Corporation does not expect that such legal proceedings will have a material adverse impact on its condensed consolidated financial statements.

Legal Proceedings

The Corporation has been named in a number of lawsuits that allege injury from exposure to asbestos. To date, the Corporation has not been found liable for or paid any material sum of money in settlement in any asbestos-related case. The Corporation believes its minimal use of asbestos in its past operations as well as its acquired businesses' operations and the relatively non-friable condition of asbestos in its historical products makes it unlikely that it will face material liability in any asbestos litigation, whether individually or in the aggregate. The Corporation maintains insurance coverage and indemnification agreements for these potential liabilities and believes adequate coverage exists to cover any unanticipated asbestos liability.

Letters of Credit and Other Financial Arrangements

The Corporation enters into standby letters of credit agreements and guarantees with financial institutions and customers primarily relating to guarantees of repayment, future performance on certain contracts to provide products and services, and to

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secure advance payments from certain international customers. As of June 30, 2022 and December 31, 2021, there were $17.2 million and $21.1 million of stand-by letters of credit outstanding, respectively, and $2.4 million and $4.5 million of bank guarantees outstanding, respectively. In addition, the Corporation is required to provide the Nuclear Regulatory Commission financial assurance demonstrating its ability to cover the cost of decommissioning its Cheswick, Pennsylvania facility upon closure, though the Corporation does not intend to close this facility. The Corporation has provided this financial assurance in the form of a $35.2 million surety bond.

AP1000 Program

In February 2022, the Corporation and Westinghouse Electric Company (WEC) executed a settlement agreement to resolve all open claims and counterclaims under the AP1000 U.S. and China contracts. Under the terms of the settlement agreement, the Corporation paid WEC $15 million in March 2022 and is required to pay WEC a final amount of $10 million in the first quarter of 2023 in exchange for the Corporation's full release from all open claims under such contracts, whether known or unknown, as well as negotiating and executing a right of first refusal for all future AP1000 projects. As of December 31, 2021, the Corporation was adequately accrued regarding this matter.

15. SUBSEQUENT EVENTS

On August 1, 2022, the Corporation announced that it priced a private placement debt offering of $300 million for senior notes. The offering is expected to close in the fourth quarter, subject to customary closing conditions.

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CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
PART I- ITEM 2
MANAGEMENT'S DISCUSSION and ANALYSIS of
FINANCIAL CONDITION and RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

Except for historical information, this Quarterly Report on Form 10-Q may be deemed to contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Examples of forward-looking statements include, but are not limited to: (a) projections of or statements regarding return on investment, future earnings, interest income, sales, volume, other income, earnings or loss per share, growth prospects, capital structure, and other financial terms, (b) statements of plans and objectives of management, (c) statements of future economic performance and potential impacts from COVID-19, including the impacts to supply and demand, the impact of significant inflation, higher interest rates or deflation, and measures taken by governments and private industry in response, (d) statements of future economic performance and potential impacts due to the conflict between Russia and Ukraine, and (e) statements of assumptions, such as economic conditions underlying other statements. Such forward-looking statements can be identified by the use of forward-looking terminology such as "anticipates," "believes," "continue," "could," "estimate," "expects," "intend," "may," "might," "outlook," "potential," "predict," "should," "will," as well as the negative of any of the foregoing or variations of such terms or comparable terminology, or by discussion of strategy. No assurance may be given that the future results described by the forward-looking statements will be achieved. While we believe these forward-looking statements are reasonable, they are only predictions and are subject to known and unknown risks, uncertainties, and other factors, many of which are beyond our control, which could cause actual results, performance, or achievement to differ materially from anticipated future results, performance, or achievement expressed or implied by such forward-looking statements. These risks and uncertainties include, but are not limited to, those described in "Item 1A. Risk Factors" of our 2021 Annual Report on Form 10-K, and elsewhere in that report, those described in this Quarterly Report on Form 10-Q, and those described from time to time in our future reports filed with the Securities and Exchange Commission. Such forward-looking statements in this Quarterly Report on Form 10-Q include, without limitation, those contained in Item 1. Financial Statements and Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Given these risks and uncertainties, you are cautioned not to place undue reliance on such forward-looking statements. These forward-looking statements speak only as of the date they were made, and we assume no obligation to update forward-looking statements to reflect actual results or changes in or additions to the factors affecting such forward-looking statements.

COMPANY ORGANIZATION

Curtiss-Wright Corporation is a global integrated business that provides highly engineered products, solutions, and services mainly to aerospace & defense markets, as well as critical technologies in demanding commercial power, process, and industrial markets. We report our operations through our Aerospace & Industrial, Defense Electronics, and Naval & Power segments. We operate across a diversified array of niche markets through engineering and technological leadership, precision manufacturing, and strong relationships with our customers. Approximately 67% of our 2022 revenues are expected to be generated from A&D-related markets.

COVID-19

In March 2020, the World Health Organization characterized the outbreak of COVID-19 as a pandemic. The pandemic has adversely affected certain elements of our business, including our supply chain, transportation networks, and production levels. The extent to which COVID-19 continues to adversely impact our operations depends on future developments, including the impact of the global rollout of COVID-19 vaccines, the emergence and impact of any new COVID-19 variants, as well as the issuance of vaccine mandates by the Biden administration. However, given the diversified breadth of our company, we believe that we are well-positioned to mitigate any material risks arising as a result of COVID-19 or any of its variants. From an operational perspective, our current cash balance, coupled with expected cash flows from operating activities for the remainder of the year as well as our current borrowing capacity under the Credit Agreement, are expected to be more than sufficient to meet operating cash requirements, planned capital expenditures, principal payments on the current portion of long-term debt obligations, interest payments on long-term debt obligations, payments on lease obligations, pension and postretirement funding requirements, and dividend payments through the current year and beyond.

RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to help the reader understand the results of operations and financial condition of the Corporation for the three and six month periods ended June 30, 2022. The financial information as of June 30, 2022 should be read in conjunction with the financial statements for the year ended December 31, 2021 contained in our Form 10-K.

The MD&A is organized into the following sections: Condensed Consolidated Statements of Earnings, Results by Business Segment, and Liquidity and Capital Resources. Our discussion will be focused on the overall results of operations followed by a more detailed discussion of those results within each of our reportable segments.

Our three reportable segments are generally concentrated in a few end markets; however, each may have sales across several end markets. An end market is defined as an area of demand for products and services. The sales for the relevant markets will be discussed throughout the MD&A.

Analytical Definitions

Throughout management's discussion and analysis of financial condition and results of operations, the terms "incremental" and "organic" are used to explain changes from period to period. The term "incremental" is used to highlight the impact acquisitions and divestitures had on the current year results. The results of operations for acquisitions are incremental for the first twelve months from the date of acquisition. Additionally, the results of operations of divested businesses are removed from the comparable prior year period for purposes of calculating "organic" and "incremental" results. The definition of "organic" excludes the loss from sale of our industrial valves business in Germany as well as the effects of foreign currency translation.

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
PART I - ITEM 2
MANAGEMENT'S DISCUSSION and ANALYSIS of
FINANCIAL CONDITION and RESULTS OF OPERATIONS, continued

Condensed Consolidated Statements of Earnings

	Three Months Ended June 30,			Six Months Ended June 30,		
(In thousands)	2022	2021	% change	2022	2021	% change
Sales						
Aerospace & Industrial	$ 208,572	$ 199,713	4 %	$ 399,684	$ 380,044	5 %
Defense Electronics	149,549	162,351	(8 %)	292,618	343,563	(15 %)
Naval & Power	251,236	259,431	(3 %)	476,516	494,947	(4 %)
Total sales	$ 609,357	$ 621,495	(2 %)	$ 1,168,818	$ 1,218,554	(4 %)
Operating income						
Aerospace & Industrial	$ 32,464	$ 31,977	2 %	$ 57,317	$ 51,002	12 %
Defense Electronics	24,460	29,271	(16 %)	47,750	65,894	(28 %)
Naval & Power	50,001	43,095	16 %	77,289	81,152	(5 %)
Corporate and other	(8,820)	(9,760)	10 %	(23,741)	(18,399)	(29 %)
Total operating income	$ 98,105	$ 94,583	4 %	$ 158,615	$ 179,649	(12 %)
Interest expense	9,788	10,180	4 %	19,318	20,139	4 %
Other income, net	4,555	440	NM	7,552	5,283	43 %
Earnings before income taxes	92,872	84,843	9 %	146,849	164,793	(11 %)
Provision for income taxes	(22,000)	(23,435)	6 %	(35,292)	(43,916)	20 %
Net earnings	$ 70,872	$ 61,408	15 %	$ 111,557	$ 120,877	(8 %)
New orders	$ 776,162	$ 698,970	11 %	$ 1,410,428	$ 1,271,857	11 %

NM - Not meaningful

Components of sales and operating income increase (decrease):

	Three Months Ended June 30, 2022 vs. 2021		Six Months Ended June 30, 2022 vs. 2021	
	Sales	Operating Income	Sales	Operating Income
Organic	(1 %)	2 %	(3 %)	(9 %)
Acquisitions	— %	— %	— %	— %
Loss on divestiture	— %	— %	— %	(4 %)
Foreign currency	(1 %)	2 %	(1 %)	1 %
Total	(2 %)	4 %	(4 %)	(12 %)

Sales in the second quarter decreased $12 million, or 2%, to $609 million, compared with the prior year period. On a segment basis, sales from the Defense Electronics and Naval & Power segments decreased $13 million and $8 million, respectively, with sales from the Aerospace & Industrial segment increasing $9 million.

Sales during the six months ended June 30, 2022 decreased $50 million, or 4%, to $1,169 million, compared with the prior year period. On a segment basis, sales from the Defense Electronics and Naval & Power segments decreased $51 million and $18

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million, respectively, with sales from the Aerospace & Industrial segment increasing $19 million. Changes in sales by segment are discussed in further detail in the results by business segment section below.

Operating income in the second quarter increased $4 million, or 4%, to $98 million, and operating margin increased 90 basis points to 16.1% compared with the same period in 2021. Operating income and operating margin in the Naval & Power segment benefited from favorable mix in the naval defense and process markets, as well as the benefits of our ongoing operational excellence initiatives. In the Aerospace & Industrial segment, favorable absorption on higher sales and the benefits of our ongoing operational excellence initiatives were essentially offset by higher research and development investments. Decreases in operating income and operating margin in the Defense Electronics segment were primarily due to unfavorable overhead absorption on lower sales.

Operating income during the six months ended June 30, 2022 decreased $21 million, or 12%, to $159 million and operating margin decreased 110 basis points to 13.6%, compared with the same period in 2021. In the Defense Electronics segment, decreases in operating income and operating margin were primarily due to unfavorable overhead absorption on lower sales, which more than offset the benefits of our ongoing operational excellence initiatives. Operating income and operating margin in the Naval & Power segment were negatively impacted by a loss on sale of our industrial valves business in Germany in the current period, as well as unfavorable overhead absorption on lower sales in the naval defense market. These decreases were partially offset by increases in operating income and operating margin in the Aerospace & Industrial segment, primarily due to favorable absorption on higher sales, as well as the benefits of our ongoing operational excellence initiatives.

Non-segment operating expense in the second quarter decreased $1 million, or 10%, to $9 million, primarily due to lower pension costs in the current period. Non-segment operating expense during the six months ended June 30, 2022 increased $5 million, or 29%, to $24 million, primarily due to costs associated with shareholder activism in the current period.

Interest expense in the second quarter and six months ended June 30, 2022 of $10 million and $19 million, respectively, was essentially flat against the comparable prior year periods.

Other income, net in the second quarter increased $4 million to $5 million. Other income, net during the six months ended June 30, 2022 increased $2 million, or 43%, to $8 million. Increases in both periods were primarily due to lower overall pension costs against the comparable prior year periods.

The effective tax rate of 23.7% in the second quarter decreased compared to an effective tax rate of 27.6% in the prior year period. The effective tax rate of 24.0% for the six months ended June 30, 2022 decreased as compared to an effective tax rate of 26.6%. Decreases in both of the comparable periods were primarily due to an unfavorable foreign rate change on deferred tax liabilities in the prior year that did not recur, as well as lower provisional tax expense associated with the Tax Act for foreign withholding taxes in the current year period.

Comprehensive income in the second quarter was $35 million, compared to comprehensive income of $73 million in the prior year period. The change was primarily due to the following:

- Foreign currency translation adjustments in the second quarter resulted in a $40 million comprehensive loss, compared to a $7 million comprehensive gain in the prior year period. The comprehensive loss during the current period was primarily attributed to decreases in the British Pound.
- Net earnings increased $9 million, primarily due to higher operating income and other income, net.

Comprehensive income during the six months ended June 30, 2022 was $74 million, compared to comprehensive income of $134 million in the prior year period. The change was primarily due to the following:

- Foreign currency translation adjustments for the six months ended June 30, 2022 resulted in a $47 million comprehensive loss, compared to a $3 million comprehensive gain in the prior period. The comprehensive loss during the current period was primarily attributed to decreases in the British Pound.
- Net earnings decreased $9 million, primarily due to lower operating income.

New orders in the second quarter increased $77 million from the comparable prior year period, primarily due to the timing of naval defense orders in the Naval & Power segment, as well as an increase in new orders for commercial aerospace equipment in the Defense

Electronics and Aerospace & Industrial segments. These increases were partially offset by the timing of new orders for industrial vehicles in the Aerospace & Industrial segment.

CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
PART I - ITEM 2
MANAGEMENT'S DISCUSSION and ANALYSIS of
FINANCIAL CONDITION and RESULTS OF OPERATIONS, continued

New orders during the six months ended June 30, 2022 increased $139 million from the comparable prior year period primarily due to the timing of naval defense orders in the Naval & Power segment, as well as an increase in new orders for commercial aerospace equipment in the Defense Electronics and Aerospace & Industrial segments.

RESULTS BY BUSINESS SEGMENT

Aerospace & Industrial

The following tables summarize sales, operating income and margin, and new orders within the Aerospace & Industrial segment.

	Three Months Ended June 30,			Six Months Ended June 30,		
(In thousands)	2022	2021	% change	2022	2021	% change
Sales	$ 208,572	$ 199,713	4%	$ 399,684	$ 380,044	5%
Operating income	32,464	31,977	2%	57,317	51,002	12%
Operating margin	15.6 %	16.0 %	(40 bps)	14.3 %	13.4 %	90 bps
New orders	$ 215,279	$ 222,825	(3%)	$ 443,593	$ 421,940	5%

Components of sales and operating income increase (decrease):

	Three Months Ended June 30, 2022 vs. 2021		Six Months Ended June 30, 2022 vs. 2021	
	Sales	Operating Income	Sales	Operating Income
Organic	7 %	2 %	7 %	14 %
Acquisitions	— %	— %	— %	— %
Foreign currency	(3 %)	— %	(2 %)	(2 %)
Total	4 %	2 %	5 %	12 %

Sales in the Aerospace & Industrial segment are primarily generated from the commercial aerospace and general industrial markets, and to a lesser extent the defense and power & process markets.

Sales in the second quarter increased $9 million, or 4%, to $209 million from the prior year period, primarily due to higher sales in the commercial aerospace and general industrial markets. Sales in the commercial aerospace market benefited $5 million from higher demand for actuation and sensors products as well as surface treatment services on various narrow-body and wide-body platforms. Sales in the general industrial market increased $5 million primarily due to higher demand for industrial vehicle products. These increases were partially offset by sales decreases in the aerospace defense market primarily due to lower sales of actuation and sensors products on various fighter jet programs.

Sales during the six months ended June 30, 2022 increased $19 million, or 5%, to $400 million from the prior year period, primarily due to higher sales in the commercial aerospace and general industrial markets. In the commercial aerospace market, sales increased $10 million primarily due to higher demand for actuation and sensors products as well as surface treatment services. The general industrial market benefited from sales increases of $9 million primarily due to higher demand for industrial vehicle products.

Operating income in the second quarter increased approximately $1 million, or 2%, to $32 million from the prior year period, and operating margin decreased 40 basis points to 15.6%, as favorable absorption on higher sales and the benefits of our ongoing operational excellence initiatives were essentially offset by higher research and development investments.

Operating income during the six months ended June 30, 2022 increased $6 million, or 12%, to $57 million from the prior year period, and operating margin increased 90 basis points to 14.3%. The increases in operating income and operating margin in

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each of the respective periods were primarily due to favorable overhead absorption on higher sales, as well as the benefits of our ongoing operational excellence initiatives.

New orders in the second quarter decreased $8 million, as an increase in new orders for commercial aerospace equipment was more than offset by the timing of new orders for industrial vehicles.

New orders during the six months ended June 30, 2022 increased $22 million primarily due to an increase in new orders for commercial aerospace equipment. This increase was partially offset by the timing of new orders for industrial vehicles.

Defense Electronics

The following tables summarize sales, operating income and margin, and new orders within the Defense Electronics segment.

	Three Months Ended June 30,			Six Months Ended June 30,		
(In thousands)	2022	2021	% change	2022	2021	% change
Sales	$ 149,549	$ 162,351	(8%)	$ 292,618	$ 343,563	(15%)
Operating income	24,460	29,271	(16%)	47,750	65,894	(28%)
Operating margin	16.4 %	18.0 %	(160 bps)	16.3 %	19.2 %	(290 bps)
New orders	$ 195,442	$ 184,033	6%	$ 355,130	$ 359,773	(1%)

Components of sales and operating income increase (decrease):

	Three Months Ended June 30, 2022 vs. 2021		Six Months Ended June 30, 2022 vs. 2021	
	Sales	Operating Income	Sales	Operating Income
Organic	(7 %)	(21 %)	(14 %)	(29 %)
Acquisitions	— %	— %	— %	— %
Foreign currency	(1 %)	5 %	(1 %)	1 %
Total	(8 %)	(16 %)	(15 %)	(28 %)

Sales in the Defense Electronics segment are primarily to the defense markets and, to a lesser extent, the commercial aerospace market.

Sales in the second quarter decreased $13 million, or 8%, to $150 million from the prior year period. In the commercial aerospace market, sales decreased $9 million primarily due to lower sales of avionics and flight test equipment on various domestic and international platforms. Sales in the aerospace defense and ground defense markets were negatively impacted by ongoing supply chain headwinds and the delayed signing of the FY22 defense budget. These decreases were partially offset by higher sales on the Virginia-class submarine program in the naval defense market.

Sales during the six months ended June 30, 2022 decreased $51 million, or 15%, to $293 million from the prior year period. In the ground defense market, sales decreased $23 million primarily due to ongoing supply chain headwinds as well as the delayed signing of the FY22 defense budget, which contributed to lower sales of embedded computing and tactical communications equipment on various programs. The aerospace defense market was also negatively impacted by ongoing supply chain headwinds, which resulted in lower sales of $16 million, primarily on embedded computing equipment on various programs. In the commercial aerospace market, sales decreased $10 million primarily due to lower sales of avionics and flight test equipment on various domestic and international platforms.

Operating income in the second quarter decreased $5 million, or 16%, to $24 million compared to the prior year period, and operating margin decreased 160 basis points from the prior year period to 16.4%. Operating income during the six months ended June 30, 2022 decreased $18 million, or 28%, to $48 million, and operating margin decreased 290 basis points from the

prior year period to 16.3%. The decreases in operating income and operating margin for each of the respective periods were primarily due to unfavorable overhead absorption on lower sales.

New orders in the second quarter increased $11 million, primarily due to an increase in new orders for commercial aerospace equipment.

New orders during the six months ended June 30, 2022 decreased $5 million, as an increase in new orders for commercial aerospace equipment was more than offset by the timing of orders across all defense-related markets due to the delayed signing of the FY22 defense budget.

Naval & Power

The following tables summarize sales, operating income and margin, and new orders within the Naval & Power segment.

	Three Months Ended June 30,			Six Months Ended June 30,		
(In thousands)	2022	2021	% change	2022	2021	% change
Sales	$ 251,236	$ 259,431	(3%)	$ 476,516	$ 494,947	(4%)
Operating income	50,001	43,095	16%	77,289	81,152	(5%)
Operating margin	19.9 %	16.6 %	330 bps	16.2 %	16.4 %	(20 bps)
New orders	$ 365,441	$ 292,112	25%	$ 611,705	$ 490,144	25%

Components of sales and operating income increase (decrease):

	Three Months Ended June 30, 2022 vs. 2021		Six Months Ended June 30, 2022 vs. 2021	
	Sales	Operating Income	Sales	Operating Income
Organic	(3 %)	15 %	(4 %)	2 %
Acquisitions	— %	— %	— %	— %
Loss on divestiture	— %	— %	— %	(7 %)
Foreign currency	— %	1 %	— %	— %
Total	(3 %)	16 %	(4 %)	(5 %)

Sales in the Naval & Power segment are primarily to the naval defense and power & process markets.

Sales in the second quarter decreased $8 million, or 3%, to $251 million from the prior year period. In the naval defense market, sales decreased $7 million, as higher demand on the Columbia-class submarine and CVN-81 aircraft carrier programs was more than offset by lower sales on the CVN-80 aircraft carrier and Virginia-class submarine programs. In the power & process market, higher nuclear aftermarket sales as well as higher demand for industrial valve products were essentially offset by the wind-down on the China Direct AP1000 program.

Sales during the six months ended June 30, 2022 decreased $18 million, or 4%, to $477 million from the prior year period. Sales decreased $14 million in the naval defense market, as higher demand on the Columbia-class submarine and CVN-81 aircraft carrier programs was more than offset by lower sales on the CVN-80 aircraft carrier and Virginia-class submarine programs. In the power & process market, higher nuclear aftermarket sales were more than offset by the wind-down on the China Direct AP1000 program.

Operating income in the second quarter increased $7 million, or 16%, to $50 million, and operating margin increased 330 basis points from the prior year period to 19.9%, primarily due to favorable mix in the naval defense and process markets, as well as the benefits of our ongoing operational excellence initiatives.

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CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
PART I - ITEM 2
MANAGEMENT'S DISCUSSION and ANALYSIS of
FINANCIAL CONDITION and RESULTS OF OPERATIONS, continued

Operating income during the six months ended June 30, 2022 decreased $4 million, or 5%, to $77 million, and operating margin decreased 20 basis points from the prior year period to 16.2%. Both operating income and operating margin were negatively impacted by a loss on sale of our industrial valves business in Germany in the current period, as well as unfavorable overhead absorption on lower sales in the naval defense market. These decreases were partially offset by favorable mix in the naval defense and process markets, as well as the benefits of our ongoing operational excellence initiatives.

New orders in the second quarter and six months ended June 30, 2022 increased $73 million and $122 million, respectively, from the comparable prior year periods, primarily due to the timing of naval defense orders.

SUPPLEMENTARY INFORMATION

The table below depicts sales by end market and customer type, as it helps provide an enhanced understanding of our businesses and the markets in which we operate. The table has been included to supplement the discussion of our consolidated operating results.

Total Net Sales by End Market and Customer Type	Three Months Ended June 30,			Six Months Ended June 30,		
(In thousands)	2022	2021	% change	2022	2021	% change
Aerospace & Defense markets:						
Aerospace Defense	$ 94,545	$ 99,977	(5 %)	$ 192,549	$ 210,993	(9 %)
Ground Defense	44,393	48,221	(8 %)	83,501	103,967	(20 %)
Naval Defense	172,786	177,724	(3 %)	335,753	355,629	(6 %)
Commercial Aerospace	68,192	71,555	(5 %)	129,084	128,824	— %
Total Aerospace & Defense	$ 379,916	$ 397,477	(4 %)	$ 740,887	$ 799,413	(7 %)
Commercial markets:						
Power & Process	$ 125,355	$ 125,333	— %	$ 230,143	$ 230,837	— %
General Industrial	104,086	98,685	5 %	197,788	188,304	5 %
Total Commercial	$ 229,441	$ 224,018	2 %	$ 427,931	$ 419,141	2 %
Total Curtiss-Wright	$ 609,357	$ 621,495	(2 %)	$ 1,168,818	$ 1,218,554	(4 %)

Aerospace & Defense markets
Sales in the second quarter decreased $18 million, or 4%, to $380 million against the comparable prior year period, due to lower sales across all markets. Sales in the aerospace defense market decreased primarily due to lower sales of actuation and sensors products on various fighter jet programs, as well as lower sales of embedded computing equipment on various fighter jet and helicopter platforms. The ground defense market was negatively impacted by ongoing supply chain headwinds and the delayed signing of the FY22 defense budget, which resulted in lower sales of tactical communications equipment. In the naval defense market, higher demand on the Columbia-class submarine and CVN-81 aircraft carrier programs was more than offset by lower sales on the CVN-80 aircraft carrier and Virginia-class submarine programs. Sales in the commercial aerospace market were negatively impacted by lower sales of avionics and flight test equipment on various domestic and international platforms, partially offset by higher demand for actuation and sensors products as well as surface treatment services on various narrow-body and wide-body platforms.

Sales during the six months ended June 30, 2022 decreased $59 million, or 7%, to $741 million, primarily due to lower sales in the aerospace defense, ground defense, and naval defense markets. Sales in the aerospace defense and ground defense markets decreased primarily due to ongoing supply chain headwinds and the delayed signing of the FY22 defense budget. Sales decreases in the naval defense market were primarily due to lower sales on the CVN-80 aircraft carrier and Virginia-class submarine programs, partially offset by higher demand on the Columbia-class submarine and CVN-81 aircraft carrier programs.

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CURTISS-WRIGHT CORPORATION and SUBSIDIARIES
PART I - ITEM 2
MANAGEMENT'S DISCUSSION and ANALYSIS of
FINANCIAL CONDITION and RESULTS OF OPERATIONS, continued

Commercial markets
Sales in the second quarter increased $5 million, or 2%, to $229 million primarily due to higher demand for our industrial vehicle products in the general industrial market.

Sales during the six months ended June 30, 2022 increased $9 million, or 2%, to $428 million primarily due to higher demand for our industrial vehicle products in the general industrial market. In the power & process market, higher nuclear aftermarket sales were offset by the wind-down on the China Direct AP1000 program.

LIQUIDITY AND CAPITAL RESOURCES

Sources and Use of Cash

We derive the majority of our operating cash inflow from receipts on the sale of goods and services and cash outflow for the procurement of materials and labor; cash flow is therefore subject to market fluctuations and conditions. Most of our long-term contracts allow for several billing points (progress or milestone) that provide us with cash receipts as costs are incurred throughout the project rather than upon contract completion, thereby reducing working capital requirements. In some cases, these payments can exceed the costs incurred on a project. Management continually evaluates cash utilization alternatives, including share repurchases, acquisitions, increased dividends, and paying down debt, to determine the most beneficial use of available capital resources. We believe that our cash and cash equivalents, cash flow from operations, available borrowings under the credit facility, and ability to raise additional capital through the credit markets, are sufficient to meet both the short-term and long-term capital needs of the organization.

Condensed Consolidated Statements of Cash Flows	Six Months Ended	
(In thousands)	June 30, 2022	June 30, 2021
Cash provided by (used for):		
Operating activities	$ (93,271)	$ 48,476
Investing activities	(18,235)	(20,129)
Financing activities	118,120	(26,899)
Effect of exchange-rate changes on cash	(6,204)	(2,188)
Net increase (decrease) in cash and cash equivalents	410	(740)

Net cash provided by operating activities decreased $142 million from the prior year period, primarily due to the timing of advanced cash receipts, higher inventory receipts, and a legal settlement payment made to WEC during the current period.

Net cash used for investing activities decreased $2 million from the prior year period, primarily due to higher current period proceeds from disposal of long-lived assets.

Net cash provided by financing activities increased $145 million from the prior year period, primarily due to higher current period net borrowings under our Credit Agreement. Refer to the "Financing Activities" section below for further details.

Financing Activities

Debt

The Corporation's debt outstanding had an average interest rate of 3.2% for both the three and six months ended June 30, 2022, and 3.5% for both the three and six months ended June 30, 2021, respectively. The Corporation's average debt outstanding was $1.2 billion for both the three and six months ended June 30, 2022, and $1.1 billion for both the three and six months ended June 30, 2021, respectively.

Revolving Credit Agreement

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In May 2022, the Corporation terminated its existing credit agreement, which was set to expire in October 2023, and entered into a new Credit Agreement with a syndicate of financial institutions. The Credit Agreement, which is set to expire in May

2027, increases the size of the Corporation's revolving credit facility to $750 million, and expands the accordion feature to $250 million.

As of June 30, 2022, the Corporation had $253 million of outstanding borrowings under the Credit Agreement, and $17 million in letters of credit supported by the Credit Agreement. The unused credit available under the Credit Agreement as of June 30, 2022 was $480 million, which could be borrowed without violating any of our debt covenants.

Repurchase of common stock

During the six months ended June 30, 2022, the Corporation used $32 million of cash to repurchase approximately 0.2 million outstanding shares under its share repurchase program. During the six months ended June 30, 2021, the Corporation used $24 million of cash to repurchase approximately 0.2 million outstanding shares under its share repurchase program.

Cash Utilization

Management continually evaluates cash utilization alternatives, including share repurchases, acquisitions, and increased dividends to determine the most beneficial use of available capital resources. We believe that our cash and cash equivalents, cash flow from operations, available borrowings under the credit facility, and ability to raise additional capital through the credit markets are sufficient to meet both the short-term and long-term capital needs of the organization.

Dividends

The Corporation made dividend payments of $14 million and $7 million during the six months ended June 30, 2022 and June 30, 2021, respectively, with the increase primarily due to timing of the quarterly dividend payment during the current period. Additionally, beginning in the second quarter, the Corporation increased its quarterly dividend 6% to $0.19 per share.

Debt Compliance

As of the date of this report, we were in compliance with all debt agreements and credit facility covenants, including our most restrictive covenant, which is our debt to capitalization limit of 60%. The debt to capitalization limit is a measure of our indebtedness (as defined per the notes purchase agreement and credit facility) to capitalization, where capitalization equals debt plus equity, and is the same for and applies to all of our debt agreements and credit facility.

As of June 30, 2022, we had the ability to borrow additional debt of $1.5 billion without violating our debt to capitalization covenant.

CRITICAL ACCOUNTING POLICIES

Our condensed consolidated financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America. Preparation of these statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. These estimates and assumptions are affected by the application of our accounting policies. Critical accounting policies are those that require application of management's most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain and may change in subsequent periods. A summary of significant accounting policies and a description of accounting policies that are considered critical may be found in our 2021 Annual Report on Form 10-K, filed with the U.S. Securities and Exchange Commission on February 24, 2022, in the Notes to the Consolidated Financial Statements, Note 1, and the Critical Accounting Policies section of Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our market risk during the six months ended June 30, 2022. Information regarding market risk and market risk management policies is more fully described in "Item 7A. Quantitative and Qualitative Disclosures about Market Risk" of our 2021 Annual Report on Form 10-K.

Item 4. CONTROLS AND PROCEDURES

As of June 30, 2022, our management, including our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on such evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective as of June 30, 2022 insofar as they are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms, and they include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

During the quarter ended June 30, 2022, there have been no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

From time to time, we are involved in legal proceedings that are incidental to the operation of our business. Some of these proceedings allege damages relating to asbestos and environmental exposures, intellectual property matters, copyright infringement, personal injury claims, employment and employee benefit matters, government contract issues, commercial or contractual disputes, and acquisitions or divestitures. We continue to defend vigorously against all claims. Although the ultimate outcome of any legal matter cannot be predicted with certainty, based on present information, including assessment of the merits of the particular claim, as well as current accruals and insurance coverage, we do not believe that the disposition of any of these matters, individually or in the aggregate, will have a material adverse effect on our condensed consolidated financial condition, results of operations, and cash flows.

We have been named in pending lawsuits that allege injury from exposure to asbestos. To date, we have not been found liable or paid any material sum of money in settlement in any asbestos-related case. We believe that the minimal use of asbestos in our past operations and the relatively non-friable condition of asbestos in our products make it unlikely that we will face material liability in any asbestos litigation, whether individually or in the aggregate. We maintain insurance coverage for these potential liabilities and we believe adequate coverage exists to cover any unanticipated asbestos liability.

Item 1A. RISK FACTORS

There have been no material changes in our Risk Factors during the six months ended June 30, 2022. Information regarding our Risk Factors is more fully described in "Item 1A. Risk Factors" of our 2021 Annual Report on Form 10-K.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table provides information about our repurchase of equity securities that are registered by us pursuant to Section 12 of the Securities Exchange Act of 1934, as amended, during the quarter ended June 30, 2022.

	Total Number of shares purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program	Maximum Dollar amount of shares that may yet be Purchased Under the Program
April 1 - April 30	29,197	$150.57	163,349	$ 233,753,889
May 1 - May 31	29,793	$140.85	193,142	$ 229,557,422
June 1 - June 30	31,040	$135.16	224,182	$ 225,362,016
For the quarter ended June 30, 2022	90,030	$142.04	224,182	$ 225,362,016

In December 2021, the Corporation adopted two written trading plans in connection with its previously authorized share repurchase program, which allowed for the purchase of its outstanding common stock up to $550 million, of which $225 million remains available for repurchase as of June 30, 2022. The first trading plan includes share repurchases of $50 million, to be executed equally throughout the 2022 calendar year. The second trading plan, which included opportunistic share repurchases up to $100 million to be executed through a 10b5-1 plan, was completed as of December 31, 2021.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

There have been no material changes in our procedures by which our security holders may recommend nominees to our board of directors during the six months ended June 30, 2022. Information regarding security holder recommendations and nominations for directors is more fully described in the section entitled "Stockholder Nominations for Directors" of our 2022 Proxy Statement on Schedule 14A, which is incorporated by reference to our 2021 Annual Report on Form 10-K.

Item 6. **EXHIBITS**

Exhibit No.	Exhibit Description	Incorporated by Reference Form	Incorporated by Reference Filing Date	Filed Herewith
3.1	Amended and Restated Certificate of Incorporation of the Registrant	8-A12B/A	May 24, 2005	
3.2	Amended and Restated Bylaws of the Registrant	8-K	May 18, 2015	
31.1	Certification of Lynn M. Bamford, Chair and CEO, Pursuant to Rules 13a – 14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended			X
31.2	Certification of K. Christopher Farkas, Chief Financial Officer, Pursuant to Rules 13a – 14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended			X
32	Certification of Lynn M. Bamford, Chair and CEO, and K. Christopher Farkas, Chief Financial Officer, Pursuant to 18 U.S.C. Section 1350			X
101.INS	XBRL Instance Document			X
101.SCH	XBRL Taxonomy Extension Schema Document			X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document			X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document			X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document			X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document			X

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

CURTISS-WRIGHT CORPORATION
(Registrant)

By: /s/ K. Christopher Farkas
K. Christopher Farkas
Vice President and Chief Financial Officer
Dated: August 4, 2022

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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

Or

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

For the transition period from to

Commission file number: 1-5690

GENUINE PARTS COMPANY

(Exact name of registrant as specified in its charter)

GA	**58-0254510**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
2999 WILDWOOD PARKWAY, ATLANTA, GA	**30339**
(Address of principal executive offices)	**(Zip Code)**

678-934-5000

(Registrant's telephone number, including area code)

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, $1.00 par value per share	GPC	New York Stock Exchange

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 check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232,495 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 the 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	☐		

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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 Act).
Yes ☐ No ☒

As of June 30, 2021, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately $17.5 billion based on the closing sale price as reported on the New York Stock Exchange.

There were 141,963,257 shares of the Company's common stock outstanding as of February 14, 2022.

DOCUMENTS INCORPORATED BY REFERENCE

Specifically identified portions of the Company's definitive Proxy Statement for the Annual Meeting of Shareholders to be held on April 28, 2022 are incorporated by reference into Part III of this Form 10-K.

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PART I.

ITEM 1. *BUSINESS.*

Genuine Parts Company, "GPC", a Georgia corporation incorporated on May 7, 1928, is a leading service organization engaged in the distribution of automotive and industrial replacement parts, each described in more detail below. In 2021, business was conducted from more than 10,300 locations throughout North America, Europe, Australia and New Zealand ("Australasia") through an offering of best in class operating and distribution efficiencies, industry leading coverage of consumable/replacement parts, outstanding just-in-time service and enhanced technology solutions.

As used in this report, the "Company" refers to GPC and its subsidiaries, except as otherwise indicated by the context; and the terms "automotive parts" and "industrial parts" refer to replacement parts in each respective category.

The Company's website can be found at www.genpt.com. The Company makes available, free of charge through its website, access to the Company's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements, any amendments to these documents, and other reports. These documents and reports are available under the Investor Relations section of the Company's website as soon as reasonably practicable after such material is filed with or furnished to the Securities and Exchange Commission ("SEC"). Additionally, our corporate governance guidelines, codes of conduct and ethics, charters of the Audit Committee and the Compensation, Nominating and Governance Committee of our Board of Directors, and information regarding our procedure for shareholders and other interested parties to communicate with our Board of Directors, are available also on our website.

In Part III of this Form 10-K, we incorporate certain information by reference to our proxy statement for our 2022 annual meeting of shareholders. We expect to file the proxy statement with the SEC on or about March 1, 2022, and it will be available online at the same time at http://www.proxydocs.com/gpc. Please refer to the proxy statement for the information incorporated by reference into Part III of this Form 10-K when it is available.

OUR PURPOSE & STRATEGY

As a global service organization engaged in the distribution of automotive and industrial replacement parts...we keep the world moving! This is our purpose and foundation for how we do business.

At GPC, our mission is to be a world-class service organization and the employer of choice, supplier of choice, valued customer of choice and investment of choice. Additionally, we strive to be a respected business community member and a good corporate citizen. In order to execute this mission, the Company aligns its resources with strategic areas of focus for its streamlined operations. Specifically, the Company focuses on its market-leading automotive and industrial businesses in North America, Europe and Australasia to deliver profitable growth, operational efficiencies and strong cash flow.

We have strategic initiatives designed to build on our current competitive advantages. We believe our primary competitive advantages are our: (1) global presence and brand strength; (2) best-in-class operating and distribution efficiencies; and (3) enhanced technology solutions.

Our strategic financial objectives are intended to complement our mission and drive value for all our stakeholders. These financial objectives include: (1) top line revenue growth in excess of market growth; (2) improved operating margin; (3) a strong balance sheet and cash flows; and (4) effective capital allocation.

Our strategy is designed to position the Company for long-term growth and enhance shareholder value.

OUR SEGMENTS

AUTOMOTIVE PARTS GROUP

The Automotive Parts Group is the largest global automotive parts network, distributing automotive parts, accessories and service items in North America, Europe and Australasia. The Automotive Parts Group offers complete inventory, cataloging, marketing, training and other programs to the automotive aftermarket in each of these regions which distinguish this business from the competition. To complement its competitiveness in the automotive aftermarket, the Automotive Parts Group includes investments in select digital/e-commerce businesses across our operations.

In North America, the Automotive Parts Group sells parts primarily under the National Automotive Parts Association ("NAPA") brand name through distribution centers and automotive parts stores ("auto parts stores" or "NAPA AUTO PARTS stores"). In Europe, Alliance Automotive Group ("AAG"), a wholly-owned subsidiary of the

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Company, is a leading distributor of vehicle parts, tools and workshop equipment with its primary operations in seven European countries. AAG is rolling out the NAPA brand of products and currently serves its customers under a variety of banners, including Groupauto, Precisium Group, Pièces Auto, UAN, Alliance Automotive Group Germany and PartsPoint. In Australasia, the Automotive Parts Group serves the market primarily under the Repco and NAPA brand names.

The Company's automotive parts network was expanded in 2021 with the acquisitions of various store groups and automotive operations in North America, Europe and Australasia.

The Company's global automotive network sells to customers in both commercial do-it-for-me ("DIFM") and retail do-it-yourself ("DIY") segments of the market and covers substantially all global motor vehicle models. DIFM customers include local, regional and national repair centers, auto dealers, service stations and both private and public sector accounts. DIY customers are primarily served over-the-counter at our global stores or digitally. DIFM and DIY customers account for approximately 80% and 20% of the Automotive Parts Group's total sales, respectively.

Distribution System. The following table details the breakdown of our automotive distribution network including our distribution centers, company-owned and independently-owned automotive parts stores by geographic region as of December 31, 2021.

	North America	Europe	Australasia	Total
Distribution centers	77	72	13	162
Company-owned stores	1,535	675	517	2,727
Independently-owned stores	5,119	1,648	—	6,767
Total locations	6,731	2,395	530	9,656

The mix of company-owned stores versus independently-owned stores in a given market varies based on several factors including our overall market strategy, the ability to access desirable local retail space, the complexity, profitability and expected ultimate size of the market and our ability to provide operational support within a geographic region. In our Australasian operations, the Company goes to market with a company-owned store model.

Independently-owned stores purchase inventory from company-operated distribution centers. These independently-owned stores are responsible for operating and managing their business, including operating costs and capital expenditures. The Company does not receive a royalty or franchise fee from independently-owned stores.

The Company's 162 automotive parts distribution centers serve both company-owned and independently-owned stores located throughout the geographic regions in which we operate. Both types of automotive parts stores, in turn, sell to a wide variety of customers in the automotive aftermarket.

The Company's automotive operations have access to more than 650,000 different parts and related supply items. These items are purchased from hundreds of different suppliers, with approximately 47% of 2021 automotive parts inventories purchased from 10 major suppliers.

Products. The Company's automotive distribution network provides access to hundreds of thousands of different replacement parts (other than body parts) for substantially all motor vehicle makes and models, including hybrid and electric vehicles, trucks, SUVs, buses, motorcycles, recreational vehicles and farm vehicles. Each part is cataloged and numbered for identification and accessibility. Significant inventories are carried to provide for fast and frequent deliveries to customers whose orders are often filled and shipped the same day they are received. The Company does not manufacture any of the products it distributes. The majority of products distributed in North America are under the NAPA name, a mark licensed to the Company by NAPA, which is important to the sales and marketing of these products. In Australasia and Europe, products are distributed under several brand names, including many of the national brands, as well as the NAPA name.

In addition, the Company distributes replacement parts for small engines, farm equipment, marine equipment and heavy duty equipment. The Company's inventories also include accessory items for vehicles and equipment, and supply items used by a wide variety of customers in the automotive aftermarket, such as repair shops, service stations, fleet operators, automobile and truck dealers, leasing companies, bus and truck lines, mass merchandisers, farms, and individuals who perform their own maintenance and parts installation.

Traction, the Company's heavy duty parts business in North America sells products distributed under the HD Plus name, a proprietary line of automotive parts for heavy duty truck market.

Service to NAPA AUTO PARTS Stores. The Company believes that the quality and the range of services provided to its North American automotive parts customers constitute a significant advantage for its automotive parts distribution system. Such services include fast and frequent delivery, parts cataloging (including the use of electronic NAPA AUTO PARTS catalogs) and stock adjustments through a continuing parts classification system which, as initiated by the Company, allows independently-owned stores to return certain merchandise on a scheduled basis. The Company offers its NAPA AUTO PARTS store customers various management aids, marketing aids and service on topics such as inventory control, cost analysis, accounting procedures, group insurance and retirement benefit plans, as well as marketing conferences and seminars, sales and advertising manuals and training programs.

The Company has developed and refined an inventory classification system to determine optimum distribution center and auto parts store inventory levels for automotive parts stocking based on automotive registrations, usage rates, production statistics, technological advances, including predictive analytics, and other similar factors. This system, which undergoes continuous analytical review, is an integral part of the Company's inventory control procedures and comprises an important feature of the inventory management services that the Company makes available to its NAPA AUTO PARTS store customers. The Company's North American operations have return privileges with most of its suppliers, which have protected the Company from inventory obsolescence. Over the last 25 years, losses to the Company from obsolescence have been insignificant and the Company attributes this to the successful operation of its classification system, which involves product return privileges with most of its suppliers.

NAPA. The Company is the sole member of the National Automotive Parts Association, LLC a voluntary association formed in 1925 to promote the distribution of automotive parts for its members. NAPA, which neither buys nor sells automotive parts, functions as a trade association that develops marketing concepts and programs for its sole member.

Among the automotive products purchased by the Company from various manufacturers for distribution are certain lines designated, cataloged, advertised and promoted as "NAPA" lines. Generally, the Company is not required to purchase any specific quantity of parts so designated and it may purchase competitive lines from the same as well as other supply sources.

The Company uses the federally registered trademark NAPA® as part of the trade name of its distribution centers and parts stores. The Company funds NAPA's national advertising program, which is designed to increase public recognition of the NAPA name and to promote NAPA product lines.

The Company is a party to, together with the former members of NAPA, a consent decree entered by the Federal District Court in Detroit, Michigan, on May 4, 1954. The consent decree enjoins certain practices under the federal antitrust laws, including the use of exclusive agreements with manufacturers of automotive parts, allocation or division of territories among the Company and former NAPA members, fixing of prices or terms of sale for such parts among such members, and agreements to adhere to any uniform policy in selecting parts customers or determining the number and location of, or arrangements with, auto parts customers.

Competition. The automotive parts distribution business is highly competitive. The Company competes with other large automotive parts retail chains, automobile manufacturers (some of which sell replacement parts for vehicles built by other manufacturers as well as those that they build themselves), automobile dealers, and warehouse clubs. In addition, the Company competes with the distributing outlets of parts manufacturers, mass merchandisers (including national retail chains) and other parts distributors and retailers, including online retailers. The Automotive Parts Group competes primarily on product offering, service, brand recognition and price. Further information regarding competition in the industry is set forth in "Item 1A. Risk Factors — We face substantial competition in the industries in which we do business."

INDUSTRIAL PARTS GROUP

The Industrial Parts Group operates in both North America and Australasia. Motion Industries, Inc. ("Motion"), a wholly-owned subsidiary of the Company headquartered in Birmingham, Alabama, operates in North America. Motion Asia Pacific, also a wholly-owned subsidiary of the Company headquartered in Sydney, Australia, operates across Australasia.

Motion distributes industrial replacement parts and related supplies such as bearings, mechanical and electrical power transmission products, industrial automation and robotics, hose, hydraulic and pneumatic components, industrial and safety supplies and material handling products to maintenance, repair and operation ("MRO") and original equipment manufacturer ("OEM") customers throughout the U.S., Canada and Mexico.

In 2021, Motion served more than 170,000 OEM and MRO customers in all types of industries located throughout North America and Australasia, including equipment and machinery, food and beverage, forest products, primary metals, pulp and paper, mining, automotive, oil and gas, petrochemical and pharmaceutical industries; as

well as strategically targeted specialty industries such as power generation, alternative energy, government, transportation, ports and others. Motion services all manufacturing and processing industries with access to a database of over 12 million parts.

The Industrial Parts Group provides customers with supply chain efficiencies achieved through the Company's on-site solutions offering. This service provides inventory management, asset repair and tracking, vendor managed inventory ("VMI"), as well as radio frequency identification ("RFID") asset management of the customer's inventory. Motion also provides a wide range of services and repairs such as: gearbox and fluid power assembly and repair, process pump assembly and repair, hydraulic drive shaft repair, electrical panel assembly and repair, hose and gasket manufacture and assembly, and many other value-added services. A highly developed supply chain with vendor partnerships and connectivity are enhanced by Motion's leading e-business capabilities, such as MiSupplierConnect, which provides integration between the Company's information technology network and suppliers' systems, creating numerous benefits for both the supplier and customer. These services and supply chain efficiencies assist Motion in providing the cost savings that many of its customers require and expect.

Distribution System. The following table details the breakdown of industrial parts distribution centers, branches and service centers by geographic region as of December 31, 2021:

	North America	Australasia	Total
Distribution centers	15	9	24
Branches	463	149	612
Service centers	55	1	56
Total locations	533	159	692

The Company's 24 industrial parts distribution centers serve the branches and services centers located throughout the geographic regions in which we operate. The branches and service centers, in turn, sell to MRO and OEM customers in all types of industries across North America and Australasia.

In North America, the Industrial Parts Group stocks or distributes more than 12 million different items purchased from more than 45,000 different suppliers. Its service centers provide hydraulic, hose and mechanical repairs for customers. Approximately 50% of total industrial product purchases in 2021 were made from our top 50 strategic suppliers. Sales are generated from the Industrial Parts Group's facilities located in 49 U.S. states, Puerto Rico and nine provinces in Canada and Mexico.

In Australasia, the Industrial Parts Group operated a network of distribution centers and branches across Australia, New Zealand, Indonesia and Singapore as of December 31, 2021.

Additionally, the Company's industrial parts network was expanded in 2022 with the acquisition of Kaman Distribution Group ("KDG"). KDG, which is headquartered in Bloomfield, Connecticut, is a power transmission, automation and fluid power industrial distributor and solutions provider with operations throughout the United States, providing electro-mechanical products, bearings, power transmission, motion control and electrical and fluid power components to MRO and OEM customers. KDG has approximately 220 locations across the United States and Puerto Rico.

Most branches have warehouse facilities that stock significant amounts of inventory representative of the products used by customers in the respective market areas served.

Products. The Industrial Parts Group distributes a wide variety of parts and products to its customers, which are primarily industrial companies. Products include such items as hoses, belts, bearings, pulleys, pumps, valves, chains, gears, sprockets, speed reducers, electric motors, industrial supplies, assembly tools, test equipment, adhesives and chemicals. Motion also offers systems and automation products that support sophisticated motion control and process automation for full systems integration of plant equipment. The nature of Motion's business demands the maintenance of adequate inventories and the ability to promptly meet critical delivery requirements. Virtually all of the products distributed are installed by the customer or used in plant and facility maintenance activities. Most orders are filled immediately from existing stock and deliveries are normally made within 24 hours of order receipt. The majority of all sales are on open account. Motion has ongoing purchase agreements with many of its national account customers which, collectively, represent approximately 45% of the annual sales volume.

Supply Agreements. Non-exclusive distributor agreements are in effect with most of the Industrial Parts Group's suppliers. The terms of these agreements vary; however, it has been the experience of the Industrial Parts Group that the custom of the trade is to treat such agreements as continuing until breached by one party or until terminated by mutual consent.

Competition. The industrial parts distribution business is highly competitive and fragmented. The Industrial Parts Group competes with other distributors specializing in the distribution of such items, general line distributors and others who provide similar services. To a lesser extent, the Industrial Parts Group competes with manufacturers that sell directly to the customer and with various industrial eCommerce sites. The Industrial Parts Group competes primarily on the breadth of product offerings, service and price. Further information regarding competition in the industry is set forth in "Item 1A. Risk Factors — We face substantial competition in the industries in which we do business."

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

The Company is committed to the development of sustainable and efficient operations and business practices that enhance and protect our people, our communities and our planet. Our goal is to generate above-market returns while aligning our business practices to support the interests of our stakeholders as we strive to be the employer of choice, the supplier of choice, a valued customer of choice and the investment of choice. Additionally, we strive to be a respected business community member and a good corporate citizen.

Our process of defining sustainability priorities focuses on the simultaneous improvement of the environmental, social and financial position of the Company, and our strong leadership and governance practices that strive to integrate sustainability into the Company's business strategy and corporate culture. The Compensation, Nominating, and Governance Committee of the Board of Directors oversees our sustainability initiatives which aims to deliver long-term value for our shareholders and all our stakeholders.

We seek to promote a diverse, equitable and inclusive workplace and to ensure the health, safety and well-being of all employees. In response to the COVID-19 pandemic, we prioritized the health and safety of our employees while also contributing to the needs of the community through mask donations and many other initiatives. The Company emphasizes giving back and uplifting the communities in which we operate through partnerships and volunteer efforts. Refer to the "Human Capital Management" section below for further information on our human capital management initiatives.

The Company is committed to reducing its environmental footprint and positively impacting the planet through the implementation of sustainable initiatives throughout our value chain. We have expanded the use of LED lighting retrofits and smart HVAC systems in our facilities and have continued to implement and monitor fleet management practices and policies to minimize our energy usage and carbon emissions. Our recycling efforts divert thousands of tons of waste from landfills annually. The Company is continuously incorporating environmental stewardship in its practices and discovering opportunities to develop more efficient operations.

Additional information regarding our sustainability efforts and future initiatives can be found in our 2021 Sustainability Report and the Sustainability section of our website at www.genpt.com.

HUMAN CAPITAL MANAGEMENT

The Company's key human capital management objectives are to attract, retain and develop the highest quality talent. To support these objectives, our human resources programs are designed to connect prospective and current talent to opportunities at the Company, engage current employees through an inclusive and diverse culture, and develop employees to grow for future opportunities within the organization.

Employee Retention and Professional Development

As of December 31, 2021, the Company employed approximately 52,000 people worldwide and operated within 15 countries. We take pride in our employees and are committed to helping them improve their physical, emotional, financial and social well-being. Our well-being programs include an online platform that offers an interactive way to accomplish personal and financial goals and a rewards platform to reward employees for completing Company sponsored competitions and well-being activities.

The Company periodically conducts a global engagement survey as a means of measuring employee engagement and satisfaction, as well as a tool for improving our human capital management strategies. Our leadership team reviews the survey results and based on the responses, action plans are developed to focus on areas of opportunity. We are pleased to report that our most recent engagement survey results were favorable overall and have shown that our employees are proud to work for the Company. The results of the engagement surveys we do help us to continuously improve our human capital strategies and find ways to foster engagement and growth for our employees.

In addition, to empower employees to continually enhance their skills and reach their maximum potential, we provide a range of development programs, resources, and opportunities. Many are facilitated locally by each business with core leadership development at the Corporate level. One of our more significant programs is focused on high potential employees from all global businesses units. This program is a combination of in-person and virtual

coursework and training with the intent that participants become fully immersed in the operations of our business and develop strategies and improvements cross-functionally. The Company also offers various internship and rotational programs that allow employees to see different operations of our business while also building strong relationships throughout the Company. Other development opportunities include on-demand and live training courses to help our employees achieve their professional and personal goals. We believe these programs demonstrate the Company's ongoing commitment of developing our future leaders as well the addition of resources that specifically focus on the creation and implementation of development programs globally.

Diversity, Equity and Inclusion

Our culture is strengthened by our core values, which includes a steadfast commitment to diversity, equity and inclusion. As part of our investment in our people, we make diversity, equity and inclusion a top priority. Our goal is to create an inclusive and welcoming culture where we value, respect, and provide equal opportunities for all employees.

In furtherance of these goals, we created a Diversity, Equity, and Inclusion Council, led by senior leadership and representatives from each business unit to ensure accountabilities exist to advance new initiatives. Some initiatives include, providing scholarships with an emphasis for students who attend Historically Black Colleges and Universities (HBCU's) and collaboration with organizations that support woman such as Women in Technology and Woman in Auto Care. Our commitment also includes supporting organizations that advance the interests of disadvantaged individuals and communities in need. As part of our commitment, we are now a member of the Georgia Minority Supplier Diversity Council (GMSDC) and the Georgia Hispanic Chamber of Commerce (GHCC). Additionally, we have increased our support for the United Way's African American Partnership and Young Professional Leaders programs.

Our efforts are also directed internally where we encourage the exchange of ideas, actively listen to employee dialogue, provide appropriate training, and ensure that the interests of all our employees are supported and advanced. Employees will soon be supported through four (4) initial Business Resource Groups (BRG's)-African American; Asian; Veteran; and Women, which will be established during the first quarter of the year. For further engagement, many of our employees can participate in the McKinsey Connected Leaders Academy. In addition, employees at all levels across the organization participated in training to gain a better understanding of unconscious bias and its impact on the business. Overall, the Company seeks to create an environment where there is a sense of belonging and all voices are heard and valued.

Please refer to the Company's 2021 Sustainability Report and Human Rights Policy, which can be found on the Company's investor relations website, for further information on human capital management.

ITEM 1A. *RISK FACTORS*.

FORWARD-LOOKING STATEMENTS

Some statements in this report, as well as in other materials we file with the SEC or otherwise release to the public and in materials that we make available on our website, constitute forward-looking statements that are subject to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Senior officers may also make verbal statements to analysts, investors, the media and others that are forward-looking. Forward-looking statements may relate, for example, to future operations, including the anticipated synergies and benefits of any acquisitions or divestitures, as well as prospects, strategies, including the 2019 Cost Savings Plan, financial condition, economic performance (including growth and earnings), industry conditions and demand for our products and services. The Company cautions that its forward-looking statements involve risks and uncertainties, and while we believe that our expectations for the future are reasonable in view of currently available information, you are cautioned not to place undue reliance on our forward-looking statements. Actual results or events may differ materially from those indicated in our forward-looking statements as a result of various important factors. Such factors include, but are not limited to, those discussed below.

Forward-looking statements are only as of the date they are made, and the Company undertakes no duty to update its forward-looking statements except as required by law. You are advised, however, to review any further disclosures we make on related subjects in our subsequent Forms 10-Q, 8-K and other reports filed with the SEC.

You should carefully consider the risks described below in addition to the other information set forth in this Annual Report on Form 10-K. Set forth below are the material risks and uncertainties that, if they were to occur, could materially and adversely affect our business or could cause our actual results to differ materially from the results contemplated by the forward-looking statements in this report and in the other public statements we make. Please be aware that these risks may change over time and other risks may prove to be important in the future. New risks may emerge at any time, and we cannot predict such risks or estimate the extent to which they may affect our business, financial condition, results of operations or the trading price of our securities. The considerations and

risks that follow are organized within relevant headings but may be relevant to other headings as well. In addition, the material risks and uncertainties described below does not indicate that the risk has not already materialized.

STRATEGIC AND OPERATIONAL RISKS

The impact of the COVID-19 pandemic has significantly impacted worldwide economic conditions, and our operations and our financial results have been and may in the future be materially impacted, and the duration and extent to which it will impact our business remains uncertain.

The COVID-19 pandemic continues to impact various aspects of our business, and the long-term impact to our business remains unknown. The extent to which the COVID-19 pandemic impacts the Company will depend on numerous factors and future developments that we cannot predict, including the severity of the virus; the occurrence of additional waves or spikes in infection rates, including due to the emergence and spread of variants; the duration of the outbreak; governmental, business or other actions taken in response to the pandemic and the efficacy of these actions, including partial or complete shut downs, travel restrictions, and stay-at-home orders among other actions; the timing, distribution, effectiveness and public acceptance of COVID-19 vaccines; and impacts on our supply chain, our ability to keep operating locations open, and on customer demand.

The Company and management continue to focus on mitigating the impact of the COVID-19 pandemic, which has required and will continue to require, a large investment of time and resources. While we have added safety measures to protect our employees and customers, continued business disruption caused by COVID-19 may require further significant actions to mitigate the impact, including but not limited to, reductions in store hours and store closings as well as ongoing increases in expenses. Conversely, if the unprecedented levels of customer demand we have experienced during the pandemic revert or subside, we may be unable to reduce expenses or otherwise react quickly and effectively to such changes.

Additional adverse changes and volatility in economic conditions as a result of the pandemic may also lead to increased credit concerns and challenges to recover accounts receivable, reduced liquidity, adverse impacts on our suppliers and customers, including on their abilities to continue to operate as a going concern.

Due to the unprecedented nature of COVID-19 and the myriad of responses thereto, we cannot identify all of the risks we face from the pandemic and its resulting impacts. Even after the pandemic has subsided, we may continue to experience adverse impacts to our business as a result of any economic recession that has occurred or may occur. The pandemic could also amplify other risks and uncertainties described in this 2021 Annual Report on Form 10-K. The ultimate adverse impacts relating to the potential effect of the COVID-19 pandemic on our business and the costs that we may incur as a result cannot be reasonably estimated but could be material.

Our business will be adversely affected if demand for our products slows.

Our business depends on customer demand for the products that we distribute. Demand for these products depends on many factors.

With respect to our automotive group, the primary factors are:

- the number of miles vehicles are driven annually, as higher vehicle mileage increases the need for maintenance and repair;
- the number of vehicles in the automotive fleet, a function of new vehicle sales and vehicle scrappage rates, as a steady or growing total vehicle population supports the continued demand for maintenance and repair;
- the quality of the vehicles manufactured by the original vehicle manufacturers and the length of the warranty or maintenance offered on new vehicles;
- the number of vehicles in current service that are six years old and older, as these vehicles are typically no longer under the original vehicle manufacturers' warranty and will need more maintenance and repair than newer vehicles;
- the addition of electric vehicles, hybrid vehicles, ride sharing services, alternative transportation means and autonomously driven vehicles and future legislation related thereto;
- gas prices, as increases in gas prices may deter consumers from using their vehicles;
- changes in travel patterns, which may cause consumers to rely more on other transportation;
- the weather, as milder weather conditions may lower the failure rates of automotive parts, while extended periods of rain and winter precipitation may cause our customers to defer maintenance and repair on their

vehicles; extremely hot or cold conditions may enhance demand for our products due to increased failure rates of our customers' automotive parts, and global warming trends and other significant climate changes can create more variability in the short term or lead to other weather conditions that could impact our business;

- restrictions on access to diagnostic tools and repair information imposed by the original vehicle manufacturers or by governmental regulation, as consumers may be forced to have all diagnostic work, repairs and maintenance performed by the vehicle manufacturers' dealer networks; and
- the economy generally, which in declining conditions may cause consumers to defer vehicle maintenance and repair and defer discretionary spending.

With respect to our industrial parts group, the primary factors are:

- the level of industrial production and manufacturing capacity utilization, as these indices reflect the need for industrial replacement parts;
- changes in manufacturing reflected in the level of the Institute for Supply Management's Purchasing Managers Index, as an index reading of 50 or more implies an expanding manufacturing economy, while a reading below 50 implies a contracting manufacturing economy;
- the consolidation of certain of our manufacturing customers and the trend of manufacturing operations being moved overseas, which subsequently reduces demand for our products;
- changes in legislation or government regulations or policies which could impact international trade among our multi-national customer base and cause reduced demand for our products; and
- the economy in general, which in declining conditions may cause reduced demand for industrial output.

We depend on our relationships with our suppliers, and a disruption of these relationships or of our suppliers' operations could harm our business.

As a distributor of automotive and industrial parts, our business depends on developing and maintaining close and productive relationships with our suppliers. We depend on our suppliers to sell us quality products at favorable prices. A variety of factors, many outside our control, affect our suppliers' ability to deliver quality merchandise to us at favorable prices and in a timely manner. These include, raw material shortages, inadequate manufacturing capacity, labor strikes, shortages and disputes anywhere within the supply and distribution chain delivering products to us, tariff and customs legislation and enforcement, transportation disruptions, tax and other legislative uncertainties, pandemics (including the current COVID-19 pandemic) and/or weather conditions. Since the beginning of the COVID-19 pandemic, we have experienced supply chain disruptions, particularly with regard to global labor shortages and inventory sourced from outside the U.S. These disruptions have not had a material impact on our business to date, but we cannot provide any assurance that these or new supply chain disruptions will not materially or adversely impact our business, financial condition and results of operations in the future

Furthermore, financial or operational difficulties at a particular supplier could cause that supplier to increase the cost, or decrease the quality, of the products we purchase. Supplier consolidation could also limit the number of suppliers from which we may purchase products and could materially affect the prices we pay for these products. In addition, we would suffer an adverse impact if our suppliers limit or cancel the return privileges that currently protect us from inventory obsolescence.

We face substantial competition in the industries in which we do business.

The sale of automotive and industrial parts is highly competitive and impacted by many factors, including name recognition, product availability, customer service, changing customer preferences, store location, and pricing pressures. Because we seek to offer competitive prices, we may be forced to reduce our prices if our competitors reduce their prices, which could result in a material decline in our revenues and earnings. Increased competition among distributors of automotive and industrial parts, including increased availability among digital and e-commerce providers across the markets in which we do business, could cause a material adverse effect on our results of operations. The Company anticipates no decline in competition in any of its business segments in the foreseeable future.

In particular, the market for replacement automotive parts is highly competitive and subjects us to a wide variety of competitors. We compete primarily with national, international and regional auto parts chains, independently owned regional and local automotive parts and accessories stores, automobile dealers that supply manufacturer replacement parts and accessories, mass merchandisers, internet providers and wholesale clubs that sell automotive products, and regional and local full service automotive repair shops, both new and established.

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Furthermore, the automotive aftermarket industry continues to experience consolidation. Consolidation among our competitors could further enhance their financial position, provide them with the ability to offer more competitive prices to customers for whom we compete, and allow them to achieve increased efficiencies in their consolidated operations that enable them to more effectively compete for customers. If we are unable to continue to develop successful competitive strategies or if our competitors develop more effective strategies, we could lose customers and our sales and profits may decline.

If we experience a security breach, if our internal information systems fail to function properly or if we are unsuccessful in implementing, integrating or upgrading our information systems, our business operations could be materially affected.

We depend on information systems to process customer orders, manage inventory and accounts receivable collections, purchase products, manage accounts payable processes, ship products to customers on a timely basis, maintain cost effective operations, provide superior service to customers and accumulate financial results, among many other things.

Despite our implementation of various security measures, our IT systems and operations could be subject to damage or interruption from computer viruses, natural disasters, unauthorized physical or electronic access, power outages, telecommunications failure, computer system or network failures, wire transfer failure, employee error/malfeasance, cyber-attacks, security breaches, and other similar disruptions. Additionally, the techniques and sophistication used to conduct cyber-attacks and breaches of IT systems change frequently and have the potential to not be recognized until such attacks are launched or have been in place for a period of time. Maintaining, operating, and protecting these systems and related personal information about our employees, customers and suppliers requires continuous investments in physical and technological security measures, employee training, and third-party services which we have made and will continue to make. A cyber-attack or security breach could result in, among other things, sensitive and confidential data being lost, manipulated or exposed to unauthorized persons or to the public or delay our ability to process customer orders and manage inventory. While we also seek to obtain assurances from third parties with whom we interact to protect confidential information, there are risks that the confidentiality or accessibility of data held or utilized by such third parties may be compromised.

To date, we have not experienced a material breach of cyber-security; however, our computer systems have been, and will likely continue to be, subjected to unauthorized access or phishing attempts, computer viruses, malware, ransomware or other malicious codes. In particular, in connection with the COVID-19 pandemic, there has been a spike in cyber-security attacks as shelter in place orders and work from home measures have led businesses to increase reliance on virtual environments and communications systems, which have been subjected to increasing third-party vulnerabilities and security risks.

A serious prolonged disruption of our information systems for any of the above reasons could materially impair fundamental business processes and increase expenses, decrease sales or otherwise impact earnings and cash flows. Furthermore, such a disruption may harm our reputation and business prospects and subject us to legal claims if there is loss, disclosure or misappropriation of or access to our customers, employees or suppliers' information. As the regulatory environment related to information security, data collection and use, and privacy becomes increasingly rigorous, compliance with these requirements could also result in significant additional costs. As threats related to cybersecurity breaches grow more sophisticated and frequent, it may become more difficult to timely detect and protect our data and infrastructure.

We may not be able to successfully implement our business initiatives in each of our business segments to grow our sales and earnings, which could adversely affect our business, financial condition, results of operations and cash flows.

We have implemented numerous initiatives in each of our business segments to grow sales and earnings, including the introduction of new and expanded product lines, strategic acquisitions such as the recent acquisition of Kaman Distribution Group, geographic expansion (including through acquisitions), sales to new markets, enhanced customer marketing programs and a variety of gross margin and cost savings initiatives. If we are unable to implement these initiatives efficiently and effectively, or if these initiatives are unsuccessful, our business, financial condition, results of operations and cash flows could be adversely affected.

Successful implementation of these initiatives also depends on factors specific to the automotive parts and industrial parts industries and numerous other factors that may be beyond our control. In addition to the other risk factors contained in this “Item 1A. Risk Factors,” adverse changes in the following factors could undermine our business initiatives and have a material adverse effect on our business, financial condition, results of operations and cash flows:

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- the competitive environment in our end markets may force us to reduce prices below our desired pricing level or to increase promotional spending;
- our ability to anticipate changes in consumer preferences and to meet customers' needs for our products in a timely manner;
- our ability to successfully enter new markets, including by successfully identifying and acquiring suitable acquisition targets in these new markets;
- our ability to effectively manage our costs;
- our ability to continue to grow through acquisitions and successfully integrate acquired businesses, including Kaman Distribution Group, in our existing operations, including in particular the challenges associated with the integration of foreign operations to ensure the adequacy of internal controls;
- our ability to identify and successfully implement appropriate technological, digital and e-commerce solutions;
- the rate of adoption of electric vehicles, hybrid vehicles, ride sharing services, alternative transportation means and autonomously driven vehicles and future legislation related thereto;
- the economy of each of the nations in which we operate in general, including the monetary policies of the Federal Reserve, which are influenced by various factors, including inflation, unemployment and short-term and long-term changes in the international trade balance and the fiscal policies of the U.S. government;
- the occurrence of unusually severe weather events, which can disrupt our operations (forcing temporary closure of retail and distribution centers, prohibiting shipment of inventory and products) and negatively impact our results in the affected geographies;
- the occurrence of political unrest and strikes, which can disrupt our operations and negatively impact our results in the affected geographies;
- volatility in oil prices, which could have a negative impact on the global economy and the economy of each of the nations in which we operate, in particular; and
- the adequacy of our disclosure controls and procedures and internal controls over financial reporting.

We recognize the growing demand for business-to-business and business-to-customer e-commerce options and solutions, and we could lose business if we fail to provide the e-commerce options and solutions our customers wish to use.

Our retail and business customers increasingly demand convenient, easy-to-use e-commerce tools as an option to conduct their business with us. The success of our e-commerce platform depends on our ability to accurately identify the products to make available through our e-commerce platform, and to provide and maintain an efficient online experience with the highest level of data security for our customers. Operating an e-commerce platform is a complex undertaking and exposes us to risks and difficulties frequently experienced by internet-based businesses, included risks related to, among other things, our ability to support, expand, and develop our internet operations, website, mobile applications and software and related operational systems. Continuing to improve our e-commerce platform involves substantial investment of capital and resources, increasing supply chain and distribution capabilities, attracting, developing and retaining qualified personnel with relevant subject matter expertise and effectively managing and improving the customer experience. If we are unable to successfully provide the e-commerce solutions our retail and business customers desire, we may lose existing customers and fail to attract new ones. Our business, financial condition, results of operations and cash flows may be materially and adversely affected as a result.

We are dependent on key personnel and the loss of one or more of those key persons could harm our business.

Our future success significantly depends on the continued services and performance of our key management personnel. We believe our management team's depth and breadth of experience in our industry is integral to executing our business plan. We also will need to continue to attract, motivate and retain other key personnel. The loss of services of members of our senior management team or other key employees, the inability to attract additional qualified personnel as needed or failure to plan for the succession of senior management and key personnel could have a material adverse effect on our business.

Our strategic transactions involve risks, which could have an adverse impact on our financial condition and results of operation, and we may not realize the anticipated benefits of these transactions.

We regularly consider and enter into strategic transactions, including mergers, acquisitions, investments, alliances, and other growth and market expansion strategies, with the expectation that these transactions will result in increases in sales, cost savings, synergies and various other benefits. Assessing the viability and realizing the benefits of these transactions is subject to significant uncertainty, and we face significant competition in pursuing strategically beneficially transactions. Pursuing strategic transactions is also a time-consuming process that can involve significant expenses and management attention. For each of our acquisitions, we need to successfully integrate the target company's products, services, associates and systems into our business operations. Integration can be a complex and time-consuming process, and if the integration is not fully successful or is delayed for a material period of time, we may not achieve the anticipated synergies or benefits of the acquisition. Furthermore, even if the target companies are successfully integrated, the acquisitions may fail to further our business strategy as anticipated, expose us to increased competition or challenges with respect to our products or services, and expose us to additional liabilities. Any impairment of goodwill or other intangible assets acquired in a strategic transaction may reduce our earnings. In addition, any investments we hold in other companies are subject to a risk of partial or total loss of our investment.

Additionally, we consider and enter into divestitures from time to time, with the expectation that these transactions will result in increases in cost savings and various other benefits. Strategic divestitures are subject to uncertainty and can be a complex and time-consuming process. If the divestiture is not fully successful or is delayed for a material period of time, or if we are unable to reinvest the proceeds of the divestiture in a manner consistent with our strategic objectives, we may not achieve the anticipated benefits of the divestiture.

If we fail to maintain an effective system of internal controls over financial reporting there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis, which could result in a loss of investor confidence and negatively impact our business, results of operations, financial condition and stock price.

Effective internal controls are necessary for us to provide reliable and accurate financial statements and to effectively prevent fraud. However, a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. There can be no assurance that all control issues or fraud will be detected. As we continue to grow our business, our internal controls continue to become more complex and require more resources. Further, many of our employees are working remotely in response to the impact of the COVID-19 pandemic and may continue to do so for an extended period. An extended period of remote work arrangements could introduce potential vulnerabilities to our financial reporting systems and our internal control environment and the effectiveness of our internal controls over financial reporting. Any failure to maintain effective controls could prevent us from timely and reliably reporting financial results and may harm our operating results. In addition, if we are unable to conclude that we have effective internal control over financial reporting or, if our independent registered public accounting firm is unable to provide an unqualified report as to the effectiveness of our internal control over financial reporting, as of each fiscal year end, we may be exposed to negative publicity, which could cause investors to lose confidence in our reported financial information. Any failure to maintain effective internal controls and any such resulting negative publicity may negatively affect our business and stock price.

Additionally, the existence of any material weaknesses or significant deficiencies would require management to devote significant time and incur significant expense to remediate any such material weaknesses or significant deficiencies and management may not be able to remediate any such material weaknesses or significant deficiencies in a timely manner. The existence of any material weakness in our internal control over financial reporting could also result in errors in our financial statements that could require us to restate our financial statements, cause us to fail to meet our reporting obligations and cause stockholders to lose confidence in our reported financial information, all of which could materially and adversely affect us and the market price of our common stock.

MACROECONOMIC, INDUSTRY AND FINANCIAL RISKS

Changes in legislation or government regulations or policies, particularly those relating to taxation and international trade, could have a significant impact on our results of operations.

Our business is global, so changes to existing international trade agreements, blocking of foreign trade or imposition of tariffs on foreign goods could result in decreased revenues and/or increases in pricing, either of which could have an adverse impact on our business, results of operations, financial condition and cash flows in future periods. For instance, the United States imposed Section 232 tariffs on many imported products of steel and aluminum in March 2018 and expanded the tariffs to additional derivative products of steel and aluminum effective

February 8, 2020. The United States imposed Section 301 tariffs on most imported products from China starting in July 2018. Although the United States and China reached a Phase One trade deal in January 2020, there was no Phase Two trade deal implemented and most of the tariffs imposed remain in place, while uncertainty persists in the trade relationship between the two countries that impacts the global trade landscape.

In addition, as a global business, we are subject to taxation in each of the jurisdictions in which we operate. Changes in the tax laws of these jurisdictions, or in the interpretation or enforcement of existing tax laws, could subject our business to audits, inquiries and legal challenges from taxing authorities and could reduce the benefit of tax structures previously implemented for our operations. As a result, we may incur additional costs, including taxes and penalties for historical periods, that may have a material and adverse effect on our business, financial condition, results of operations and cash flows.

Uncertainty and/or deterioration in general macro-economic conditions domestically and globally, including inflation or deflation, employment rates and wages, changes in tax policies, changes in energy costs, uncertain credit markets, or other economic conditions, could have a negative impact on our business, financial condition, results of operations and cash flows.

Our business and operating results have been and may in the future be adversely affected by uncertain global economic conditions, including inflation or deflation, domestic outputs, political uncertainty and unrest, employment rates and wages, including increases in minimum wage, changes in tax policies, changes in energy costs, instability in credit markets, declining consumer and business confidence, fluctuating commodity prices, interest rates, volatile exchange rates, and other challenges that could affect the global economy. Both our commercial and retail customers may experience deterioration of their financial resources, which could result in existing or potential customers delaying or canceling plans to purchase our products. Our vendors could experience similar negative conditions, which could impact their ability to fulfill their financial obligations to us. Future weakness in the global economy could adversely affect our business, results of operations, financial condition and cash flows.

Our debt levels could adversely affect our cash flow and prevent us from fulfilling our obligations.

We have an unsecured revolving credit facility and unsecured senior notes, which could have important consequences to our financial health. For example, our level of indebtedness could, among other things:

- make it more difficult to satisfy our financial obligations, including those relating to our unsecured revolving credit facility and our unsecured senior notes;
- increase our vulnerability to adverse economic and industry conditions;
- limit our flexibility in planning for, or reacting to, changes and opportunities in our industry, which may place us at a competitive disadvantage;
- require us to dedicate a substantial portion of our cash flows to service the principal and interest on the debt, reducing the funds available for other business purposes, such as working capital, capital expenditures or other cash requirements;
- limit our ability to incur additional debt with acceptable terms; and
- expose us to fluctuations in interest rates.

The terms of our financing obligations include restrictions, such as affirmative, negative and financial covenants, conditions on borrowing and subsidiary guarantees. A failure to comply with these restrictions could result in a default under our financing obligations or could require us to obtain waivers from our lenders for failure to comply with these restrictions. The occurrence of a default that remains uncured or the inability to secure a necessary consent or waiver could have a material adverse effect on our business, financial condition, results of operations and cash flows. We also guarantee the borrowings of certain independently owned automotive parts stores and certain other affiliates in which we have a non-controlling equity ownership interest. To date, we have not experienced any significant losses in connection with these guarantees. However, if any of the borrowers under these guarantees experienced a default, we may be required to satisfy their payment obligations in an amount that could be material.

In addition, our indebtedness is rated by credit rating agencies. Our overall credit rating may be negatively impacted by deteriorating and uncertain credit markets or other factors that may or may not be within our control. The interest rates on our unsecured revolving credit facility, as well as any additional indebtedness we may incur in the future, are impacted by our credit ratings. Accordingly, any negative impact of our credit ratings, or placement of our credit ratings on “review” or “watch” status, could result in higher interest expense and could impact the terms of any additional indebtedness we incur in the future.

We may be adversely affected by changes in the method of determining the London Interbank Offered Rate ("LIBOR"), or the replacement of LIBOR with an alternative reference rate, for our variable rate loans, derivative contracts and other financial assets and liabilities.

Our business relies upon a large volume of loans, derivative contracts and other financial instruments which are directly or indirectly dependent on LIBOR to establish their interest rate and/or value. The U.K. Financial Conduct Authority announced in 2017 that it would no longer compel banks to submit rates for the calculation of LIBOR after 2021. It is not possible to predict whether banks will continue to provide LIBOR submissions to the administrator of LIBOR, whether LIBOR rates will cease to be published or supported after 2021 or whether any additional reforms to LIBOR may be enacted in the United Kingdom or elsewhere. It is expected that a transition away from the widespread use of LIBOR to alternative rates is likely to occur during the next several years.

While we have established a working group consisting of key stakeholders from throughout the company to monitor developments relating to LIBOR uncertainty and changes and to guide the Company's response, the impact of these developments on our business and financial results is not yet known. The transition from LIBOR may cause us to incur increased costs and additional risk. Uncertainty as to the nature of alternative reference rates and as to potential changes in or other reforms to LIBOR may adversely affect LIBOR rates and the value of LIBOR-based loans originated prior to 2021. If LIBOR rates are no longer available, any successor or replacement interest rates may perform differently, which may affect our net interest income, change our market risk profile and require changes to our risk, pricing and hedging strategies. We may also incur costs to re-form existing derivative contracts and other financial instruments to which we are a party to address these differences in performance relative to LIBOR or relative to adjustments made in other loans, derivative contracts or financial instruments where we are a party. Any failure to adequately manage this transition could adversely impact our business, results of operations and cash flows.

LEGAL AND REGULATORY RISKS

We may be affected by global climate change or legal, tax, regulatory, or market responses to such change.

The concern over climate change has led to legislative and regulatory initiatives aimed at reducing greenhouse gas emissions ("GHG"). For example, proposals that would impose mandatory requirements related to GHG continue to be considered by policy makers in the U.S. and elsewhere. For example, significant increases in fuel economy requirements, new federal or state restrictions on emissions of carbon dioxide or new federal or state incentive programs that may be imposed on vehicles and automobile fuels could adversely affect demand for the products we sell. We may not be able to accurately predict, prepare for and respond to new kinds of technological innovations with respect to electric vehicles and other technologies that minimize emissions. Laws enacted to reduce GHG could directly or indirectly affect our suppliers and could adversely affect our business, financial condition, results of operations and cash flows. Changes in automotive technology (including the adoption of electric vehicles) and compliance with any new or more stringent laws or regulations, or stricter interpretations of existing laws, could require additional expenditures by us or our suppliers all of which could adversely impact the demand for our products and our business, financial condition, results of operations or cash flows.

Because we are involved in litigation from time to time and are subject to numerous laws and governmental regulations, we could incur substantial judgments, fines, legal fees and other costs as well as reputational harm.

We are sometimes the subject of complaints or litigation from customers, employees or other third parties for various reasons. For example, we are party to, among other litigation, numerous pending product liability lawsuits relating to our national distribution of automotive parts and supplies, many of which involve claims of personal injury allegedly resulting from the use of automotive parts distributed by us. The damages sought against us in some of these litigation proceedings are substantial. Although we maintain liability insurance for some litigation claims, if one or more of the claims were to greatly exceed our insurance coverage limits or if our insurance policies do not cover a claim our business, financial condition, results of operations and cash flows could be materially and adversely affected. In particular, on July 8, 2021, the Washington Supreme Court overturned the order of the Washington Court of Appeals and reinstated the trial court's damage award of $77.1 million against the Company. The damage award and statutory interest was fully paid as of December 31, 2021. Refer to the commitments and contingencies footnote in the Notes to the Consolidated Financial Statements for more information.

Additionally, we are subject to numerous laws in the various jurisdictions in which we operate as well as governmental regulations relating to taxes, environmental protection, product quality standards, data privacy, building and zoning requirements, and employment law matters. If we fail to comply with existing or future laws or regulations, we may be subject to governmental or judicial fines or sanctions, while incurring substantial legal fees

and costs. In addition, our capital expenses could increase due to remediation measures that may be required if we are found to be noncompliant with any existing or future laws or regulations.

GENERAL RISKS

We are subject to risks related to corporate social responsibility and reputation.

Many factors influence our reputation and the value of our brands including the perception held by our customers, business partners, investors, other key stakeholders and the communities in which we do business. Our business faces increasing scrutiny related to environmental, social and governance activities and disclosures and risk of damage to our reputation and the value of our brands if we fail to act responsibly in a number of areas, such as environmental stewardship, supply chain management, climate change, diversity, equity and inclusion, workplace conduct, human rights, philanthropy and support for local communities. Any harm to our reputation could impact employee engagement and retention and the willingness of customers and our partners to do business with us, which could have a material adverse effect on our business, results of operations and cash flows.

Changes in accounting standards and subjective assumptions, estimates and judgments by management related to complex accounting matters could affect our financial results or financial condition.

GAAP and related accounting pronouncements, implementation guidelines and interpretations with regard to a wide range of matters that are relevant to our business, such as revenue recognition, asset impairment, impairment of goodwill and other intangible assets, inventories, lease obligations, self-insurance, vendor allowances, tax matters and litigation, are complex and involve many subjective assumptions, estimates and judgments. Changes in accounting standards or their interpretation or changes in underlying assumptions, estimates or judgments could significantly change our reported or expected financial performance or financial condition. The implementation of new accounting standards could also require certain systems, internal process and other changes that could increase our operating costs.

Our stock price is subject to fluctuations, and the value of your investment may decline.

The trading price of our common stock is subject to fluctuations, and may be subject to fluctuations in the future based upon external economic and market conditions. The stock market in general has experienced significant price and volume fluctuations that sometimes have been unrelated or disproportionate to the operating performance of listed companies. These broad market, geopolitical and industry factors among others may harm the market price of our common stock, regardless of our operating performance and growth outlook, and the value of your investment may decline.

ITEM 1B. *UNRESOLVED STAFF COMMENTS.*

Not applicable.

ITEM 2. *PROPERTIES.*

The following table summarizes our company-owned distribution centers, retail stores, branches and service centers as of December 31, 2021:

	Distribution Centers	Other Locations
Automotive Parts:		
North America	77	1,535
Europe	72	675
Australasia	13	517
Total Automotive Parts	162	2,727
Industrial Parts:		
North America	15	518
Australasia	9	150
Total Industrial Parts	24	668
Total	186	3,395

In addition to the properties set forth above the Company has various headquarters, shared service centers and other facilities. The Company's corporate and U.S. Automotive Parts Group headquarters are located in two office buildings owned by the Company in Atlanta, Georgia. The Company generally owns distribution centers and leases retail stores and branches. We believe that our facilities as a whole are in good condition, are adequately insured, are fully utilized and are suitable and adequate to conduct the business of our current operations.

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ITEM 3. ***LEGAL PROCEEDINGS.***

Information with respect to the Company's legal proceedings may be found in the Commitments and Contingencies footnote in the Notes to Consolidated Financial Statements in Item 8 of Part II, which is incorporated herein by reference.

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 Information Regarding Common Stock

The Company's common stock is traded on the New York Stock Exchange under the ticker symbol "GPC."

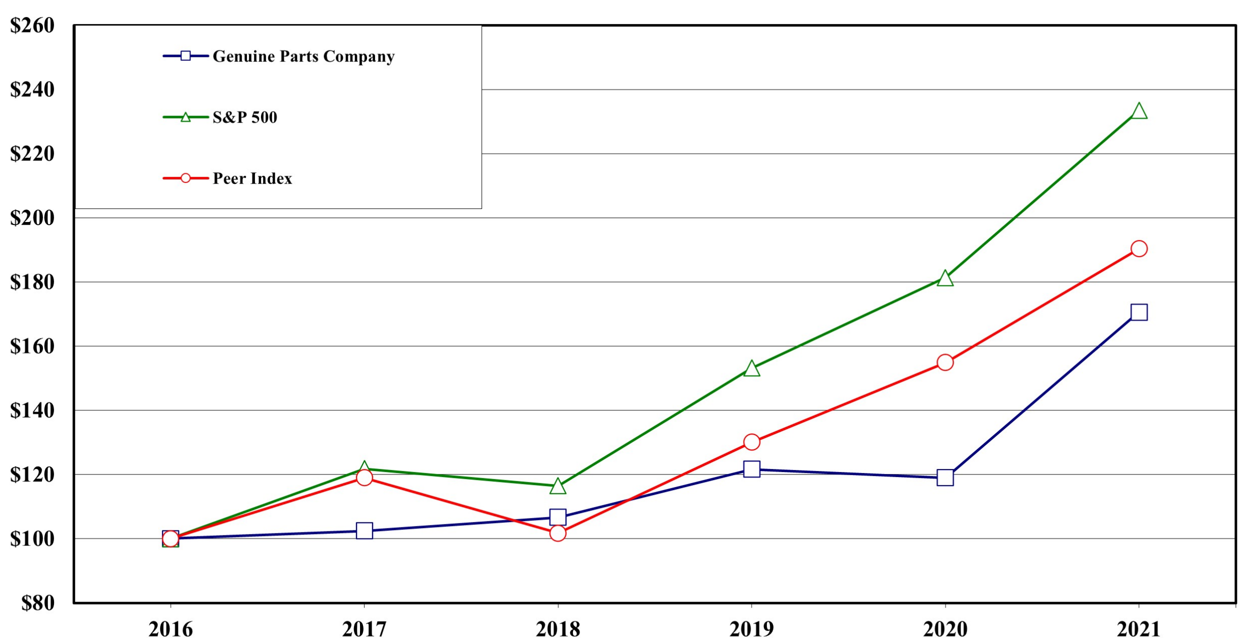
Dividend Information

The Company has paid a cash dividend to shareholders every year since going public in 1948 and increased the annual dividend for 65 consecutive years through 2021. While we have historically paid dividends to holders of our common stock on a quarterly basis, the declaration and payment of future dividends will depend on many factors, including, but not limited to, our earnings, financial condition, business development needs and regulatory considerations, and are at the discretion of our Board of Directors.

Stock Performance Graph

Set forth below is a line graph comparing the yearly dollar change in the cumulative total shareholder return on the Company's common stock against the cumulative total shareholder return of the Standard and Poor's ("S&P") 500 Stock Index and a peer group composite index ("Peer Index") structured by the Company as set forth below for the five year period that commenced December 31, 2016 and ended December 31, 2021. This graph assumes that $100 was invested on December 31, 2016 in Genuine Parts Company common stock, the S&P 500 Stock Index (the Company is a member of the S&P 500 Stock Index, and its cumulative total shareholder return went into calculating the S&P 500 Stock Index results set forth in the graph) and the peer group composite index as set forth below and assumes reinvestment of all dividends.

Comparison of five year cumulative total shareholder return



Genuine Parts Company, S&P 500 Stock Index and peer group composite index

Cumulative Total Shareholder Return $ at Fiscal Year End	2016	2017	2018	2019	2020	2021
Genuine Parts Company	$100.00	$102.45	$106.66	$121.65	$118.98	$170.60
S&P 500 Stock Index	$100.00	$121.83	$116.49	$153.18	$181.36	$233.43
Peer Index	$100.00	$119.02	$101.77	$130.06	$154.93	$190.36

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In constructing the Peer Index for use in the stock performance graph above, the Company used the shareholder returns of various publicly held companies (weighted in accordance with each company's stock market capitalization at December 31, 2016 and including reinvestment of dividends) that compete with the Company in its two industry segments: automotive parts and industrial parts (each group of companies included in the Peer Index as competing with the Company in a separate industry segment is hereinafter referred to as a "Peer Group"). Included in the automotive parts Peer Group are those companies making up the Dow Jones U.S. Auto Parts Index (the Company is a member of such industry group, and its individual shareholder return was included when calculating the Peer Index results set forth in the performance graph). Included in the industrial parts Peer Group are Applied Industrial Technologies, Inc., Fastenal Company, and W.W. Grainger, Inc. In determining the Peer Index, each Peer Group was weighted to reflect the Company's annual net sales in each industry segment.

Holders

As of December 31, 2021, there were 3,953 holders of record of the Company's common stock. The number of holders of record does not include beneficial owners of the common stock whose shares are held in the names of various dealers, clearing agencies, banks, brokers and other fiduciaries.

Issuer Purchases of Equity Securities

The following table provides information about the purchases of shares of the Company's common stock during the three month period ended December 31, 2021:

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(2)	Maximum Number of Shares That May Yet be Purchased Under the Plans or Programs
October 1, 2021 through October 31, 2021	7,799	$ 133.47	176,237	12,067,038
November 1, 2021 through November 30, 2021	14,833	$ 135.25	201,821	11,865,217
December 1, 2021 through December 31, 2021	21,403	$ 129.50	—	11,865,217
Total	44,035	$ 132.14	378,058	11,865,217

(1) Includes shares surrendered by employees to the Company to satisfy tax withholding obligations in connection with the vesting of shares of restricted stock, the exercise of share appreciation rights and/or tax withholding obligations.

(2) On August 21, 2017, the Board of Directors announced that it had authorized the repurchase of 15.0 million shares. Under this program, shares may be repurchased in privately negotiated and/or open market transactions, including under plans complying with Rule 10b5-1 under the Exchange Act. The authorization for these repurchase plans continues until all such shares have been repurchased or the repurchase program is terminated by action of the Board of Directors. The program may be suspended at any time and does not have an expiration date. Approximately 11.9 million shares authorized remain available to be repurchased by the Company. There were no other repurchase plans announced as of December 31, 2021.

ITEM 6. ***SELECTED FINANCIAL DATA*.**

Not applicable.

ITEM 7. *MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.*

The following discussion and analysis contains forward-looking statements, including, without limitation, statements relating to our plans, strategies, objectives, expectations, intentions and resources. Such forward-looking statements should be read in conjunction with our disclosures under "Item 1A. Risk Factors" of this Form 10-K.

This section of this Form 10-K generally discusses 2021 and 2020 results and year-to-year comparisons between 2021 and 2020 results. Discussions of 2019 results and year-to-year comparisons between 2020 and 2019 results are not included in this Form 10-K and can be found in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

BUSINESS PRODUCTS GROUP

On June 30, 2020, the Company completed the divestiture of its Business Products Group which had previously been reported as a segment. The Business Products Group is reported as discontinued operations in our consolidated financial statements for all periods presented. Refer to the acquisitions, divestitures and discontinued operations footnote in the accompanying consolidated financial statements for more information.

COVID-19 PANDEMIC

The COVID-19 pandemic continues to impact various aspects of our business, and the long-term impact to our business remains unknown. During the year ended December 31, 2021, our business and results of operations continued to improve relative to the same period of 2020. In particular, as widespread vaccine distribution continued, we have seen economic recovery in many of the markets where we operate and a significant uptick in consumer mobility. However, all regions in which we operate continue to experience periodic surges in infection rates. As a result, our business segments continue to face many uncertainties and our operations remain vulnerable to continuing negative effects caused by the pandemic. However, we are encouraged to see the impact of the pandemic subsiding as evidenced by the improving industrial economy, increase in miles driven and overall consumer activity.

As of December 31, 2021, all our operations are open for business. Our supply chain partners have been very supportive and accommodating, despite strains on the supply chain caused by labor shortages, inventory shortages, delays in order fulfillment and increased backlogs. This has allowed us to continue to provide quality customer service. We remain in constant communication with our employees regarding changing conditions and protocol. Based on the length and severity of the pandemic, we may experience continued volatility in customer demand and supply chain disruption. We will continue to evaluate the nature and extent of these potential impacts to our business, consolidated results of operations, segment results, liquidity and capital resources.

KEY BUSINESS METRICS

We consider comparable sales to be a key business metric because management has evaluated its results of operations using this metric and we believe that this key indicator provides additional perspective and insights when analyzing the operating performance of our business from period to period and trends in its historical operating results. This metric should not be considered superior to, as a substitute for or as an alternative to, and should be considered in conjunction with, the GAAP financial measures presented in this report.

Comparable Sales

Comparable sales is a key metric that refer to period-over-period comparisons of our net sales excluding the impact of acquisitions, divestitures, foreign currency and other. We consider this metric useful to investors because it provides greater transparency into management's view and assessment of our core ongoing operations. This metric is widely used by analysts, investors and competitors in our industry, although our calculation of the metric may not be comparable to similar measures disclosed by other companies, because not all companies and analysts calculate this metric in the same manner.

OVERVIEW

Genuine Parts Company is a service organization engaged in the global distribution of automotive and industrial replacement parts. We have a long tradition of growth dating back to 1928, the year we were founded in Atlanta, Georgia. In 2021, the Company conducted business in North America, Europe and Australasia from more than 10,300 locations.

The Company's Automotive Parts Group operated in the U.S., Canada, France, the U.K., Ireland, Germany, Poland, the Netherlands, Belgium, Australia and New Zealand in 2021, and accounted for 66% of total revenues for the year. The Industrial Parts Group operated in the U.S., Canada, Mexico, Australia, New Zealand, Indonesia and Singapore, and accounted for 34% of the Company's total revenues for the year.

At Genuine Parts Company, our mission is to be a world-class service organization and the employer of choice, supplier of choice, valued customer of choice and investment of choice. Additionally, we strive to be a respected business community member and a good corporate citizen. Our strategic financial objectives are intended to align with our mission and drive value for all our stakeholders. Our strategic financial objectives include: (1) top line revenue growth in excess of market growth; (2) improved operating margin; (3) strong balance sheet and cash flows; and (4) effective capital allocation.

Top Line Revenue

The Company's strategy for top-line revenue growth includes a combination of organic and acquisitive initiatives designed to outpace the industry, improve the market share in each of our business segments and position the Company for sustained long-term growth. In 2021, each business segment experienced a year of strong recovery as pandemic related restrictions eased around the globe and markets reopened. The economic recovery along with strong consumer demand and execution of our sales initiatives led to double-digit top-line growth for the year despite continued uncertainties with COVID-19. Additionally, after limited merger and acquisition activity in 2020, we were active in 2021 with strategic bolt-on acquisitions that support the Company's ongoing growth initiatives, including our Industrial segment's $1.3 billion acquisition of Kaman Distribution Group in early 2022. While we continue to face uncertainties in the business due to supply chain disruption, cost inflation and labor market constraints, we are encouraged by the current economic outlook and strong consumer demand trends. We believe these factors and the positive impact of our ongoing strategic initiatives position us for continued sales growth in the upcoming year.

Operating Margins

The Company targets continuous operating margin improvement each year. In 2020, we took certain restructuring actions across its subsidiaries to simplify our cost structure and distribution networks (the "2019 Cost Savings Plan"). We recognized permanent expense reductions of $150 million driven by transformative reductions in payroll and facility costs. Additionally, we had approximately $300 million in temporary savings in response to the impact of COVID-19. These actions led to improved segment margins in 2020 and permanently lowered our cost structure. As business normalized in 2021, the temporary savings ended and we experienced cost increases in areas such as wages, freight and health insurance. Despite these challenges, we improved segment margins 60 basis points by leveraging strong top-line growth, improving gross margins through pricing and sourcing actions and managing costs through ongoing strategic initiatives. We believe continued execution of our strategic priorities in 2022 will further improve our margins.

Balance Sheet and Cash Flow

The Company is focused on maintaining a strong balance sheet and generating strong cash flow to support our growth initiatives. Our working capital was a source of operating cash flow, and we improved our debt position and took advantage of favorable financing arrangements throughout the year. In 2021, we generated $1.3 billion in cash from operations.

Capital Allocation

The Company's priorities for disciplined and effective capital allocation remain consistent with prior years. In 2021, we used cash for investments in the form of capital expenditures and bolt-on acquisitions, while also returning capital to our shareholders through cash dividends and share repurchases. We plan to continue to support the dividend, which we have increased for 65 consecutive years through 2021.

RESULTS OF OPERATIONS

Our results of operations are summarized below for the years ended December 31, 2021 and 2020.

	Year Ended December 31,	
(In thousands, except per share data)	2021	2020
Net sales	$ 18,870,510	$ 16,537,433
Gross profit	$ 6,634,136	$ 5,654,841
Net income from continuing operations	$ 898,790	$ 163,395
Diluted net income from continuing operations per common share	$ 6.23	$ 1.13

Net Sales

Consolidated net sales for the year ended December 31, 2021 totaled $18.9 billion, up 14.1% from 2020. The increase in net sales is due to a 10.5% comparable sales increase, the favorable impact of foreign currency and other of 2.1% and a 1.5% positive impact from acquisitions.

The Company's comparable sales growth reflects both an increase in sales volume and product inflation as compared to the year ended December 31, 2020. Higher sales volume was driven primarily by the increase in consumer activity associated with the reopening of our key markets and the execution of our strategic growth initiatives throughout the year. Additionally, sales were positively impacted by price inflation of approximately 3% for the year ended December 31, 2021. With our global growth initiatives and strong industry fundamentals, we believe we are well positioned for both near-term and sustainable long-term sales growth.

Automotive Group

Net sales for the Automotive Group ("Automotive") were $12.5 billion in 2021, a 15.5% increase from 2020. The increase in sales consists of an approximate 11.0% increase in comparable sales, a 2.5% favorable impact of currency translation and other and a 2.0% contribution from acquisitions. Foreign currency translation was positively impacted by our automotive businesses across all regions.

In 2021, total Automotive revenues were up approximately 14.3% in the first quarter, up 28.1% in the second quarter, up 8.2% in the third quarter and up 13.1% in the fourth quarter. All periods reflect a strong recovery from the decline in demand caused by COVID-19 in 2020. We remain optimistic that our Automotive sales trends will continue to show positive growth as the global markets fully recover. Positive trends related to the overall number and age of the vehicle population and the continued improvement in miles driven remain supportive of sustained demand for automotive aftermarket maintenance and supply items across the markets we serve. We expect these fundamentals and our ongoing sales initiatives to drive sales growth for the Automotive Group in 2022.

Industrial Parts Group

Net sales for the Industrial Parts Group ("Industrial") were $6.3 billion in 2021, up 11.4% from 2020. The increase in sales reflects a 9.7% increase in comparable sales, a 1.3% favorable impact of currency translation and an approximate 0.4% contribution from acquisitions.

In 2021, total Industrial revenues were up approximately 0.1% in the first quarter of 2021, up 19.6% in the second quarter, up 14.5% in the third quarter and up 12.8% in the fourth quarter. These quarterly results reflect the positive impact of key sales initiatives, the ongoing industrial recovery and broad increase in customer productivity, which correlate to the improvement in industrial indicators such as the Purchasing Managers Index and Industrial Production. We are confident in our growth plans for 2022, both in North America and Australasia, and expect to see continued improvement in our sales trends.

Cost of Goods Sold

The Company includes in cost of goods sold the actual cost of merchandise, which represents the vast majority of this line item. Other items in cost of goods sold include warranty costs and in-bound freight from the suppliers, net of any vendor allowances and incentives.

Cost of goods sold was $12.2 billion in 2021, a 12.4% increase from $10.9 billion in 2020. As a percentage of net sales, cost of goods sold was 64.8% in 2021, decreasing from 65.8% of net sales in 2020. The decrease in cost of goods sold as a percentage of net sales in 2021 reflects the favorable impact of increased supplier incentives, business unit channel and product mix shifts and strategic category management initiatives in areas such as pricing and global sourcing in 2021 compared to 2020.

Operating Expenses

The Company includes in selling, administrative and other expenses ("SG&A") all personnel and personnel-related costs at its headquarters, distribution centers, stores and branches, which accounts for more than 60% of total SG&A. Additional costs in SG&A include our facilities, delivery, marketing, advertising, technology, digital, legal and professional costs.

SG&A of $5.2 billion in 2021 increased by $0.8 billion, or approximately 17.7% from 2020. This represents 27.4% of net sales in 2021 compared to 26.5% of net sales in 2020. The increase in SG&A as a percent of net sales primarily reflects a $77.4 million charge related to damages in connection with a 2017 automotive product liability claim and a $61.1 million loss on a software disposal. In addition, we had the headwind of more than $300 million in temporary COVID-19

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related cost savings in 2020. The increase in SG&A was partially offset by the leveraging of expenses on strong sales and our initiatives to improve operational efficiencies and optimize the productivity of our distribution network.

Depreciation and amortization expense was $291.0 million in 2021, an increase of approximately $18.1 million, or 6.6%, from 2020, due to an increase in capital investments to improve our distribution facilities, streamline our supply chain and invest in technology solutions. The provision for doubtful accounts was $17.7 million in 2021, a $5.8 million decrease from 2020, reflecting the improved financial health of our customers as our key markets recover from the COVID-19 pandemic. We believe the Company is adequately reserved for bad debts and credit losses at December 31, 2021.

Goodwill Impairment

Due to several factors that coalesced in the second quarter of 2020 we performed an interim impairment test as of May 31, 2020 for our European reporting unit and recorded a goodwill impairment charge of $506.7 million. These factors primarily resulted from the ongoing market volatility and uncertainty caused by the COVID-19 pandemic, which extended into the second quarter of 2020 and impacted several critical impairment testing assumptions including weighted average cost of capital and market multiples, and near-term revenue and operating margin projections for the reporting unit. Refer to the goodwill and other intangible assets footnote within the Notes to the Consolidated Financial Statements for additional information. If there are sustained declines in macroeconomic or business conditions in future periods, including as a result of the continued COVID-19 pandemic, affecting the projected earnings and cash flows at our reporting units, among other things, there can be no assurance that goodwill at one or more reporting units may not be impaired. As of December 31, 2021, we determined that there were no indicators that goodwill was impaired at any of our reporting units.

Non-Operating Expenses and Income

Non-operating expenses included net interest expense of $62.2 million in 2021 and $91.0 million in 2020. The decrease in net interest expense of $28.9 million in 2021 primarily reflects the combination of the repayment of debt and lowered interest rates on our remaining outstanding debt.

“Other” includes equity method investment income, investment dividends, noncontrolling interests and pension income. Other income in 2021 was $99.6 million, an approximate $44.1 million increase from the prior year due to a variety of factors, including favorable changes in gains on equity investments and retirement plan valuations.

Segment Profit

Segment profit is calculated as net sales less operating expenses excluding general corporate expenses, net interest expense, equity in income from investees, intangible asset amortization, income attributable to noncontrolling interests and other unallocated amounts that are primarily driven by corporate initiatives and adjusted in Non-GAAP Measures (as described further below). Refer to the segment data footnote in the Notes to Consolidated Financial Statements for additional information.

Automotive Group

Automotive's segment profit increased 23.7% in 2021 from 2020 and segment profit margin was 8.6% in 2021 compared to 8.0% in 2020. The improvement reflects strong operating results across our geographies resulting from double-digit organic sales growth, gross margin expansion and ongoing cost control actions. To further improve Automotive's segment margin, this group will continue to execute on its growth plans and cost initiatives going forward.

Industrial Group

Industrial’s segment profit increased 23.5% in 2021 from 2020 and segment profit margin improved to 9.4%, an increase from 8.5% in 2020. The improvement primarily reflects the benefits of double-digit organic sales growth and improved gross margin and operational efficiencies. We believe the strength of economic indicators such as Industrial Production and the Purchasing Managers Index combined with effective growth initiatives and cost actions position the Industrial Group for further growth in 2022.

Income Taxes

The Company's effective income tax rate was 25.1% as of December 31, 2021, compared to 56.9% in 2020. For the year ended December 31, 2021, the rate decrease is primarily due to the non-deductible goodwill impairment charge that occurred in 2020.

Net Income from Continuing Operations

Net income from continuing operations was $898.8 million in 2021, a significant increase compared to $163.4 million in 2020. On a per share diluted basis, net income from continuing operations was $6.23 in 2021, up 451.3% compared to $1.13 in 2020. Net income from continuing operations was 4.8% of net sales in 2021 compared to 1.0% of net sales in 2020. The increase in net income from continuing operations for the year ended December 31,

2021 primarily reflects the goodwill impairment charge of $506.7 million that occurred during the second quarter of 2020.

Adjusted net income from continuing operations was $997.0 million in 2021, an increase of 30.3% from $765.0 million in 2020. On a per share diluted basis, adjusted net income from continuing operations was $6.91, a 31.1% increase compared to adjusted net income per diluted share from continuing operations of $5.27 in 2020.

Both adjusted net income from continuing operations and adjusted diluted net income from continuing operations per common share are non-GAAP measures (see table below for reconciliations to the most directly comparable GAAP measures).

Certain Information Regarding Non-GAAP Financial Measures

The following table sets forth a reconciliation of net income from continuing operations and diluted net income from continuing operations per common share to adjusted net income from continuing operations and adjusted diluted net income from continuing operations per common share to account for the impact of adjustments. The Company believes that the presentation of adjusted net income from continuing operations and adjusted diluted net income from continuing operations per common share, which are not calculated in accordance with GAAP, when considered together with the corresponding GAAP financial measures and the reconciliations to those measures, provide meaningful supplemental information to both management and investors that is indicative of the Company's core operations. The Company considers these metrics useful to investors because they provide greater transparency into management’s view and assessment of the Company’s ongoing operating performance by removing items management believes are not representative of our continuing operations and may distort our longer-term operating trends. We believe these measures to be useful to enhance the comparability of our results from period to period and with our competitors, as well as to show ongoing results from operations distinct from items that are infrequent or not associated with the Company’s core operations. The Company does not, nor does it suggest investors should, consider such non-GAAP financial measures in isolation from, or as a substitute for, GAAP financial information.

	Year Ended December 31,	
(In thousands)	2021	2020
GAAP net income from continuing operations	$ 898,790	$ 163,395
Adjustments:		
Loss on software disposal (1)	61,063	—
Product liability damages award (2)	77,421	—
Goodwill impairment charge (3)	—	506,721
Restructuring costs (4)	—	50,019
Realized currency and other divestiture losses (5)	—	11,356
Gain on insurance proceeds related to SPR fire (6)	(3,862)	(13,448)
Gain on equity investments (7)	(10,229)	—
Inventory adjustment (8)	—	40,000
Transaction and other costs (9)	3,655	39,817
Total adjustments	128,048	634,465
Tax impact of adjustments	(29,828)	(32,822)
Adjusted net income from continuing operations	$ 997,010	$ 765,038

The table below represents amounts per common share assuming dilution:

(in thousands, except per share data)	Year Ended December 31, 2021	2020
GAAP net income from continuing operations per common share	$ 6.23	$ 1.13
Adjustments:		
Loss on software disposal (1)	0.42	—
Product liability damages award (2)	0.54	—
Goodwill impairment charge (3)	—	3.49
Restructuring costs (4)	—	0.34
Realized currency and other divestiture losses (5)	—	0.08
Gain on insurance proceeds related to SPR fire (6)	(0.03)	(0.09)
Gain on equity investments (7)	(0.07)	—
Inventory adjustment (8)	—	0.28
Transaction and other costs (9)	0.03	0.27
Total adjustments	0.89	4.37
Tax impact of adjustments	(0.21)	(0.23)
Adjusted net income from continuing operations	$ 6.91	$ 5.27
Weighted average common shares outstanding - assuming dilution	144,221	145,115

The table below clarifies where the adjusted items are presented in the consolidated statement of income:

(in thousands)	Year Ended December 31, 2021	2020
Line item:		
Cost of goods sold	$ —	$ 53,495
Selling, administrative and other expenses	142,139	10,094
Restructuring costs	—	50,019
Goodwill impairment charge	—	506,721
Non-operating (income) expenses: Other	(14,091)	14,136
Total adjustments	$ 128,048	$ 634,465

(1) Adjustment reflects a loss on an internally developed software project that was disposed of due to a change in management strategy related to advances in alternative technologies. Refer to the property, plant and equipment footnote in the Notes to Consolidated financial statements for more information.

(2) Adjustment reflects damages reinstated by the Washington Supreme Court order on July 8, 2021 in connection with a 2017 automotive product liability claim. Refer to the commitments and contingencies footnote in the Notes to Consolidated Financial Statements for more information.

(3) Adjustment reflects a goodwill impairment charge related to our European reporting unit.

(4) Adjustment reflects restructuring costs related to the 2019 Cost Savings Plan. The costs are primarily associated with severance and other employee costs, including a voluntary retirement program, and facility and closure costs related to the consolidation of operations.

(5) Adjustment reflects realized currency losses related to divestitures.

(6) Adjustment reflects insurance recoveries in excess of losses incurred on inventory, property, plant and equipment and other fire-related costs related to the S.P. Richards Headquarters and Distribution Center.

(7) Adjustment relates to gains recognized upon remeasurement of certain equity investments to fair value upon acquiring the remaining equity of those entities.

(8) Adjustment reflects a $40 million increase to cost of goods sold due to the correction of an immaterial error related to the accounting in prior years for consideration received from vendors.

(9) Adjustment for 2021 include transaction and other costs related to acquisitions. For 2020, adjustment includes a $17 million loss on investment, $10 million of incremental costs associated with COVID-19 and costs associated with certain divestitures. COVID-19 related costs include incremental costs incurred relating to fees to cancel marketing events and increased cleaning and sanitization materials, among other things.

FINANCIAL CONDITION

The Company's cash balance at December 31, 2021 was $714.7 million compared to cash of $990.2 million at December 31, 2020. For the year ended December 31, 2021, the Company used $160.7 million to pay down debt (net of proceeds), $465.6 million for dividends paid to the Company's shareholders, $333.6 million for the repurchase of the Company's common stock, $266.1 million for investments in the Company via capital expenditures and $284.3 million for acquisitions and other investing activities. These items were offset by the Company's earnings and net cash provided by operating activities.

Accounts receivable increased $241.0 million, or 15.5%, from December 31, 2020 primarily due to higher sales volume. Inventory increased $383.6 million, or 10.9% from December 31, 2020 in association with higher product demand and increase in sales. Accounts payable increased $676.9 million, or 16.4% from December 31, 2020 due to the increase in purchases related to sales volume and extended payment terms with certain suppliers. Total debt of $2.4 billion at December 31, 2021 decreased $267.8 million, or 10.0%, from December 31, 2020 primarily due to the pay down of our short-term debt and foreign currency impact during the year.

We continue to negotiate extended payment dates with our suppliers. Our current payment terms with the majority of our suppliers range from 30 to 360 days. Several global financial institutions offer voluntary supply chain finance ("SCF") programs which enable our suppliers (generally those that grant extended terms), at their sole discretion, to sell their receivables from the Company to these financial institutions on a non-recourse basis at a rate that takes advantage of our credit rating and may be beneficial to them. The SCF program is primarily available to suppliers of goods and services included in cost of goods sold in our consolidated statements of income. The Company and our suppliers agree on commercial terms for the goods and services we procure, including prices, quantities and payment terms, regardless of whether the supplier elects to participate in the SCF program. The suppliers sell goods or services, as applicable, to the Company and they issue the associated invoices to the Company based on the agreed-upon contractual terms. Then, if they are participating in the SCF program, our suppliers, at their sole discretion, determine which invoices, if any, they want to sell to the financial institutions. In turn, we direct payment to the financial institutions, rather than the suppliers, for the invoices sold to the financial institutions. No guarantees are provided by the Company or any of our subsidiaries on third-party performance under the SCF program; however, the Company guarantees the payment by our subsidiaries to the financial institutions participating in the SCF program for the applicable invoices. We have no economic interest in a supplier's decision to participate in the SCF program, and we have no direct financial relationship with the financial institutions, as it relates to the SCF program. Accordingly, amounts due to our suppliers that elected to participate in the SCF program are included in the line item accounts payable in our consolidated balance sheets. All activity related to amounts due to suppliers that elected to participate in the SCF program is reflected in cash flows from operating activities in our consolidated statement of cash flows. We have been informed by the financial institutions that as of December 31, 2021 and 2020, suppliers elected to sell $2.7 billion and $1.8 billion, respectively, of our outstanding payment obligations to the financial institutions. The amount settled through the SCF program was $3.2 billion for the year ended December 31, 2021.

LIQUIDITY AND CAPITAL RESOURCES

The Company's sources of capital consist primarily of cash flows from operations, supplemented as necessary by private and public issuances of debt and bank borrowings. Currently, we believe that our cash on hand and available short-term and long-term sources of capital are sufficient to fund the Company's operations in both the short and long term, including working capital requirements, scheduled debt payments, interest payments, capital expenditures, benefit plan contributions, income tax obligations, dividends, share repurchases and contemplated acquisitions.

The ratio of current assets to current liabilities was 1.18 to 1 at December 31, 2021 and 1.21 to 1 at 2020, and our liquidity position remains strong. The Company's total debt outstanding at December 31, 2021 decreased by $267.8 million or 10.0% from December 31, 2020, primarily due to the pay down of our short-term debt and foreign currency impact during the year.

Sources and Uses of Cash

A summary of the Company's consolidated statements of cash flows is as follows:

	Year Ended December 31,			
(In thousands)	2021	2020	$ Change	% Change
Operating activities	$ 1,258,285	$ 2,014,522	$ (756,237)	(37.5)%
Investing activities	$ (506,164)	$ 182,768	$ (688,932)	(376.9)%
Financing activities	$ (989,532)	$ (1,513,765)	$ 524,233	(34.6)%

Operating Activities

The Company continues to generate positive cash flow, and in 2021 net cash provided by operating activities totaled $1.3 billion, a $0.8 billion, or 37.5%, decrease from 2020. The decrease in cash provided by operating activities was primarily driven by the $800 million benefit to operating cash flow in 2020 for the A/R Sales Agreement to sell receivables.

Investing Activities

Net cash used in investing activities was $506.2 million in 2021 compared to net cash provided by investing activities of $182.8 million in 2020, a $688.9 million, or 376.9%, decrease. In 2021, net cash used in investing activities included capital expenditures of $266.1 million, an increase of $112.6 million, or 73.4%, from the prior year, and $284.3 million used for acquisitions of businesses and other investing activities, an increase of $215.1 million, or 311.0%, from 2020. These items were partially offset by $17.7 million in proceeds from the divestitures, down $369.6 million or 95.4%, primarily due to the sale of the Business Products Group in 2020.

Financing Activities

Net cash used in financing activities in 2021 totaled $1.0 billion, a decrease of $0.5 billion, or 34.6%, from the $1.5 billion in cash used in financing activities in 2020. The decrease is primarily due to the $160.7 million pay down of debt (net of proceeds) in 2021 relative to the $895.0 million pay down of debt (net of proceeds) in 2020, which was partially offset by an additional $237.4 million in repurchases of our common stock as compared to 2020. For 2021, the Company's financing activities included dividends paid to shareholders of $465.6 million and repurchases of the Company's common stock of $333.6 million. The Company expects this trend of increasing dividends to continue in the foreseeable future. We also expect to remain active in our share repurchase program, but the amount and value of shares repurchased will vary and is at the discretion of the Company's board of directors.

Notes and Other Borrowings

The Company ended the year with $2.2 billion of total liquidity (comprising $1.5 billion availability on the revolving credit facility and $0.7 billion of cash and cash equivalents). From time to time, the Company may enter into other credit facilities or financing arrangements to provide additional liquidity and to manage against foreign currency risk. The Company currently believes that the existing lines of credit and cash generated from operations will be sufficient to fund anticipated operations for the foreseeable future.

On September 30, 2021, we entered into the first amendment to the Syndicated Facility Agreement (the "Unsecured Revolving Credit Facility"), dated as of October 30, 2020. The interest rates were amended to reduce the applicable rate by 12.5 basis points (resulting in a rate of LIBOR + 112.5 basis points) and the LIBOR floor from 0.5% to 0.0%. The amendment also extended the maturity by one year to September 30, 2026.

At December 31, 2021, approximately $1.5 billion was available under this line of credit. Due to the workers' compensation and insurance reserve requirements in certain states, the Company also had unused letters of credit of approximately $72.8 million outstanding at December 31, 2021. Our unused letters of credit expire within one year, but have automatic renewal clauses.

At December 31, 2021, the Company had $2.4 billion of unsecured Senior Notes outstanding. Approximately $1.9 billion of these borrowings contain covenants related to a maximum debt to EBITDA ratio and certain limitations on additional borrowings. The weighted average interest rate on the Company's total outstanding borrowings was approximately 2.35% at December 31, 2021 and 2.65% at December 31, 2020. Total interest expense, net of interest income, for all borrowings was $62.2 million and $91.0 million in 2021 and 2020, respectively. Refer to the debt footnote in the Notes to Consolidated Financial Statements for more information.

At December 31, 2021, the Company was in compliance with the covenants under our Unsecured Revolving Credit Facility and our outstanding unsecured Senior Notes. Any failure to comply with our debt covenants or

restrictions could result in a default under our financing arrangements or could require us to obtain waivers from our lenders for failure to comply with these restrictions. The occurrence of a default that remains uncured or the inability to secure a necessary consent or waiver could create cross defaults under other debt arrangements and have a material adverse effect on our business, financial condition, results of operations and cash flows.

On January 3, 2022, we amended our A/R Sales Agreement to increase the facility limit by an additional $200 million bringing the total to $1.0 billion. The terms of the A/R Sales Agreement limit the balance of receivables sold to approximately $1.0 billion at any point in time. Refer to the A/R Sales Agreement footnote in the Notes to Consolidated Financial Statements for more information.

On January 6, 2022, we issued $500,000 aggregate principal amount of unsecured 1.750% Senior Notes due 2025 at a price to the public of 99.721% of their face value with U.S. Bank National Association as trustee. Interest on the 1.750% Senior Notes due 2025 is payable semi-annually on February 1 and August 1 of each year, beginning on August 1, 2022, and is computed on the basis of a 360-day year. Simultaneously, on January 6, 2022, the Company issued $500,000 aggregate principal amount of unsecured 2.750% Senior Notes due 2032 at a price to the public of 98.810% of their face value with U.S. Bank National Association as trustee. Interest on the 2.750% Senior Notes due 2032 is payable semi-annually on February 1 and August 1 of each year, beginning on August 1, 2022, and is computed on the basis of a 360-day year.

Contractual and Other Obligations

The following table summarizes our material cash requirements at December 31, 2021 that we expect to be paid in cash. The table does not include amounts that are contingent on events or other factors that are uncertain or unknown at this time, including legal contingencies and uncertain tax positions. The amounts presented are based on various estimates and actual results may vary from the amounts presented.

	Payment Due by Period				
(In thousands)	Total	Less Than 1 Year	1-3 Years	3-5 Years	Over 5 Years
Credit facilities	$ 2,421,560	$ —	$ 618,050	$ 362,375	$ 1,441,135
Operating leases	1,123,699	302,748	439,426	209,611	171,914
Total material cash requirements	$ 3,545,259	$ 302,748	$ 1,057,476	$ 571,986	$ 1,613,049

Purchase orders or contracts for the purchase of inventory and other goods and services are not included in our estimates. We are not able to determine the aggregate amount of such purchase orders that represent contractual cash requirement, as purchase orders may represent authorizations to purchase rather than binding agreements. Our purchase orders are based on our current distribution needs and are fulfilled by our vendors within short time horizons. The Company does not have significant agreements for the purchase of inventory or other goods specifying minimum quantities or set prices that exceed our expected requirements.

Additionally, the Company guarantees the borrowings of certain independently owned automotive parts stores (independents) and certain other affiliates in which the Company has a noncontrolling equity ownership interest (affiliates). The Company’s maximum exposure to loss as a result of its involvement with these independents and affiliates is generally equal to the total borrowings subject to the Company’s guarantee. At December 31, 2021, the total borrowings of the independents and affiliates subject to guarantee by the Company were approximately $917.5 million. These loans generally mature over periods from one to six years. Our amount of commitment expiring in 2022 is approximately $304.6 million. To date, the Company has had no significant losses in connection with guarantees of independents’ and affiliates’ borrowings.

Share Repurchases

In 2021, the Company repurchased approximately 2.6 million shares of its common stock and the Company had remaining authority to purchase approximately 11.9 million shares of its common stock at December 31, 2021. There were no other repurchase plans announced as of December 31, 2021.

CRITICAL ACCOUNTING POLICIES

Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of our consolidated financial statements requires management to make estimates, assumptions and judgments that affect the reported amounts of assets, liabilities, net sales and expenses and related disclosure of contingent assets and liabilities. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We describe in this section certain critical accounting policies that require us to make significant estimates, assumptions and judgments. An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are uncertain at the time the estimate is made and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the consolidated financial statements. Management believes the following critical accounting policies reflect its most significant estimates and assumptions used in the preparation of the consolidated financial statements. For further information on the critical accounting policies, see the summary of significant accounting policies footnote in the Notes to Consolidated Financial Statements.

Inventories — Provisions for Slow Moving and Obsolescence

The Company identifies slow moving or obsolete inventories and estimates appropriate provisions related thereto. Historically, these losses have not been significant as the vast majority of the Company's inventories are not highly susceptible to obsolescence and a majority are eligible for return under various vendor return programs. While the Company has no reason to believe its inventory return privileges will be discontinued in the future, its risk of loss associated with obsolete or slow moving inventories would increase if such were to occur.

Allowance for Doubtful Accounts — Methodology

The Company evaluates the collectability of trade accounts receivable based on a combination of factors. The Company estimates an allowance for doubtful accounts as a percentage of net sales based on various factors, including historical experience, current economic conditions and expected future credit losses and collectability trends. The Company periodically adjusts this estimate when the Company becomes aware of a specific customer's inability to meet its financial obligations (e.g., bankruptcy filing) or as a result of changes in the overall aging of accounts receivable. While the Company has a large customer base that is geographically dispersed, a general economic downturn in any of the industry segments in which the Company operates could result in higher than expected defaults and, therefore, the need to revise estimates for bad debts. For the years ended December 31, 2021, 2020 and 2019, the Company recorded provisions for doubtful accounts of approximately $17.7 million, $23.6 million, and $13.9 million, respectively.

Consideration Received from Vendors

The Company may enter into agreements at the beginning of each year with many of its vendors that provide for inventory purchase incentives. Generally, the Company earns inventory purchase incentives upon achieving specified volume purchasing levels or other criteria. The Company accrues for the receipt of these incentives as part of its inventory cost based on cumulative purchases of inventory to date and projected inventory purchases through the end of the year. While management believes the Company will continue to receive consideration from vendors in 2022 and beyond, there can be no assurance that vendors will continue to provide comparable amounts of incentives in the future or that we will be able to achieve the specified volumes necessary to take advantage of such incentives.

Impairment of Property, Plant and Equipment and Goodwill and Other Intangible Assets

At least annually, the Company evaluates property, plant and equipment, goodwill and other intangible assets for potential impairment indicators. The Company's judgments regarding the existence of impairment indicators are based on market conditions and operational performance, among other factors. Future events could cause the Company to conclude that impairment indicators exist and that assets associated with a particular operation are impaired. Evaluating for impairment also requires the Company to estimate future operating results and cash flows which requires judgment by management. Any resulting impairment loss could have a material adverse impact on the Company's financial condition and results of operations. Refer to the goodwill and other intangible assets footnote of the Notes to Consolidated Financial Statements for further information on the results of the Company's annual goodwill impairment testing.

Employee Benefit Plans

The Company's benefit plan committees in the U.S. and Canada establish investment policies and strategies and regularly monitor the performance of the Company's pension plan assets. The plans in Europe are unfunded and therefore there are no plan assets. The pension plan investment strategy implemented by the Company's management is to achieve long-term objectives and invest the pension assets in accordance with the applicable pension legislation in the U.S. and Canada, as well as fiduciary standards. The long-term primary objectives for the pension plan funds are to provide for a reasonable amount of long-term growth of capital without undue exposure to risk, protect the assets from erosion of purchasing power and provide investment results that meet or exceed the pension plans' actuarially assumed long-term rates of return. The Company's investment strategy with respect to pension plan assets is to generate a return in excess of the passive portfolio benchmark (38% U.S. Large-cap stocks, 9% U.S. Mid-cap stocks, 10% International stocks, 3% Emerging Market stocks and 40% Barclays U.S. Gov/Credit Index).

We make several critical assumptions in determining our pension plan assets and liabilities and related pension income. We believe the most critical of these assumptions are the expected rate of return on plan assets and the discount rate. Other assumptions we make relate to employee demographic factors such as rate of compensation increases, mortality rates, retirement patterns and turnover rates. Refer to the employee benefit plans footnote of the Notes to Consolidated Financial Statements for more information regarding these assumptions.

Based on the investment policy for the pension plans, as well as an asset study that was performed based on the Company's asset allocations and future expectations, the Company's expected rate of return on plan assets for measuring 2022 pension income is 6.34% for the plans. The asset study forecasted expected rates of return for the approximate duration of the Company's benefit obligations, using capital market data and historical relationships.

The discount rate is chosen as the rate at which pension obligations could be effectively settled and is based on capital market conditions as of the measurement date. We have matched the timing and duration of the expected cash flows of our pension obligations to a yield curve generated from a broad portfolio of high-quality fixed income debt instruments to select our discount rate. Based upon this cash flow matching analysis, we selected a weighted average discount rate for the plans of 3.04% at December 31, 2021.

Our pension income for 2021 is determined at the December 31, 2020 measurement date. A 25 basis point increase in discount rate would result in an approximate $73 million decrease on our projected benefit obligation. A 25 basis point decrease in discount rate would result in approximate $77 million increase on our projected benefit obligation. A 25 basis point change in discount rate would have an approximate $1.2 million impact on our pension income. A 25 basis point change in expected return on asset would have an approximate $5.7 million impact on our pension income. These sensitivities reflect the effect of changing one assumption at a time and assume no changes to the design of the pension plans.

Effective December 31, 2013, our defined benefit pension plans were amended to freeze benefit plan accruals for participants and provide for immediate vesting of accrued benefits. Net periodic benefit income for our defined benefit pension plans was $19.3 million, $18.0 million, and $16.2 million for the years ended December 31, 2021, 2020 and 2019, respectively. The income associated with the pension plans in 2021, 2020 and 2019 reflects the impact of the freeze. Refer to the employee benefit plans footnote of the Notes to Consolidated Financial Statements for more information regarding employee benefit plans.

Business Combinations

When the Company acquires businesses, it applies the acquisition method of accounting and recognizes the identifiable assets acquired, the liabilities assumed, and any noncontrolling interests in an acquiree at their fair values on the acquisition date, which requires significant estimates and assumptions. Goodwill is measured as the excess of the fair value of the consideration transferred over the net of the acquisition date fair values of the identifiable assets acquired and liabilities assumed. The acquisition method requires the Company to record provisional amounts for any items for which the accounting is not complete at the end of a reporting period. The Company must complete the accounting during the measurement period, which cannot exceed one year. Adjustments made during the measurement period could have a material impact on the Company's financial condition and results of operations.

The Company typically measures customer relationship and other intangible assets using an income approach. Significant estimates and assumptions used in this approach include discount rates and certain assumptions that form the basis of the forecasted cash flows expected to be generated from the asset (e.g., future revenue growth rates, operating margins and attrition rates). If the subsequent actual results and updated projections of the underlying business activity change compared with the assumptions and projections used to develop these values, the Company could record impairment charges. In addition, the Company has estimated the

economic lives of certain acquired tangible and intangible assets and these lives are used to calculate depreciation and amortization expense. If the Company's estimates of the economic lives change, depreciation or amortization expenses could be increased or decreased, or the acquired asset could be impaired.

Legal and Product Liabilities

The Company accrues for potential losses related to legal disputes, litigation, product liabilities, and regulatory matters when it is probable (the future event or events are likely to occur) that the Company will incur a loss and the amount of the loss can be reasonably estimated.

To calculate product liabilities, the Company estimates potential losses relating to pending claims and also estimates the likelihood of additional, similar claims being filed against the Company in the future. To estimate potential losses on claims that could be filed in the future, the Company considers claims pending against the Company, claim filing rates, the number of codefendants and the extent to which they share in settlements, and the amount of loss by claim type. The estimated losses for pending and potential future claims are calculated on a discounted basis using risk-free interest rates derived from market data about monetary assets with maturities comparable to those of the projected product liabilities. The Company uses an actuarial specialist to assist with measuring its product liabilities. Refer to the commitments and contingencies footnote of the Notes to Consolidated Financial Statements for additional information regarding product liabilities.

Self Insurance

The Company is self-insured for the majority of its group health insurance costs. A reserve for claims incurred but not reported is developed by analyzing historical claims data provided by the Company’s claims administrators. These reserves are included in accrued expenses in the accompanying consolidated balance sheets as the expenses are expected to be paid within one year.

Long-term insurance liabilities consist primarily of reserves for the Company's workers’ compensation program. In addition, the Company carries various large risk deductible workers’ compensation policies for the majority of workers’ compensation liabilities. The Company records the workers’ compensation reserves based on an analysis performed by an independent actuary. The analysis calculates development factors, which are applied to total reserves as provided by the various insurance companies who underwrite the program. While the Company believes that the assumptions used to calculate these liabilities are appropriate, significant differences in actual experience or significant changes in these assumptions may materially affect workers’ compensation costs.

Income Taxes

The Company accounts for income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statement carrying amount and the tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets and liabilities are recorded net as noncurrent deferred income taxes. In addition, valuation allowances are recorded to reduce deferred tax assets to the amount that will more likely than not be realized. In making this determination, the Company considers all available positive and negative evidence including projected future taxable income, future reversals of existing temporary differences, recent financial operations and tax planning strategies.

The Company recognizes a tax benefit from uncertain tax positions when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Refer to the summary of significant accounting policies footnote in the Notes to Consolidated Financial Statements for information on recent accounting pronouncements.

ITEM 7A. ***QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.***

Although the Company does not face material risks related to commodity prices, the Company is exposed to changes in interest rates and in foreign currency rates with respect to foreign currency denominated operating revenues and expenses.

Foreign Currency

The Company incurs translation gains or losses resulting from the translation of an operating unit’s foreign functional currency into U.S. dollars for consolidated financial statement purposes. For the periods presented, the Company’s principal foreign currency exchange exposures are the Euro, the functional currency of our European operations; the Canadian dollar, the functional currency of our Canadian operations; and the Australian dollar, the functional currency of our Australasian operations. We monitor our foreign currency exposures and from time to time, we enter into currency forward contracts to manage our exposure to currency fluctuations. Foreign currency exchange exposure, particularly in regard to the Australian and Canadian dollar, and to a lesser extent the Euro, positively impacted our results for the year ended December 31, 2021. Foreign currency exchange exposure, particularly in regard to the Euro positively impacted our results for the year ended December 31, 2020. This positive impact was mostly offset by the negative impact from the Canadian and Australian dollar for the full year ended December 31, 2020.

During 2021 and 2020, it was estimated that a 10% shift in exchange rates between those foreign functional currencies and the U.S. dollar would have impacted translated net sales by approximately $683 million and $549 million, respectively. A 15% shift in exchange rates between those functional currencies and the U.S. dollar would have impacted translated net sales by approximately $1.0 billion in 2021 and $824 million in 2020. A 20% shift in exchange rates between those functional currencies and the U.S. dollar would have impacted translated net sales by approximately $1.4 billion in 2021 and $1.1 billion in 2020.

Interest Rates

The Company is subject to interest rate volatility with regard to existing and future issuances of debt. We monitor our mix of fixed-rate and variable-rate debt as well as our mix of short-term debt and long-term debt. From time to time, we enter into interest rate swap agreements to manage our exposure to interest rate fluctuations. As of December 31, 2021, we primarily had fixed-rate debt. Based on the Company's variable-rate debt and derivative instruments outstanding as of December 31, 2021 and 2020, we estimate that a 100 basis point increase in interest rates would have an immaterial impact in 2021 and would have increased interest expense by $1.1 million in 2020. However, this increase in interest expense would have been partially offset by the increases in interest income related to higher interest rates.

ITEM 8. *FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.*

ANNUAL REPORT ON FORM 10-K

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Genuine Parts Company and Subsidiaries

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Genuine Parts Company and Subsidiaries (the Company) as of December 31, 2021 and 2020, the related consolidated statements of income, comprehensive income, equity and cash flows for each of the three years in the period ended December 31, 2021, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at 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 U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 17, 2022 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the 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 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 financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) 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 matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Valuation of Goodwill

Description of the Matter	As of December 31, 2021, the Company's goodwill was $1,915,307,000. As disclosed in Note 1 to the consolidated financial statements, goodwill is tested for impairment at least annually at the reporting unit level. For a reporting unit in which the Company concludes, based on the qualitative assessment, that it is more likely than not that the fair value of the reporting unit is less than its carrying amount (or if the Company elects to skip the optional qualitative assessment), the Company is required to perform a quantitative impairment test, which includes measuring the fair value of the reporting unit and comparing it to the reporting unit's carrying amount. Auditing management's quantitative impairment test for goodwill was complex and judgmental due to the significant estimation required to determine the fair value of a reporting unit. In particular, the fair value estimate was sensitive to significant assumptions, such as changes in the weighted average cost of capital and market multiples, and near-term revenue and operating margin projections, which are affected by expectations about future market or economic conditions.
How We Addressed the Matter in Our Audit	We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's goodwill impairment review process, including controls over management's review of the significant assumptions described above. To test the estimated fair value of a reporting unit where the quantitative impairment test was performed, we performed audit procedures that included, among others, assessing methodologies and testing the significant assumptions discussed above and the underlying data used by the Company in its analysis. For example, we compared the significant assumptions of a reporting unit to current industry, market and economic trends, to the Company's historical results and those of other guideline companies in the same industry, and to other relevant factors. We involved our valuation specialists to assist in our evaluation of the Company's valuation methodology and significant assumptions. In addition, we assessed the historical accuracy of management's estimates and performed sensitivity analyses of significant assumptions to evaluate the changes in the fair value of a reporting unit that would result from changes in the assumptions.

Loss Contingencies Related to Product Liabilities

Description of the Matter	As disclosed in Notes 1 and 15 to the consolidated financial statements, the Company is subject to pending product liability lawsuits primarily resulting from its national distribution of automotive parts and supplies. The Company accrues for loss contingencies related to product liabilities if it is probable that the Company will incur a loss and the loss can be reasonably estimated. The amount accrued for product liabilities as of December 31, 2021 was $180,746,000. Auditing the Company's loss contingencies related to product liabilities was complex due to the significant measurement uncertainty associated with the estimate, management's application of significant judgment and the use of valuation techniques. In addition, the loss contingencies related to product liabilities are sensitive to significant management assumptions, including the number, type, and severity of claims incurred and estimated to be incurred in future periods.

How We Addressed the Matter in Our Audit	We obtained an understanding, evaluated the design and tested the operating effectiveness of relevant controls over the Company's process for estimating loss contingencies related to product liabilities. For example, we tested controls over management's review of the significant assumptions described above and the reconciliation of claims data to that used by the Company's actuarial specialist. To test the estimated loss contingencies related to product liabilities, our audit procedures included, among others, assessing the methodology used, testing the significant assumptions, including testing the completeness and accuracy of the underlying data, and comparing significant assumptions to historical claims as well as external data. We evaluated the legal letters obtained from internal and external legal counsel, held discussions with legal counsel, and performed a search for new or contrary evidence affecting the estimate. We involved our actuarial specialists to assist in our evaluation of the methodology and assumptions used by management and to independently develop a range of estimated product liabilities using the Company's historical data as well as other information available for similar cases. We compared the Company's estimated loss contingencies related to product liabilities to the range developed by our actuarial specialists. We also assessed the adequacy of the Company's disclosures, included in Notes 1 and 15 to the consolidated financial statements, in relation to these matters.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 1948.

Atlanta, Georgia

February 17, 2022

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Genuine Parts Company and Subsidiaries
Consolidated Balance Sheets
(In Thousands, Except Share Data and per Share Amounts)

	As of December 31, 2021	As of December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 714,701	$ 990,166
Trade accounts receivable, net	1,797,955	1,556,966
Merchandise inventories, net	3,889,919	3,506,271
Prepaid expenses and other current assets	1,353,847	1,060,360
Total current assets	7,756,422	7,113,763
Goodwill	1,915,307	1,917,477
Other intangible assets, net	1,406,401	1,498,257
Deferred tax assets	829	65,658
Operating lease assets	1,053,689	1,038,877
Other assets	985,055	644,140
Property, plant and equipment, net	1,234,399	1,162,043
Total assets	$ 14,352,102	$ 13,440,215
Liabilities and equity		
Current liabilities:		
Trade accounts payable	$ 4,804,939	$ 4,128,084
Current portion of debt	—	160,531
Other current liabilities	1,660,768	1,491,426
Dividends payable	115,876	114,043
Total current liabilities	6,581,583	5,894,084
Long-term debt	2,409,363	2,516,614
Operating lease liabilities	789,175	789,294
Pension and other post-retirement benefit liabilities	265,134	265,687
Deferred tax liabilities	280,778	212,910
Other long-term liabilities	522,779	543,623
Equity:		
Preferred stock, par value $1 per share — authorized 10,000,000 shares; none issued	—	—
Common stock, par value $1 per share - authorized 450,000,000 shares; issued and outstanding - 2021 - 142,180,683 shares and 2020 - 144,354,335 shares	142,181	144,354
Additional paid-in capital	119,975	117,165
Accumulated other comprehensive loss	(857,739)	(1,036,502)
Retained earnings	4,086,325	3,979,779
Total parent equity	3,490,742	3,204,796
Noncontrolling interests in subsidiaries	12,548	13,207
Total equity	3,503,290	3,218,003
Total liabilities and equity	$ 14,352,102	$ 13,440,215

See accompanying notes.

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Genuine Parts Company and Subsidiaries
Consolidated Statements of Income
(In Thousands, Except per Share Amounts)

	Year Ended December 31,		
	2021	2020	2019
Net sales	$ 18,870,510	$ 16,537,433	$ 17,522,234
Cost of goods sold	12,236,374	10,882,592	11,662,551
Gross profit	6,634,136	5,654,841	5,859,683
Operating expenses:			
Selling, administrative and other expenses	5,162,506	4,386,739	4,577,610
Depreciation and amortization	290,971	272,842	257,263
Provision for doubtful accounts	17,739	23,577	13,876
Restructuring costs	—	50,019	100,023
Goodwill impairment charge	—	506,721	—
Total operating expenses	5,471,216	5,239,898	4,948,772
Non-operating (income) expenses:			
Interest expense, net	62,150	91,048	91,405
Other	(99,576)	(55,473)	(82,534)
Special termination costs	—	—	42,757
Total non-operating (income) expenses	(37,426)	35,575	51,628
Income before income taxes	1,200,346	379,368	859,283
Income taxes	301,556	215,973	212,808
Net income from continuing operations	898,790	163,395	646,475
Net loss from discontinued operations	—	(192,497)	(25,390)
Net income (loss)	$ 898,790	$ (29,102)	$ 621,085
Basic earnings (loss) per share:			
Continuing operations	$ 6.27	$ 1.13	$ 4.44
Discontinued operations	—	(1.33)	(0.18)
Basic earnings (loss) per share	$ 6.27	$ (0.20)	$ 4.26
Diluted earnings (loss) per share:			
Continuing operations	$ 6.23	$ 1.13	$ 4.42
Discontinued operations	—	(1.33)	(0.18)
Diluted earnings (loss) per share	$ 6.23	$ (0.20)	$ 4.24
Weighted average common shares outstanding	143,435	144,474	145,736
Dilutive effect of stock options and non-vested restricted stock awards	786	641	681
Weighted average common shares outstanding — assuming dilution	144,221	145,115	146,417

See accompanying notes.

Genuine Parts Company and Subsidiaries
Consolidated Statements of Comprehensive Income
(In Thousands, Except per Share Amounts)

	Year Ended December 31,		
	2021	2020	2019
Net income (loss)	$ 898,790	$ (29,102)	$ 621,085
Other comprehensive income (loss), net of income taxes:			
Foreign currency translation adjustments	(65,843)	102,595	67,902
Cash flow hedge adjustments, net of income taxes in 2021 — $5,535, 2020 — $3,453, and 2019 — $5,932	14,965	(9,336)	(16,039)
Pension and postretirement benefit adjustments, net of income taxes of 2021 — $84,650, 2020 — $4,639, and 2019 — $5,036	229,641	11,547	44,433
Other comprehensive income, net of tax	178,763	104,806	96,296
Comprehensive income	$ 1,077,553	$ 75,704	$ 717,381

See accompanying notes.

Genuine Parts Company and Subsidiaries
Consolidated Statements of Equity
(In Thousands, Except Share Data and per Share Amounts)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Parent Equity	Non-controlling Interests in Subsidiaries	Total Equity
Balance at January 1, 2019	145,936,613	$ 145,937	$ 78,380	$ (1,115,078)	$ 4,341,212	$ 3,450,451	$ 21,540	$ 3,471,991
Net income	—	—	—	—	621,085	621,085	—	621,085
Other comprehensive loss, net of tax	—	—	—	96,296	—	96,296	—	96,296
Cash dividends declared, $3.05 per share	—	—	—	—	(444,372)	(444,372)	—	(444,372)
Share-based awards exercised, including tax benefit of $4,920	240,568	240	(11,653)	—	—	(11,413)	—	(11,413)
Share-based compensation	—	—	32,050	—	—	32,050	—	32,050
Purchase of stock	(799,023)	(799)	—	—	(73,388)	(74,187)	—	(74,187)
Cumulative effect from adoption of ASU No. 2018-02	—	—	—	(122,526)	122,526	—	—	—
Cumulative effect from adoption of ASU No. 2016-02, net of tax	—	—	—	—	4,797	4,797	—	4,797
Noncontrolling interest activities	—	—	—	—	—	—	(747)	(747)
Balance at December 31, 2019	145,378,158	145,378	98,777	(1,141,308)	4,571,860	3,674,707	20,793	3,695,500
Net loss	—	—	—	—	(29,102)	(29,102)	—	(29,102)
Other comprehensive income, net of tax	—	—	—	104,806	—	104,806	—	104,806
Cash dividends declared, $3.16 per share	—	—	—	—	(456,469)	(456,469)	—	(456,469)
Share-based awards exercised, including tax benefit of $677	112,621	113	(4,233)	—	—	(4,120)	—	(4,120)
Share-based compensation	—	—	22,621	—	—	22,621	—	22,621
Purchase of stock	(1,136,444)	(1,137)	—	—	(95,078)	(96,215)	—	(96,215)
Cumulative effect from adoption of ASU 2016-13, net of tax	—	—	—	—	(11,432)	(11,432)	—	(11,432)
Noncontrolling interest activities	—	—	—	—	—	—	(7,586)	(7,586)
Balance at December 31, 2020	144,354,335	144,354	117,165	(1,036,502)	3,979,779	3,204,796	13,207	3,218,003
Net income	—	—	—	—	898,790	898,790	—	898,790
Other comprehensive income, net of tax	—	—	—	178,763	—	178,763	—	178,763
Cash dividend declared, $3.26 per share	—	—	—	—	(467,482)	(467,482)	—	(467,482)
Share-based awards exercised, including tax benefit of $7,076	440,667	441	(22,787)	—	—	(22,346)	—	(22,346)
Share-based compensation	—	—	25,597	—	—	25,597	—	25,597
Purchase of stock	(2,614,319)	(2,614)	—	—	(330,985)	(333,599)	—	(333,599)
Cumulative effect from adoption of ASU 2019-12	—	—	—	—	6,223	6,223	—	6,223
Noncontrolling interest activities	—	—	—	—	—	—	(659)	(659)
Balance at December 31, 2021	142,180,683	$ 142,181	$ 119,975	$ (857,739)	$ 4,086,325	$ 3,490,742	$ 12,548	$ 3,503,290

See accompanying notes.

Genuine Parts Company and Subsidiaries
Consolidated Statements of Cash Flows
(In Thousands)

	Year Ended December 31		
	2021	2020	2019
Operating activities:			
Net income (loss)	$ 898,790	$ (29,102)	$ 621,085
Net loss from discontinued operations	—	(192,497)	(25,390)
Net income from continuing operations	898,790	163,395	646,475
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities:			
Depreciation and amortization	290,971	272,842	257,263
Excess tax benefit from share-based compensation	(7,076)	(677)	(4,920)
Deferred income taxes	31,676	(27,722)	(55,939)
Share-based compensation	25,597	22,621	28,703
Loss on software disposal	61,063	—	—
Realized currency and other divestiture losses	—	11,356	34,701
Gain on equity investments	(10,229)	—	(38,663)
Goodwill impairment charge	—	506,721	—
Other operating activities	(21,183)	12,569	(17,589)
Changes in operating assets and liabilities:			
Trade accounts receivable, net	(258,994)	957,514	(134,163)
Merchandise inventories, net	(329,237)	58,462	(54,765)
Trade accounts payable	777,318	89,350	82,739
Other short-term assets and liabilities	(148,089)	(109,812)	11,740
Other long-term assets and liabilities	(52,322)	57,903	76,937
Net cash provided by operating activities from continuing operations	1,258,285	2,014,522	832,519
Investing activities:			
Purchases of property, plant and equipment	(266,136)	(153,502)	(277,873)
Proceeds from sale of property, plant and equipment	26,549	18,064	24,387
Proceeds from divestitures of businesses	17,738	387,379	434,609
Acquisitions of businesses and other investing activities	(284,315)	(69,173)	(724,718)
Net cash (used in) provided by investing activities from continuing operations	(506,164)	182,768	(543,595)
Financing activities:			
Proceeds from debt	892,694	2,638,014	5,037,168
Payments on debt	(1,053,423)	(3,533,017)	(4,897,769)
Share-based awards exercised	(22,346)	(4,120)	(11,413)
Dividends paid	(465,649)	(453,277)	(438,890)
Purchase of stock	(333,599)	(96,215)	(74,187)
Other financing activities	(7,209)	(65,150)	(871)
Net cash used in financing activities from continuing operations	(989,532)	(1,513,765)	(385,962)
Cash flows from discontinued operations:			
Net cash flows provided by operating activities from discontinued operations	—	5,039	59,491
Net cash used in investing activities from discontinued operations	—	(11,131)	(19,611)
Net cash provided by financing activities from discontinued operations	—	—	—
Net cash (used in) provided by discontinued operations	—	(6,092)	39,880
Effect of exchange rate changes on cash and cash equivalents	(38,054)	35,741	603
Net (decrease) increase in cash and cash equivalents	(275,465)	713,174	(56,555)
Cash and cash equivalents at beginning of year	990,166	276,992	333,547
Cash and cash equivalents at end of year	$ 714,701	$ 990,166	$ 276,992
Supplemental disclosures of cash flow information			
Cash paid during the year for:			
Income taxes	$ 305,326	$ 223,019	$ 303,736
Interest	$ 65,732	$ 91,344	$ 95,281

See accompanying notes.

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Genuine Parts Company and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2021
(in thousands, except per share data)

1. Summary of Significant Accounting Policies

Business

Genuine Parts Company (the "Company") is a distributor of automotive replacement parts and industrial parts and materials. The Company serves a diverse customer base through a network of more than 10,300 locations throughout North America, Australasia, and Europe and, therefore, has limited exposure from credit losses to any particular customer, region, or industry segment. The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral.

The COVID-19 pandemic continues to impact various aspects of our business, and the long-term impact to our business remains unknown. The extent to which the COVID-19 pandemic impacts the Company will depend on numerous factors and future developments that we cannot predict, including partial or complete shut downs, travel restrictions, and stay-at-home orders, impacts on our supply chain and our ability to keep operating locations open.

The Company has reclassified certain prior period amounts to conform to the current period presentation.

The Company has evaluated subsequent events through the date the financial statements were issued.

On June 30, 2020, the Company completed the divestiture of its Business Products Group. Refer to the acquisitions, divestitures and discontinued operations footnote for more information. The Company's results of operations for the Business Products Group are reported as discontinued operations and all information related to the discontinued operations has been excluded from the Notes to the Consolidated Financial Statements for all periods presented. Net loss from discontinued operations for each period includes all costs that are directly attributable to these businesses and excludes certain corporate overhead costs that were previously allocated.

Principles of Consolidation

The consolidated financial statements include all of the accounts of the Company. The net income attributable to noncontrolling interests is not material to the Company's consolidated net income. Intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of the consolidated financial statements, in conformity with U.S. generally accepted accounting principles, requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results may differ from those estimates and the differences could be material. If the pandemic persists or worsens, the estimates and assumptions management made as of December 31, 2021 could change, and it is reasonably possible such changes could be significant.

Revenue Recognition

The Company primarily recognizes revenue at the point the customer obtains control of the products or services and at an amount that reflects the consideration expected to be received for those products or services. Contracts with customers may include multiple performance obligations. For such arrangements, the Company allocates revenue to each performance obligation based on its relative standalone selling price and recognizes revenue upon delivery or as services are rendered.

Revenue is recognized net of allowances for returns, variable consideration and any taxes collected from customers that will be remitted to governmental authorities. Revenue recognized over time is not significant. Payment terms with customers vary by the type and location of the customer and the products or services offered. The Company does not adjust the promised amount of consideration for the effects of significant financing components based on the expectation that the period between when the Company transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less. Arrangements with customers that include payment terms extending beyond one year are not significant. Liabilities for customer incentives, discounts, or rebates are included in other current liabilities in the consolidated balance sheets.

Genuine Parts Company and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2021

Product Distribution Revenues

The Company generates revenue primarily by distributing products through wholesale and retail channels. For wholesale customers, revenue is recognized when title and control of the goods has passed to the wholesale customer. Retail revenue is recognized at the point of sale when the goods are transferred to customers and consideration is received. Shipping and handling activities are performed prior to the customer obtaining control of the products. Costs associated with shipping and handling are considered costs to fulfill a contract and are included in selling, administrative and other expenses in the period they are incurred.

Other Revenues

The Company offers software support, product cataloging, marketing, training and other membership program and support services to certain customers. This revenue is recognized as services are performed. Revenue from these services is recognized over a short duration and the impact to our consolidated financial statements is not significant.

Variable Consideration

The Company's products are generally sold with a right of return and may include variable consideration in the form of incentives, discounts, credits or rebates. The Company estimates variable consideration based on historical experience to determine the expected amount to which the Company will be entitled in exchange for transferring the promised goods or services to a customer. The Company recognizes estimated variable consideration as an adjustment to the transaction price when control of the related product or service is transferred. The realization of variable consideration occurs within a short period of time from product delivery; therefore, the time value of money effect is not significant.

Foreign Currency Translation

The consolidated balance sheets and statements of income of the Company's foreign subsidiaries have been translated into U.S. dollars at the current and average exchange rates, respectively. The foreign currency translation adjustment is included as a component of accumulated other comprehensive loss.

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents.

Trade Accounts Receivable and the Allowance for Doubtful Accounts

The Company evaluates the collectability of trade accounts receivable based on a combination of factors. The Company estimates an allowance for doubtful accounts as a percentage of net sales based on various factors, including historical experience, current economic conditions and future expected credit losses and collectability trends. The Company will periodically adjust this estimate when the Company becomes aware of a specific customer's inability to meet its financial obligations (e.g., bankruptcy filing) or as a result of changes in the overall aging of accounts receivable. While the Company has a large customer base that is geographically dispersed, a general economic downturn in any of the industry segments in which the Company operates could result in higher than expected defaults and, therefore, the need to revise estimates for bad debts. For the years ended December 31, 2021, 2020, and 2019, the Company recorded provisions for doubtful accounts of approximately $17,739, $23,577, and $13,876, respectively. At December 31, 2021 and 2020, the allowance for doubtful accounts was approximately $44,425 and $36,622, respectively.

Merchandise Inventories, Including Consideration Received From Vendors

Merchandise inventories are valued at the lower of cost or net realizable value. Cost is determined by the last-in, first-out ("LIFO") method for a majority of U.S. automotive and industrial parts, and generally by the weighted average method for non-U.S. and certain other inventories. If the FIFO method had been used in place of LIFO, cost would have been approximately $628,000 and $524,400 higher than reported at December 31, 2021 and 2020, respectively. During 2021 and 2020, reductions in certain industrial parts inventories resulted in liquidations of LIFO inventory layers, which reduced cost of goods sold by approximately $400 and $15,500, respectively.

Genuine Parts Company and Subsidiaries
Notes to Consolidated Financial Statements
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The Company identifies slow moving or obsolete inventories and estimates appropriate provisions related thereto. Historically, these losses have not been significant as the vast majority of the Company's inventories are not highly susceptible to obsolescence and are eligible for return under various vendor return programs. While the Company has no reason to believe its inventory return privileges will be discontinued in the future, its risk of loss associated with obsolete or slow moving inventories would increase if such were to occur.

The Company enters into agreements at the beginning of each year with many of its vendors that provide for inventory purchase incentives. Generally, the Company earns inventory purchase incentives upon achieving specified volume purchasing levels or other criteria. The Company accrues for the receipt of these incentives as part of its inventory cost based on cumulative purchases of inventory to date and projected inventory purchases through the end of the year. While management believes the Company will continue to receive consideration from vendors in 2022 and beyond, there can be no assurance that vendors will continue to provide comparable amounts of incentives in the future.

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist primarily of amounts due from vendors, prepaid expenses, and income and other taxes receivable.

Goodwill

The Company reviews its goodwill annually for impairment in the fourth quarter, or sooner if circumstances indicate that the carrying amount may exceed fair value. The Company tests goodwill for impairment at the reporting unit level, which is an operating segment or a level below an operating segment (a component). A component is a reporting unit if the component constitutes a business for which discrete financial information and operating results are available and management regularly reviews that information. However, the Company may aggregate two or more components of an operating segment into a single reporting unit if the components have similar economic characteristics.

To review goodwill at a reporting unit for impairment, the Company generally elects to first assess qualitative factors to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount. Qualitative factors include adverse macroeconomic, industry or market conditions, cost factors, or financial performance. If the Company elects not to perform a qualitative assessment or concludes from its assessment of qualitative factors that it is more likely than not that the fair value of the reporting unit is less than its carrying amount, the Company must perform a quantitative test to evaluate goodwill impairment.

To perform a quantitative test, the Company calculates the fair value of the reporting unit and compares that amount to the reporting unit's carrying value. The Company typically calculates the fair value by using a combination of a market approach and an income approach that is based on a discounted cash flow model. The assumptions used in the market approach generally include benchmark company market multiples and the assumptions used in the income approach generally include the projected cash flows of the reporting unit, which are based on projected revenue growth rates and operating margins, and the estimated weighted average cost of capital, working capital and terminal value. The Company uses inputs and assumptions it believes are consistent with those a hypothetical marketplace participant would use. The Company recognizes goodwill impairment (if any) as the excess of the reporting unit's carrying value over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit.

Refer to the goodwill and other intangible assets footnote for further information on the results of the Company's annual goodwill impairment testing.

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Long-Lived Assets Other Than Goodwill

The Company assesses its long-lived assets other than goodwill for impairment whenever facts and circumstances indicate that the carrying amount may not be fully recoverable. To analyze recoverability, the Company projects undiscounted net future cash flows over the remaining life of such assets. If these projected cash flows are less than the carrying amount, an impairment would be recognized, resulting in a write-down of assets with a corresponding charge to earnings. Impairment losses, if any, are measured based upon the difference between the carrying amount and the fair value of the assets. For the year ended December 31, 2021, the Company recognized a loss of $61,063 related to the disposal of an internally developed software project (refer to the property, plant and equipment footnote for more information). For the year ended December 31, 2020, the Company recognized long-lived asset impairments of $6,243 related to certain assets abandoned in connection with the 2019 Cost Savings Plan (refer to the restructuring footnote for more information).

Other Assets

Other assets consist primarily of cash surrender value of life insurance policies, debt securities, equity method and other investments, guarantee fees receivable, and deferred compensation benefits.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation and amortization are primarily determined on a straight-line basis over the following estimated useful lives of each asset: buildings, 10 to 40 years; machinery and equipment, 5 to 15 years; and the shorter of lease term or useful life for leasehold improvements.

Other Current Liabilities

Other current liabilities consist primarily of current lease obligations, reserves for sales returns expected within the next year, accrued compensation, accrued income and other taxes, and other reserves for expenses incurred.

Other Long-term Liabilities

Other long-term liabilities consist primarily of reserves for sales returns expected after the next year, guarantee obligations, accrued taxes and other non-current obligations.

Self-Insurance

The Company is self-insured for the majority of its group health insurance costs. A reserve for claims incurred but not reported is developed by analyzing historical claims data provided by the Company's claims administrators. These reserves are included in accrued expenses in the accompanying consolidated balance sheets as the expenses are expected to be paid within one year.

Long-term insurance liabilities consist primarily of reserves for the Company's workers' compensation program. In addition, the Company carries various large risk deductible workers' compensation policies for the majority of workers' compensation liabilities. The Company records the workers' compensation reserves based on an analysis performed by an independent actuary. The analysis calculates development factors, which are applied to total reserves as provided by the various insurance companies who underwrite the program. While the Company believes that the assumptions used to calculate these liabilities are appropriate, significant differences in actual experience or significant changes in these assumptions may materially affect workers' compensation costs.

Business Combinations

When the Company acquires businesses, it applies the acquisition method of accounting and recognizes the identifiable assets acquired, the liabilities assumed, and any noncontrolling interests in an acquiree at their fair values on the acquisition date, which requires significant estimates and assumptions. Goodwill is measured as the excess of the fair value of the consideration transferred over the net of the acquisition date fair values of the identifiable assets acquired and liabilities assumed. The acquisition method requires the Company to record provisional amounts for any items for which the accounting is not complete at the end of a reporting period. The Company must complete the accounting during the measurement period, which cannot exceed one year. Adjustments made during the measurement period could have a material impact on the Company's financial condition and results of operations.

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The Company typically measures customer relationship and other intangible assets using an income approach. Significant estimates and assumptions used in this approach include discount rates and certain assumptions that form the basis of the forecasted cash flows expected to be generated from the asset (e.g., future revenue growth rates, operating margins and attrition rates). If the subsequent actual results and updated projections of the underlying business activity change compared with the assumptions and projections used to develop these values, the Company could record impairment charges. In addition, the Company has estimated the economic lives of certain acquired tangible and intangible assets and these lives are used to calculate depreciation and amortization expense. If the Company's estimates of the economic lives change, depreciation or amortization expenses could be increased or decreased, or the acquired asset could be impaired.

Legal and Product Liabilities

The Company accrues for potential losses related to legal disputes, litigation, product liabilities, and regulatory matters when it is probable (the future event or events are likely to occur) that the Company will incur a loss and the amount of the loss can be reasonably estimated.

The amount of the product liability reflects the Company’s reasonable estimate of losses based upon currently known facts. To calculate the liability, the Company estimates potential losses relating to pending claims and also estimates the likelihood of additional, similar claims being filed against the Company in the future. To estimate potential losses on claims that could be filed in the future, the Company considers claims pending against the Company, claim filing rates, the number of codefendants and the extent to which they share in settlements, and the amount of loss by claim type. The estimated losses for pending and potential future claims are calculated on a discounted basis using risk-free interest rates derived from market data about monetary assets with maturities comparable to those of the projected product liabilities. The Company uses an actuarial specialist to assist with measuring its product liabilities.

Fair Value Measurements

Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Fair value is a market-based measurement that is determined based on assumptions that market participants would use in pricing an asset or liability. Additionally, ASC 820, *Fair Value Measurements*, defines levels within a hierarchy based upon observable and non-observable inputs.

- Level 1. Observable inputs such as quoted prices in active markets;
- Level 2. Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions

At December 31, 2021 and 2020, the fair value of the Company's senior unsecured notes was approximately $2,457,497 and $2,680,545, respectively, which are designated as Level 2 in the fair value hierarchy. Our valuation technique is based primarily on prices and other relevant information generated by observable transactions involving identical or comparable assets or liabilities.

Derivative instruments are recognized in the consolidated balance sheets at fair value and are designated as Level 2 in the fair value hierarchy. They are valued using inputs other than quoted prices, such as foreign exchange rates and yield curves.

Fair value measurements of non-financial assets and non-financial liabilities are primarily used in the impairment analyses of goodwill, other intangible assets, and long-lived assets. These involve fair value measurements on a nonrecurring basis using Level 3 inputs as defined in the fair value hierarchy. The carrying amounts reflected in the consolidated balance sheets for cash and cash equivalents, trade accounts receivable, trade accounts payable, and borrowings under the line of credit approximate their respective fair values based on the short-term nature of these instruments.

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Derivatives and Hedging

The Company is exposed to various risks arising from business operations and market conditions, including fluctuations in interest rates and certain foreign currencies. When deemed appropriate, the Company uses derivative and non-derivative instruments as risk management tools to mitigate the potential impact of interest rate and foreign exchange rate risks. The objective of using these tools is to reduce fluctuations in the Company's earnings, cash flows and net investments in certain foreign subsidiaries associated with changes in these rates. Derivative financial instruments are not used for trading or other speculative purposes. The Company has not historically incurred, and does not expect to incur in the future, any losses as a result of counterparty default related to derivative instruments.

The Company formally documents relationships between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking various hedge transactions. This process includes linking cash flow hedges to specific forecasted transactions or variability of cash flow to be paid. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the designated derivative and non-derivative instruments that are used in hedging transactions are highly effective in offsetting changes in the cash flows of the hedged items. When a designated instrument is determined not to be highly effective as a hedge or the underlying hedged transaction is no longer probable, hedge accounting is discontinued prospectively.

Shipping and Handling Costs

Shipping and handling costs are classified as selling, administrative and other expenses in the accompanying consolidated statements of income and totaled approximately $350,369, $301,900, and $303,900, for the years ended December 31, 2021, 2020, and 2019, respectively.

Advertising Costs

Advertising costs are expensed as incurred and totaled $211,169, $193,900, and $201,600 in the years ended December 31, 2021, 2020, and 2019, respectively.

Accounting for Legal Costs

The Company's legal costs expected to be incurred in connection with loss contingencies are expensed as such costs are incurred.

Share-Based Compensation

The Company maintains various long-term incentive plans, which provide for the granting of stock options, stock appreciation rights ("SARs"), restricted stock, restricted stock units ("RSUs"), performance awards, dividend equivalents and other share-based awards. SARs represent a right to receive upon exercise an amount, payable in shares of common stock, equal to the excess, if any, of the fair market value of the Company's common stock on the date of exercise over the base value of the grant. The terms of such SARs require net settlement in shares of common stock and do not provide for cash settlement. RSUs represent a contingent right to receive one share of the Company's common stock at a future date. The majority of awards previously granted vest on a pro-rata basis for periods ranging from one to three years and are expensed accordingly on a straight-line basis. Forfeitures are accounted for as they occur. The Company issues new shares upon exercise or conversion of awards under these plans.

Income Taxes

The Company accounts for income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statement carrying amount and the tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets and liabilities are recorded net as noncurrent deferred income taxes. In addition, valuation allowances are recorded to reduce deferred tax assets to the amount that will more likely than not be realized. In making this determination, the Company considers all available positive and negative evidence including projected future taxable income, future reversals of existing temporary differences, recent financial operations and tax planning strategies.

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The Company recognizes a tax benefit from uncertain tax positions when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits.

Net Income from Continuing Operations per Common Share

Basic net income from continuing operations per common share is computed by dividing net income from continuing operations by the weighted average number of common shares outstanding during the year. The computation of diluted net income from continuing operations per common share includes the dilutive effect of stock options, stock appreciation rights and nonvested restricted stock awards options. Options to purchase approximately 186, 1,602, and 210 shares of common stock ranging from $72 - $135 per share were outstanding at December 31, 2021, 2020, and 2019, respectively. These options were excluded from the computation of diluted net income from continuing operations per common share because the options' exercise prices were greater than the average market prices of common stock in each respective year.

Recent Accounting Pronouncements

Changes to U.S. GAAP are established by the Financial Accounting Standards Board ("FASB") in the form of Accounting Standard Updates ("ASUs") to the FASB Accounting Standards Codification ("ASC"). The Company considers the applicability and impact of all ASUs and any not listed below were assessed and determined to be not applicable or are expected to have a minimal impact on the Company's consolidated financial statements.

Income Taxes (Topic 740)

In December 2019, the FASB issued ASU 2019-12, *Simplifying the Accounting for Income Taxes.* The updated accounting guidance removes certain exceptions for performing intraperiod tax allocations, recognizing deferred taxes for investments, and calculating income taxes in interim periods. The guidance also simplifies the accounting for franchise taxes, transactions that result in a step-up in the tax basis of goodwill, and the effect of enacted changes in tax laws or rates in interim periods. The Company adopted ASU 2019-12 as of January 1, 2021, and recognized a cumulative-effect adjustment to increase opening retained earnings by $6,223.

Credit Losses (Topic 326)

In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*. Among other things, the ASU and its amendments replace the incurred loss impairment model for receivables and loan guarantees with a current expected credit loss model. The new model measures impairment based on expected credit losses over the remaining contractual life of an asset, considering available information about the collectability of cash flows, past events, current conditions, and reasonable and supportable forecasts. Additional quantitative and qualitative disclosures are required. The Company adopted ASU 2016-13 and its amendments as of January 1, 2020, which included recognizing a cumulative-effect adjustment to reduce opening retained earnings by $11,432, net of taxes.

Compensation - Retirement Benefits (Topic 715)

In August 2018, the FASB issued ASU 2018-14, *Changes to the Disclosure Requirements for Defined Benefit Plans*. The updated accounting guidance modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans by removing, adding and clarifying certain disclosures. The Company adopted this new accounting standard on January 1, 2020 on a retrospective basis. The adoption of this ASU did not have an impact on the Company's financial position, results of operations, or cash flows.

2. Segment Data

The Company's reportable segments consist of automotive and industrial parts. Within the reportable segments, certain of the Company's operating segments are aggregated since they have similar economic characteristics, products and services, type and class of customers, and distribution methods.

The Company's automotive segment distributes replacement parts (other than body parts) for substantially all makes and models of automobiles, trucks, and other vehicles.

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The Company's industrial segment distributes a wide variety of industrial bearings, mechanical and fluid power transmission equipment, including hydraulic and pneumatic products, material handling components and related parts and supplies.

Inter-segment sales are not significant. Segment profit for each industry segment is calculated as net sales less operating expenses excluding general corporate expenses, interest expense, equity in income from investees, intangible asset amortization, income attributable to noncontrolling interests and other unallocated amounts that are driven by corporate initiatives. Approximately $437,874 and $245,373 of income before income taxes were generated in jurisdictions outside the U.S. for the years ended December 31, 2021, and 2019, respectively. Approximately $327,226 of loss before income taxes was generated in jurisdictions outside the U.S. for the year ended December 31, 2020. Net sales and net property, plant and equipment by country relate directly to the Company's operations in the respective country. Corporate assets are principally cash and cash equivalents and headquarters' facilities and equipment.

The following table presents a summary of the Company's reportable segment financial information from continuing operations:

	2021	2020	2019
Net sales:			
Automotive	$ 12,544,131	$ 10,860,695	$ 10,993,902
Industrial	6,326,379	5,676,738	6,528,332
Total net sales	$ 18,870,510	$ 16,537,433	$ 17,522,234
Segment profit:			
Automotive	$ 1,073,427	$ 867,743	$ 831,951
Industrial	595,232	481,854	521,830
Total segment profit	$ 1,668,659	$ 1,349,597	$ 1,353,781
Interest expense, net	(62,150)	(91,048)	(91,405)
Corporate expense	(174,842)	(149,754)	(140,815)
Intangible asset amortization	(103,273)	(94,962)	(92,206)
Other unallocated costs	(128,048)	(634,465)	(170,072)
Income before income taxes from continuing operations	$ 1,200,346	$ 379,368	$ 859,283

The following table presents a summary of the other unallocated costs:

	2021	2020	2019
Other unallocated costs:			
Loss on software disposal (1)	$ (61,063)	$ —	$ —
Product liability damages award (2)	(77,421)	—	—
Goodwill impairment charge (3)	—	(506,721)	—
Restructuring and special termination costs (4)	—	(50,019)	(142,780)
Realized currency and other divestiture losses (5)	—	(11,356)	(34,701)
Gain on insurance proceeds related to SPR fire (6)	3,862	13,448	—
Gain on equity investments (7)	10,229	—	38,663
Inventory adjustment (8)	—	(40,000)	—
Transaction and other costs (9)	(3,655)	(39,817)	(31,254)
Total other unallocated costs	$ (128,048)	$ (634,465)	$ (170,072)

(1) Adjustment reflects a loss on an internally developed software project that was disposed of due to a change in management strategy related to advances in alternative technologies. Refer to the property, plant and equipment footnote to the consolidated financial statements for more information.

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(2) Adjustment reflects damages reinstated by the Washington Supreme Court order on July 8, 2021 in connection with a 2017 automotive product liability claim. Refer to the commitments and contingencies footnote to the consolidated financial statements for more information.
(3) Adjustment reflects a goodwill impairment charge related to our European reporting unit.
(4) Adjustment reflects restructuring and special termination costs related to the 2019 Cost Savings Plan. The costs are primarily associated with severance and other employee costs, including a voluntary retirement program, and facility and closure costs related to the consolidation of operations.
(5) Adjustment reflects realized currency losses related to divestitures.
(6) Adjustment reflects insurance recoveries in excess of losses incurred on inventory, property, plant and equipment and other fire-related costs related to the S.P. Richards Headquarters and Distribution Center.
(7) Adjustment relates to gains recognized upon remeasurement of certain equity investments to fair value upon acquiring the remaining equity of those entities.
(8) Adjustment reflects a $40 million increase to cost of goods sold due to the correction of an immaterial error related to the accounting in prior years for consideration received from vendors.
(9) Adjustment for 2021 include transaction and other costs related to acquisitions. For 2020, adjustment includes a $17 million loss on investment, $10 million of incremental costs associated with COVID-19 and costs associated with certain divestitures. COVID-19 related costs include incremental costs incurred relating to fees to cancel marketing events and increased cleaning and sanitization materials, among other things. For 2019, adjustment reflects transaction and other costs related to acquisitions and divestitures.

	2021	2020	2019
Assets:			
Automotive	$ 8,981,913	$ 8,258,334	$ 7,376,408
Industrial	1,909,053	1,511,520	1,993,457
Corporate	139,428	254,627	527,126
Goodwill and other intangible assets	3,321,708	3,415,734	3,785,616
Discontinued operations	—	—	963,022
Total assets	$ 14,352,102	$ 13,440,215	$ 14,645,629

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Depreciation and amortization:			
Automotive	$ 143,052	$ 120,932	$ 122,905
Industrial	24,100	16,315	17,577
Corporate	20,546	40,633	24,575
Intangible asset amortization	103,273	94,962	92,206
Total depreciation and amortization	$ 290,971	$ 272,842	$ 257,263
Capital expenditures:			
Automotive	$ 198,268	$ 133,523	$ 227,420
Industrial	35,626	19,287	39,003
Corporate	32,242	692	11,450
Total capital expenditures	$ 266,136	$ 153,502	$ 277,873
Net sales:			
United States	$ 12,136,689	$ 10,863,348	$ 12,226,381
Europe	2,908,156	2,408,913	2,223,498
Canada	1,779,663	1,526,202	1,614,659
Australasia	2,002,188	1,691,190	1,369,361
Mexico	43,814	47,780	88,335
Total net sales	$ 18,870,510	$ 16,537,433	$ 17,522,234
Net property, plant and equipment:			
United States	$ 750,267	$ 728,802	$ 763,746
Europe	179,001	164,268	153,357
Canada	102,484	102,409	103,320
Australasia	201,971	165,596	147,457
Mexico	676	968	5,808
Total net property, plant and equipment	$ 1,234,399	$ 1,162,043	$ 1,173,688

Net sales are disaggregated by geographical region for each of the Company's reportable segments, as the Company deems this presentation best depicts how the nature, amount, timing and uncertainty of net sales and cash flows are affected by economic factors. The following table presents disaggregated geographical net sales from contracts with customers by reportable segment:

	2021	2020	2019
North America:			
Automotive	$ 8,103,896	$ 7,177,543	$ 7,613,047
Industrial	5,856,270	5,259,787	6,316,328
Total North America	$ 13,960,166	$ 12,437,330	$ 13,929,375
Australasia:			
Automotive	$ 1,532,079	$ 1,274,239	$ 1,157,357
Industrial	470,109	416,951	212,004
Total Australasia	$ 2,002,188	$ 1,691,190	$ 1,369,361
Europe - Automotive	$ 2,908,156	$ 2,408,913	$ 2,223,498
Total net sales	$ 18,870,510	$ 16,537,433	$ 17,522,234

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3. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill during the years ended December 31, 2021 and 2020 by reportable segment, as well as other identifiable intangible assets, are summarized as follows:

	Goodwill			
	Automotive	Industrial	Total	Other Intangible Assets, Net
Balance as of January 1, 2020	$ 1,897,495	$ 396,024	$ 2,293,519	$ 1,492,097
Additions	15,061	5,261	20,322	21,890
Amortization	—	—	—	(94,962)
Impairments	(506,721)	—	(506,721)	—
Foreign currency translation	99,688	10,669	110,357	79,232
Balance as of December 31, 2020	1,505,523	411,954	1,917,477	1,498,257
Additions	85,182	2,701	87,883	72,189
Amortization	—	—	—	(103,273)
Foreign currency translation	(83,243)	(6,810)	(90,053)	(60,772)
Balance as of December 31, 2021	$ 1,507,462	$ 407,845	$ 1,915,307	$ 1,406,401

2021 Goodwill Impairment Assessments

The Company completed its annual quantitative and qualitative goodwill assessments as of October 1, 2021. Under the quantitative assessment, fair value was calculated using a combination of both income and market approaches, which involved significant unobservable inputs (Level 3 inputs), and compared to carrying value. The assumptions used in the income approach include projected revenue growth rates, operating margins, the estimated weighted average cost of capital and terminal value. The assumptions used in the market approach include benchmark company market multiples. The Company used inputs and assumptions it believed are consistent with those a hypothetical marketplace participant would use. Under the Company's qualitative assessments, which included reviewing historical revenue and operating profit growth trends, the Company has determined that it is not more likely than not that the goodwill is impaired for all reporting units.

No goodwill impairments were recognized during 2021. Should actual results differ from certain key assumptions used in the interim or annual impairment tests, including revenue and operating margin growth rates, which are both impacted by economic conditions, or should other key impairment testing assumptions change in subsequent periods, there can be no assurance that goodwill at one or more reporting units may not be impaired.

2020 Goodwill Impairment Assessments

Due to several factors that coalesced in the second quarter of 2020 the Company performed an interim impairment test as of May 31, 2020 for its European reporting unit and recorded a goodwill impairment charge of $506,721. The factors primarily resulted from the ongoing market volatility and uncertainty caused by the COVID-19 pandemic, which extended into the second quarter and impacted several critical impairment testing assumptions including weighted average cost of capital and market multiples, and near-term revenue and operating margin projections for the reporting unit. During the second quarter of 2020, the Company also assessed the finite-lived, identifiable tangible and intangible assets at the European reporting unit for impairment under the undiscounted cash flows approach and concluded there was no impairment.

The European reporting unit's fair value was calculated using a combination of both income and market approaches and involved significant unobservable inputs (Level 3 inputs). The assumptions used in the income approach include projected revenue growth rates, operating margins, the estimated weighted average cost of capital and terminal value. The weighted-average cost of capital used in the income approach was adjusted to reflect the specific risks and uncertainties associated with the COVID-19 pandemic in developing the cash flow projections. The assumptions used in the market approach include benchmark company market multiples. The Company used inputs and assumptions it believed are consistent with those a hypothetical marketplace participant would use.

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Other Intangible Assets

The gross carrying amounts and accumulated amortization relating to other intangible assets at December 31, 2021 and 2020 are as follows:

	2021			2020		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Customer relationships	$ 1,590,733	$ (464,198)	$ 1,126,535	$ 1,578,153	$ (388,120)	$ 1,190,033
Trademarks	337,802	(58,073)	279,729	358,253	(50,227)	308,026
Non-competition agreements	5,430	(5,293)	137	5,719	(5,521)	198
	$ 1,933,965	$ (527,564)	$ 1,406,401	$ 1,942,125	$ (443,868)	$ 1,498,257

Amortization expense for other intangible assets totaled $103,273, $94,962, and $92,206 for the years ended December 31, 2021, 2020, and 2019, respectively. Estimated other intangible assets amortization expense for the succeeding five years is as follows:

2022	$ 99,280
2023	98,649
2024	97,900
2025	97,580
2026	96,707
	$ 490,116

4. Property, Plant and Equipment

Property, plant and equipment as of December 31, 2021 and December 31, 2020, consisted of the following:

	2021	2020
Land	$ 126,513	$ 131,117
Buildings and leasehold improvements	873,912	899,723
Machinery, equipment and other	1,573,680	1,529,298
Property, plant and equipment, at cost	2,574,105	2,560,138
Less: accumulated depreciation	1,339,706	1,398,095
Property, plant and equipment, net	$ 1,234,399	$ 1,162,043

During the third quarter of 2021, the Company reconsidered its approach to an internally developed software project due to a change in management strategy related to advances in alternative technologies. The Company decided to dispose of the software project as of September 30, 2021. As a result, the Company recognized $61,063 of selling, administrative and other expense related to the disposal of this software.

5. Accounts Receivable Sales Agreement

The Company has an accounts receivable sales agreement (the “A/R Sales Agreement”) to sell short-term receivables from certain customer trade accounts to an unaffiliated financial institution on a revolving basis. The A/R Sales Agreement has a 3 year term, which the Company intends to renew.

As part of the A/R Sales Agreement, the Company continuously sells designated pools of receivables as they are originated by it and certain U.S. subsidiaries to a separate bankruptcy-remote special purpose entity (“SPE”). The assets of the SPE would be first available to satisfy the creditor claims of the unaffiliated financial institution. The Company controls and therefore consolidates the SPE in its consolidated financial statements.

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The SPE transferred ownership and control of certain receivables that met certain qualifying conditions to the unaffiliated financial institution in exchange for cash. The Company accounts for transactions with the unaffiliated financial institution as sales of financial assets, with the associated receivables derecognized from the Company's consolidated balance sheet. The remaining receivables held by the SPE were pledged to secure the collectability of the sold receivables. The amount of receivables pledged as collateral as of December 31, 2021 and December 31, 2020 is approximately $973,000 and $771,000, respectively.

The Company continues to be involved with the receivables transferred by the SPE to the unaffiliated financial institution by providing collection services. As cash is collected on sold receivables, the SPE continuously transfers ownership and control of new qualifying receivables to the unaffiliated financial institution so that the total principal amount outstanding of receivables sold is approximately $800,000 at any point in time (which is the maximum amount allowed under the agreement). The future amount of receivables outstanding as sold could decrease, based on the level of activity and other factors. Total principal amount outstanding of receivables sold is approximately $800,000 as of December 31, 2021 and December 31, 2020, respectively.

The following table summarizes the activity and amounts outstanding under the A/R Sales Agreement as of period end:

	December 31, 2021	December 31, 2020
Receivables sold to the financial institution and derecognized	$ 7,520,474	$ 3,928,024
Cash collected on sold receivables	$ 7,520,465	$ 3,128,023

Upon entry into the A/R Sales Agreement, the Company received an initial benefit from cash from operations of approximately $800,000 in the year ended December 31, 2020. Continuous cash activity related to the A/R Sales Agreement is reflected in cash from operating activities in the consolidated statement of cash flows. The SPE incurs fees due to the unaffiliated financial institution related to the accounts receivable sales transactions. Those fees, which are immaterial, are recorded within other non-operating expense (income) in the consolidated statements of income. The SPE has a recourse obligation to repurchase from the unaffiliated financial institution any previously sold receivables that are not collected due to the occurrence of certain events, including credit quality deterioration and customer sales returns. The reserve recognized for this recourse obligation as of December 31, 2021 and December 31, 2020 is not material. The servicing liability related to the Company's collection services also is not material, given the high quality of the customers underlying the receivables and the anticipated short collection period.

Refer to the subsequent event footnote for information regarding the January 3, 2022 A/R Sales Agreement amendment.

6. Debt

The principal amounts of the Company’s borrowings subject to variable rates (after consideration of hedging arrangements) totaled approximately $840 and $114,002 at December 31, 2021 and 2020, respectively. The weighted average interest rate on the Company’s outstanding borrowings was approximately 2.35% and 2.65% at December 31, 2021 and 2020, respectively.

Certain borrowings require the Company to comply with a financial covenant with respect to a maximum debt to EBITDA ratio. At December 31, 2021, the Company was in compliance with all such covenants. Due to the workers’ compensation and insurance reserve requirements in certain states, the Company also had unused letters of credit of approximately $72,787 and $69,899 outstanding at December 31, 2021 and 2020, respectively.

On September 30, 2021, the Company entered into the first amendment to the Syndicated Facility Agreement (the "Unsecured Revolving Credit Facility"), dated as of October 30, 2020. The interest rates were amended to reduce the applicable rate by 12.5 basis points (resulting in a rate of LIBOR + 112.5 basis points) and the LIBOR floor from 0.5% to 0.0%. The amendment also extended the maturity by one year to September 30, 2026.

Refer to the subsequent event footnote for information regarding the January 6, 2022 Senior Note Offering.

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Amounts outstanding under the Company's credit facilities, net of debt issuance costs consist of the following:

	December 31, 2021	December 31, 2020
Unsecured Revolving Credit Facility, $1,500,000, LIBOR plus 1.13% variable, due September 30, 2026	$ —	$ —
October 27, 2020, Senior Unsecured Notes, $500,000, 1.875% fixed, due November 1, 2030	500,000	500,000
July 29, 2016, Series G Senior Unsecured Notes, $50,000, 2.64% fixed, due July 29, 2021	—	50,000
December 2, 2013, Series F Senior Unsecured Notes, $250,000, 3.24% fixed, due December 2, 2023	250,000	250,000
June 30, 2019, Series A Senior Unsecured Notes, A$155,000, 3.10% fixed, due June 30, 2024	112,375	119,133
October 30, 2017, Series J Senior Unsecured Notes, €225,000, 1.40% fixed, due October 30, 2024	254,835	276,773
June 30, 2019, Series B Senior Unsecured Notes, A$155,000, 3.43% fixed, due June 30, 2026	112,375	119,133
November 30, 2016, Series H Senior Unsecured Notes, $250,000, 3.24% fixed, due November 30, 2026	250,000	250,000
October 30, 2017, Series K Senior Unsecured Notes, €250,000, 1.81% fixed, due October 30, 2027	283,150	307,525
October 30, 2017, Series I Senior Unsecured Notes, $120,000, 3.70% fixed, due October 30, 2027	120,000	120,000
May 31, 2019, Series A Senior Unsecured Notes, €50,000, 1.55% fixed, due May 31, 2029	56,630	61,505
October 30, 2017, Series L Senior Unsecured Notes, €125,000, 2.02% fixed, due October 30, 2029	141,575	153,762
May 31, 2019, Series B Senior Unsecured Notes, €100,000, 1.74% fixed, due May 31, 2031	113,260	123,010
October 30, 2017, Series M Senior Unsecured Notes, €100,000, 2.32% fixed, due October 30, 2032	113,260	123,010
May 31, 2019, Series C Senior Unsecured Notes, €100,000, 1.95% fixed, due May 31, 2034	113,260	123,010
Other unsecured debt	840	114,002
Total unsecured debt	2,421,560	2,690,863
Unamortized debt issuance costs	(8,041)	(9,136)
Unamortized discounts	(4,156)	(4,582)
Total debt	2,409,363	2,677,145
Less debt due within one year	—	160,531
Long-term debt, excluding current portion	$ 2,409,363	$ 2,516,614

Approximate maturities under the Company's credit facilities are as follows:

2022	$ —
2023	250,840
2024	367,210
2025	—
2026	362,375
Thereafter	1,441,135
	$ 2,421,560

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7. Derivatives and Hedging

The Company is exposed to various risks arising from business operations and market conditions, including fluctuations in interest rates and certain foreign currencies. When deemed appropriate, the Company uses derivative and non-derivative instruments as risk management tools to mitigate the potential impact of interest rate and foreign exchange rate risks. The objective of using these tools is to reduce fluctuations in the Company's earnings and cash flows associated with changes in these rates. Derivative financial instruments are not used for trading or other speculative purposes. The Company has not historically incurred, and does not expect to incur in the future, any losses as a result of counterparty default related to derivative instruments.

The Company formally documents relationships between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking various hedge transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the designated derivative and non-derivative instruments that are used in hedging transactions are highly effective in offsetting changes in the cash flows of the hedged items. When a designated instrument is determined not to be highly effective as a hedge or the underlying hedged transaction is no longer probable, hedge accounting is discontinued prospectively.

Cash Flow Hedges

In 2020, the Company terminated its interest rate swaps and settled the outstanding balances through cash payments totaling $41,000. The remaining amount in Accumulated Other Comprehensive Loss ("AOCL") is being amortized to interest expense on a straight-line basis over the remaining life of the previously hedged instrument.

Net Investment Hedges

The Company has designated certain derivative instruments and a portion of its foreign currency denominated debt, a non-derivative financial instrument, as hedges of the foreign currency exchange rate exposure of the Company's Euro-denominated net investment in a European subsidiary. The Company applies the spot method to assess the hedge effectiveness of the derivative instruments and this assessment for each instrument excludes the initial value related to the difference at contract inception between the foreign exchange spot rate and the forward rate (i.e., the forward points). The initial value of this excluded component is recognized as a reduction to interest expense in a systematic and rational manner over the term of the derivative instrument. All other changes in value for the net investment hedges are included in AOCL within foreign currency translation and would only be reclassified to earnings if the European subsidiary were liquidated, or otherwise disposed.

The following table summarizes the location and carrying amounts of the derivative instruments and the foreign currency denominated debt, a non-derivative financial instrument, that are designated and qualify as part of hedging relationships:

		December 31, 2021		December 31, 2020	
Instrument	Balance sheet location	Notional	Balance	Notional	Balance
Net investment hedges:					
Forward contracts	Prepaid expenses and other current assets	$ 925,810	$ 73,819	$ 800,000	$ 7,668
Forward contracts	Other current liabilities	$ 235,180	$ (2,935)	$ 360,990	$ 19,442
Foreign currency debt	Long-term debt	€ 700,000	$ 792,820	€ 700,000	$ 861,070

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The table below presents pre-tax gains and losses related to cash flow hedges and net investment hedges:

	Gain (Loss) Recognized in AOCL Before Reclassifications			Gain Recognized in Interest Expense For Excluded Components		
	2021	2020	2019	2021	2020	2019
Year Ended December 31,						
Cash Flow Hedges:						
Interest rate contract	$ —	$ (29,464)	$ (21,972)	$ —	$ —	$ —
Net Investment Hedges:						
Cross-currency swap	—	—	2,936	—	—	2,294
Forward contracts	56,362	(85,390)	20,679	26,295	27,146	17,892
Foreign currency debt	68,250	(77,070)	17,010	—	—	—
Total	$ 124,612	$ (191,924)	$ 18,653	$ 26,295	$ 27,146	$ 20,186

8. Leased Properties

The Company primarily leases real estate for certain retail stores, branches, distribution centers, office space and land. The Company also leases equipment (primarily vehicles).

Most real estate leases include one or more options to renew, with renewal terms that generally can extend the lease term from one to 20 years or more. The exercise of lease renewal options is at the Company's discretion. The Company evaluates renewal options at lease inception and on an ongoing basis, and includes renewal options that it is reasonably certain to exercise in its expected lease terms when classifying leases and measuring lease liabilities. The Company elected a policy of not recording leases on its consolidated balance sheets when the leases have a term of 12 months or less and the Company is not reasonably certain to elect an option to purchase the leased asset. Lease agreements generally do not require material variable lease payments, residual value guarantees or restrictive covenants.

The table below presents the locations of the operating lease assets and liabilities on the consolidated balance sheets:

	Balance Sheet Line Item	December 31, 2021	December 31, 2020
Operating lease assets	Operating lease assets	$ 1,053,689	$ 1,038,877
Operating lease liabilities:			
Current operating lease liabilities	Other current liabilities	$ 280,575	$ 270,739
Noncurrent operating lease liabilities	Operating lease liabilities	$ 789,175	789,294
Total operating lease liabilities		$ 1,069,750	$ 1,060,033

The depreciable lives of operating lease assets and leasehold improvements are limited by the expected lease term.

The Company's leases generally do not provide an implicit rate, and therefore the Company uses its incremental borrowing rate as the discount rate when measuring operating lease liabilities. The incremental borrowing rate represents an estimate of the interest rate the Company would incur at lease commencement to borrow an amount equal to the lease payments on a collateralized basis over the term of a lease within a particular currency environment. The Company used incremental borrowing rates as of January 1, 2019 for operating leases that commenced prior to that date.

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The Company's weighted average remaining lease term and weighted average discount rate for operating leases are:

	December 31, 2021	December 31, 2020
Weighted average remaining lease term (in years)	5.19	5.35
Weighted average discount rate	2.03 %	2.47 %

The table below reconciles the undiscounted future minimum lease payments (displayed by year and in the aggregate) under noncancelable operating leases with terms of more than one year to the total operating lease liabilities recognized on the consolidated balance sheets as of December 31, 2021:

2022	$ 302,748
2023	254,379
2024	185,047
2025	126,396
2026	83,215
Thereafter	171,914
Total undiscounted future minimum lease payments	1,123,699
Less: Difference between undiscounted lease payments and discounted operating lease liabilities	53,949
Total operating lease liabilities	$ 1,069,750

Future minimum lease payments include $42,852 related to options to extend lease terms that are reasonably certain of being exercised.

The table below presents operating lease costs and supplemental cash flow information related to leases:

	2021	2020	2019
Operating lease costs	$ 336,228	$ 313,315	$ 310,028
Cash paid for amounts included in the measurement of operating lease liabilities	$ 340,243	$ 323,336	$ 311,170
Operating lease assets obtained in exchange for new operating lease liabilities	$ 358,393	$ 302,114	$ 330,103

Operating lease costs are included within selling, administrative and other expenses on the consolidated statements of income. Short-term lease costs, variable lease costs and sublease income were not material for the periods presented. Cash paid for amounts included in the measurement of operating lease liabilities is included in operating activities in the consolidated statements of cash flows.

9. Employee Benefit Plans

The Company’s defined benefit pension plans cover employees in the U.S., Canada, and Europe who meet eligibility requirements. The plan covering U.S. employees is noncontributory, and the Company implemented a hard freeze for the U.S. qualified defined benefit plan as of December 31, 2013. No further benefits were provided after this date for additional credited service or earnings, and all participants became fully vested as of December 31, 2013. The Canadian plan is contributory, and benefits are based on career average compensation. The Company’s funding policy is to contribute an amount equal to the minimum required contribution under applicable pension legislation. For the plans in the U.S. and Canada, the Company may increase its contribution above the minimum, if appropriate to its tax and cash position and the plans’ funded position. The European plans are funded in accordance with local regulations.

The Company also sponsors supplemental retirement plans covering employees in the U.S. and Canada. The Company uses a measurement date of December 31 for its pension and supplemental retirement plans.

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Several assumptions are used to determine the benefit obligations, plan assets, and net periodic income. The discount rate for the U.S. pension plan is calculated using a bond matching approach to select specific bonds that would satisfy the projected benefit payments. The bond matching approach reflects the process that would be used to settle the pension obligations. The discount rate for non U.S. plans are set by using Willis Towers Watson's RATE:Link model. For each plan, this approach reflects yields available on high quality corporate bonds that would generate the cash flow necessary to pay the plan's benefits when due. The expected return on plan assets is based on a calculated market-related value of plan assets, where gains and losses on plan assets are amortized over a five year period and accumulate in other comprehensive income. Other non-investment unrecognized gains and losses are amortized in future net income based on a “corridor” approach, where the corridor is equal to 10% of the greater of the benefit obligation or the market-related value of plan assets at the beginning of the year. The unrecognized gains and losses in excess of the corridor criteria are amortized over the average future lifetime or service of plan participants, depending on the plan. These assumptions are updated at each annual measurement date.

Changes in benefit obligations for the years ended December 31, 2021 and 2020 were:

	2021	2020
Changes in benefit obligation		
Benefit obligation at beginning of year	$ 2,678,966	$ 2,496,600
Service cost	12,218	12,105
Interest cost	71,693	83,732
Plan participants’ contributions	1,908	1,864
Actuarial (gain) loss	(87,966)	218,534
Foreign currency exchange rate changes	(1,184)	9,394
Gross benefits paid	(142,327)	(144,508)
Curtailments	(80)	(472)
Settlements	(255)	—
Acquired plans	—	1,717
Benefit obligation at end of year	$ 2,532,973	$ 2,678,966

The benefit obligations for the Company’s U.S. pension plans included in the above were $2,245,669 and $2,373,884 at December 31, 2021 and 2020, respectively. The total accumulated benefit obligation for the Company’s defined benefit pension plans in the U.S., Canada, and Europe was approximately $2,500,595 and $2,649,418 at December 31, 2021 and 2020, respectively.

For the U.S. pension plan, there was a net actuarial liability gain of $73,200 and an asset gain of $173,300. The liability gain was comprised primarily of a $69,000 gain due to discount rate changes. For the U.S. supplemental retirement plan, there was a net actuarial liability loss of $5,500 comprised primarily of a $14,000 loss for participant demographic experience offset by a $9,600 gain due to discount rate changes.

In 2019, the Company recorded $42,757 in special termination costs related to benefits provided through the Company's defined benefit plans to employees that accepted the voluntary retirement program (“VRP”) as part of the Company's 2019 Cost Savings Plan. Refer to the restructuring footnote for more information.

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The assumptions used to measure the pension benefit obligations for the plans at December 31, 2021 and 2020, were:

	2021	2020
Weighted average discount rate	3.04 %	2.72 %
Rate of increase in future compensation levels	3.13 %	3.11 %

Changes in plan assets for the years ended December 31, 2021 and 2020 were:

	2021	2020
Changes in plan assets		
Fair value of plan assets at beginning of year	$ 2,545,359	$ 2,311,227
Actual return on plan assets	330,402	347,560
Foreign currency exchange rate changes	80	7,451
Employer contributions	21,635	21,765
Plan participants' contributions	1,908	1,864
Benefits paid	(142,327)	(144,508)
Settlements	(254)	—
Fair value of plan assets at end of year	$ 2,756,803	$ 2,545,359

The fair values of plan assets for the Company's U.S. pension plans included in the above were $2,457,907 and $2,258,246 at December 31, 2021 and 2020, respectively.

For the years ended December 31, 2021 and 2020, the aggregate projected benefit obligation and aggregate fair value of plan assets for plans with projected benefit obligations in excess of plan assets were as follows:

	2021	2020
Aggregate projected benefit obligation	$ 323,593	$ 328,517
Aggregate fair value of plan assets	$ 47,445	$ 45,728

For the years ended December 31, 2021 and 2020, the aggregate accumulated benefit obligation and aggregate fair value of plan assets for plans with accumulated benefit obligations in excess of plan assets were as follows:

	2021	2020
Aggregate accumulated benefit obligation	$ 247,277	$ 290,271
Aggregate fair value of plan assets	$ —	$ 34,164

The asset allocations for the Company's funded pension plans at December 31, 2021 and 2020, and the target allocation for 2022, by asset category were:

	Target Allocation	Percentage of Plan Assets at December 31	
	2022	2021	2020
Asset Category			
Equity securities	58 %	57 %	70 %
Debt securities	42 %	43 %	30 %
	100 %	100 %	100 %

The Company's benefit plan committees in the U.S. and Canada establish investment policies and strategies and regularly monitor the performance of the funds. The plans in Europe are unfunded and, therefore, there are no plan assets. The pension plan strategy implemented by the Company's management is to achieve long-term objectives and invest the pension assets in accordance with the applicable pension legislation in the U.S. and Canada as well

as fiduciary standards. The long-term primary investment objectives for the pension plans are to provide for a reasonable amount of long-term growth of capital, without undue exposure to risk, protect the assets from erosion of purchasing power, and provide investment results that meet or exceed the pension plans' actuarially assumed long-term rates of return. The Company's investment strategy with respect to pension plan assets is to generate a return in excess of the passive portfolio benchmark (38% US Large-cap stocks, 9% US Mid-cap stocks, 10% International stocks, 3% Emerging Market stocks and 40% Barclays U.S. Gov/Credit Index).

The fair values of the plan assets as of December 31, 2021 and 2020, by asset category, are shown in the tables below. Various inputs are considered when determining the value of the Company's pension plan assets. The inputs or methodologies used for valuing securities are not necessarily an indication of the risk associated with investing in these securities. Level 1 represents observable market inputs that are unadjusted quoted prices for identical assets or liabilities in active markets. Level 2 represents other significant observable inputs (including quoted prices for similar securities, interest rates, credit risk, etc.). Level 3 represents significant unobservable inputs (including the Company's own assumptions in determining the fair value of investments). Certain investments are measured at fair value using the net asset value ("NAV") per share as a practical expedient and have not been classified in the fair value hierarchy.

The valuation methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. Equity securities are valued at the closing price reported on the active market on which the individual securities are traded on the last day of the calendar plan year. Debt securities including corporate bonds, U.S. Government securities, and asset-backed securities are valued using price evaluations reflecting the bid and/or ask sides of the market for an investment as of the last day of the calendar plan year.

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	2021				
	Total	Assets Measured at NAV	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity Securities					
Common stocks — mutual funds — equity	$ 388,591	$ 64,669	$ 323,922	$ —	$ —
Genuine Parts Company common stock	210,510	—	210,510	—	—
Other stocks	971,020	—	971,020	—	—
Debt Securities					
Short-term investments	46,815	—	46,815	—	—
Cash and equivalents	22,084	—	22,084	—	—
Government bonds	425,877	—	350,706	75,171	—
Corporate bonds	598,216	—	—	598,216	—
Asset-backed and mortgage-backed securities	12,894	—	—	12,894	—
Other-international	61,008	—	46,133	14,875	—
Municipal bonds	19,621	—	—	19,621	—
Other					
Options and Futures	167	—	167	—	—
Total	$ 2,756,803	$ 64,669	$ 1,971,357	$ 720,777	$ —

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	2020				
	Total	Assets Measured at NAV	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity Securities					
Common stocks — mutual funds — equity	$ 586,196	$ 204,303	$ 381,893	$ —	$ —
Genuine Parts Company common stock	202,711	—	202,711	—	—
Other stocks	989,258	—	989,258	—	—
Debt Securities					
Short-term investments	30,746	—	30,746	—	—
Cash and equivalents	18,631	—	18,631	—	—
Government bonds	257,221	—	192,288	64,933	—
Corporate bonds	393,450	—	—	393,450	—
Asset-backed and mortgage-backed securities	10,161	—	—	10,161	—
Other-international	39,992	—	37,041	2,951	—
Municipal bonds	14,724	—	—	14,724	—
Other					
Cash surrender value of life insurance policies	2,269	—	—	—	2,269
Total	$ 2,545,359	$ 204,303	$ 1,852,568	$ 486,219	$ 2,269

Equity securities include Genuine Parts Company common stock in the amounts of $210,510 (8% of total plan assets) and $202,711 (8% of total plan assets) at December 31, 2021 and 2020, respectively. Dividend payments received by the plan on Company stock totaled approximately $4,895 and $6,378 in 2021 and 2020, respectively. Fees paid during the year for services rendered by parties in interest were based on customary and reasonable rates for such services.

The changes in the fair value measurement of plan assets using significant unobservable inputs (Level 3) during 2021 and 2020 were not material.

Based on the investment policy for the pension plans, as well as an asset study that was performed based on the Company's asset allocations and future expectations, the Company's expected rate of return on plan assets for measuring 2022 pension income is 6.34% for the plans. The asset study forecasted expected rates of return for the approximate duration of the Company's benefit obligations, using capital market data and historical relationships.

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets at December 31:

	2021	2020
Other long-term asset	$ 499,978	$ 149,182
Other current liability	(12,546)	(17,572)
Pension and other post-retirement liabilities	(263,602)	(265,216)
	$ 223,830	$ (133,606)

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Amounts recognized in accumulated other comprehensive loss consist of:

	2021	2020
Net actuarial loss	$ 625,339	$ 939,290
Prior service cost	7,958	8,648
	$ 633,297	$ 947,938

The following table reflects the total benefits expected to be paid from the pension plans' or the Company's assets. Of the pension benefits expected to be paid in 2022, approximately $12,548 is expected to be paid from employer assets. Expected employer contributions below reflect amounts expected to be contributed to funded plans. Information about the expected cash flows for the pension plans follows:

Employer contribution	
2022 (expected)	$ 4,389
Expected benefit payments:	
2022	$ 132,803
2023	$ 136,456
2024	$ 139,632
2025	$ 143,008
2026	$ 145,490
2026 through 2030	$ 739,272

Net periodic benefit income included the following components:

	2021	2020	2019
Service cost	$ 12,218	$ 12,105	$ 9,558
Interest cost	71,693	83,732	97,441
Expected return on plan assets	(153,822)	(154,111)	(154,137)
Amortization of prior service cost (credit)	690	692	(67)
Amortization of actuarial loss	49,897	39,613	31,000
Net periodic benefit income	$ (19,324)	$ (17,969)	$ (16,205)

Service cost is recorded in selling, administrative and other expenses in the consolidated statements of income while all other components except for special termination costs are recorded within other non-operating (income) expenses. The special termination costs incurred in connection with the 2019 Cost Savings Plan are presented on their own line within non-operating (income) expenses. Pension benefits also include amounts related to supplemental retirement plans.

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Other changes in plan assets and benefit obligations recognized in other comprehensive income are as follows:

	2021	2020	2019
Current year actuarial (gain) loss	$ (264,547)	$ 24,613	$ (33,677)
Recognition of actuarial loss	(49,897)	(39,613)	(31,000)
Current year prior service cost	—	—	3,327
Recognition of prior service (cost) credit	(690)	(692)	67
Recognition of curtailment (loss) gain	(5)	435	(155)
Other	(29)	—	(50)
Total recognized in other comprehensive loss	$ (315,168)	$ (15,257)	$ (61,488)
Total recognized in net periodic benefit income and other comprehensive (loss) income	$ (334,492)	$ (33,226)	$ (77,693)

The assumptions used in measuring the net periodic benefit income for the plans follow:

	2021	2020	2019
Weighted average discount rate	2.72 %	3.43 %	4.36 %
Rate of increase in future compensation levels	3.11 %	3.13 %	3.14 %
Expected long-term rate of return on plan assets	6.88 %	7.11 %	7.12 %

The Company has one defined contribution plan in the U.S. that covers substantially all of its domestic employees. Employees receive a matching contribution of 100% of the first 5% of the employees' salary. Total plan expense was approximately $59,545 in 2021, $54,885 in 2020, and $64,990 in 2019.

The Company has a defined contribution plan that covers full-time Canadian employees after six months of employment and part-time employees upon meeting provincial minimum standards. Employees receive a matching contribution of 100% of the first 5% of the employees' salary. Total plan expense was approximately $5,196 in 2021 and $4,486 in 2020.

10. Acquisitions, Divestitures and Discontinued Operations

Acquisitions

For each acquisition, the Company allocates the purchase price to the assets acquired and the liabilities assumed based on their fair values as of their respective acquisition dates. The results of operations for acquired businesses are included in the Company's consolidated statements of income beginning on their respective acquisition dates.

2021

The Company acquired several businesses for approximately $281,859, net of cash acquired, during the year ended December 31, 2021.

During the year ended December 31, 2021, the Company recognized approximately $219,580 and $25,092 of revenue, net of store closures, related to its 2021 Automotive and Industrial acquisitions, respectively. The Company recorded approximately $160,072 of goodwill and other intangible assets associated with the 2021 acquisitions. Other intangible assets acquired consisted of customer relationships with a weighted average amortization lives of 20 years.

The Company has not recognized any significant measurement period adjustments related to finalizing acquisition accounting during the year ended December 31, 2021. Refer to the subsequent event footnote for information regarding the January 3, 2022 acquisition of Kaman Distribution Group.

2020

The Company acquired several businesses for approximately $86,384, net of cash acquired, during the year ended December 31, 2020.

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2019

The Company's cash used in acquisitions of businesses totaled $732,142, net of cash acquired, during the year ended December 31, 2019. In the Automotive Parts Group, the acquired businesses included all of its equity interests in Hennig Fahrzeugteile Group ("Hennig") in January 2019 and of PartsPoint Group in June 2019, which together generate estimated annual revenues of approximately $520,000, as well as several bolt-on acquisitions.

In the Industrial Parts Group, the Company acquired all of the equity interests in Axis New England and Axis New York ("Axis") in March 2019, which generate estimated annual revenue of approximately $55,000, and the remaining 65% equity investment in Inenco Group Pty Ltd (now referred to as Motion Asia Pacific) in July 2019. Motion Asia Pacific is one of Australasia's leading industrial distributors of key product categories such as bearings, power transmission and seals and it generates estimated annual revenues of approximately $400,000. Prior to the 65% acquisition, the Company accounted for its 35% investment in Motion Asia Pacific under the equity method of accounting. Upon acquisition the Company recognized the 35% investment at its acquisition-date fair value of $123,385. The difference between the acquisition-date fair value and the carrying amount of the equity method investment resulted in the recognition of a gain of $38,663 on the acquisition date. The acquisition-date fair value was determined using a market and income approach with the assistance of a third party valuation firm. The gain is included in the line item "other" within non-operating (income) expenses on the consolidated statement of income for the year ended December 31, 2019.

Divestitures

2021

The Company received proceeds from divestitures of businesses totaling $17,738 during the year ended December 31, 2021.

2020

The Company received proceeds from divestitures of businesses totaling $387,379 during the year ended December 31, 2020. Refer to the discontinued operations section below for additional information.

2019

The Company received proceeds from divestitures of businesses totaling 434,609 during the year ended December 31, 2019. The divestitures are not considered strategic shifts that will have a major effect on the Company's operations or financial results; therefore, they are not reported as discontinued operations. The Company recognized realized currency losses of $34,701 during the year ended December 31, 2019. These losses are included in the line item "other" within non-operating (income) expenses on the consolidated statement of income for the year ended December 31, 2019.

Discontinued Operations

Business Products Group

Effective June 30, 2020, the Company completed the divestiture of its Business Products Group by selling Supply Source Enterprises, Inc. ("SSE") and S.P. Richards Company ("SPR") in separate transactions. These divestitures were part of the Company's long-term strategic initiative to streamline its operations and optimize its portfolio so that it can drive shareholder value by focusing on its global Automotive and Industrial Parts Groups. The Business Products Group was previously a reportable segment of the Company. These divestitures, together with prior period divestitures of Garland C. Norris (effective December 13, 2019), SPR Canada (effective January 1, 2020) and Safety Zone Canada (effective March 2, 2020), represent a single plan to exit the Business Products Group segment and are considered a strategic shift that will have a major effect on the Company's operations and financial results. Therefore, the results of operations, financial position and cash flows for the Business Products Group are reported as discontinued operations for all periods presented.

The Company maintains an investment in SPR with a net carrying value of $63,617, which is included within other assets on the consolidated balance sheet, as of December 31, 2021. As of December 31, 2021, the Company had an allowance on this investment of $17,384 equal to the current expected credit losses based on a consideration of

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historical experience, current market conditions and reasonable and supportable forecasts related to this investment.

The Company also remains involved with SPR for a limited period of time through various lease, sublease, freight distribution and transition service agreements. The Company has concluded that SPR is a variable interest entity, but the Company is not the primary beneficiary and therefore the entity is not consolidated. Among other things, the Company does not have any voting rights and does not have the power to direct the activities that most significantly affect SPR's economic performance. For a limited period of time as SPR completes its transition away from the Company's shared services platform, the Company continues to pay certain payables on SPR's behalf and at SPR's direction with full, weekly reimbursement from SPR under the terms of a transition services agreement.

The Company's results of operations for discontinued operations were:

	Year Ended December 31,		
	2021	2020	2019
Net sales	$ —	$ 846,944	$ 1,870,071
Cost of goods sold	—	632,007	1,413,485
Gross profit	—	214,937	456,586
Operating and non-operating expenses	—	179,461	476,521
Loss on disposal	—	223,928	9,048
Loss before income taxes	—	(188,452)	(28,983)
Income taxes	—	4,045	(3,593)
Net loss from discontinued operations	$ —	$ (192,497)	$ (25,390)

11. Share-Based Compensation

Share-based compensation costs of $25,597, $22,621, and $28,703, were recorded for the years ended December 31, 2021, 2020, and 2019, respectively. The total income tax benefits recognized in the consolidated statements of income for share-based compensation arrangements were approximately $6,911, $6,108, and $8,700 for 2021, 2020, and 2019, respectively. At December 31, 2021, total compensation cost related to nonvested awards not yet recognized was approximately $41,300. There have been no modifications to valuation methodologies or methods during the years ended December 31, 2021, 2020, or 2019.

As of December 31, 2021, there were 7,363 shares of common stock available for issuance pursuant to future equity-based compensation awards.

A summary of the Company's restricted stock units activity and related information is as follows:

Nonvested Share Awards (RSUs)	Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Nonvested at beginning of year	854	$ 84.91		
Granted	317	$ 127.21		
Vested	(268)	$ 92.82		
Forfeited	(74)	$ 91.47		
Nonvested at end of year	829	$ 98.25	2.0	$ 116,171

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A summary of the Company's stock appreciation rights activity and related information is as follows:

Stock Appreciation Rights (SARs)	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at beginning of year	1,787	$ 88.95		
Granted	—	$ —		
Exercised	(1,144)	$ 87.86		
Forfeited	(9)	$ 87.88		
Outstanding at end of year	634	$ 90.93	3.0	$ 31,235
Exercisable at end of year	634	$ 90.93	3.0	$ 31,235

The aggregate intrinsic value of SARs exercised and RSUs vested during the years ended December 31, 2021, 2020, and 2019 was $72,484, $14,417 and $36,200, respectively. The fair value of RSUs is based on the price of the Company's stock on the date of grant for the years ended December 31, 2021 and 2019. The fair value of RSUs is based on the 60-day average price of the Company's stock on the date of grant for the year ended December 31, 2020. The fair value of SARs is estimated using a Black-Scholes option pricing model. The Company ceased issuing SARs in 2017. The total fair value of SARs and RSUs vested during the years ended December 31, 2021, 2020, and 2019 were $24,537, $10,014, and $26,200, respectively.

12. Accumulated Other Comprehensive Loss

The following tables present the changes in AOCL by component:

	Changes in Accumulated Other Comprehensive Loss by Component			
	Pension and Other Post-Retirement Benefits	Cash Flow Hedges	Foreign Currency Translation	Total
Beginning balance, January 1, 2021	$ (692,868)	$ (30,007)	$ (313,627)	$ (1,036,502)
Other comprehensive income (loss) before reclassifications	192,382	—	(65,843)	126,539
Amounts reclassified from accumulated other comprehensive loss	37,259	14,965	—	52,224
Net current period other comprehensive income (loss)	229,641	14,965	(65,843)	178,763
Ending balance, December 31, 2021	$ (463,227)	$ (15,042)	$ (379,470)	$ (857,739)

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	Changes in Accumulated Other Comprehensive Loss by Component			
	Pension and Other Post-Retirement Benefits	Cash Flow Hedges	Foreign Currency Translation	Total
Beginning balance, January 1, 2020	$ (704,415)	$ (20,671)	$ (416,222)	$ (1,141,308)
Other comprehensive (loss) income before reclassifications	(17,343)	(21,509)	91,239	52,387
Amounts reclassified from accumulated other comprehensive loss	28,890	12,173	11,356	52,419
Net current period other comprehensive income (loss)	11,547	(9,336)	102,595	104,806
Ending balance, December 31, 2020	$ (692,868)	$ (30,007)	$ (313,627)	$ (1,036,502)

The AOCL components related to the pension benefits are included in the computation of net periodic benefit income in the employee benefit plans footnote. The nature of the cash flow hedges are discussed in the derivatives and hedging footnote. Generally, tax effects in AOCL are established at the currently enacted tax rate and reclassified to net income in the same period that the related pre-tax AOCL reclassifications are recognized.

13. Income Taxes

Significant components of the Company's deferred tax assets and liabilities are as follows:

	2021	2020
Deferred tax assets related to:		
Expenses not yet deducted for tax purposes	$ 301,302	$ 343,308
Operating lease liabilities	300,705	289,114
Pension liability not yet deducted for tax purposes	171,256	257,526
Capital loss	7,333	10,875
Net operating loss	48,865	56,028
	829,461	956,851
Deferred tax liabilities related to:		
Employee and retiree benefits	235,847	226,356
Inventory	87,062	90,213
Operating lease assets	295,801	282,486
Other intangible assets	365,557	365,825
Property, plant and equipment	72,740	73,333
Other	18,176	29,961
	1,075,183	1,068,174
Net deferred tax liability before valuation allowance	(245,722)	(111,323)
Valuation allowance	(34,227)	(35,930)
Total net deferred tax liability	$ (279,949)	$ (147,253)

The Company currently holds approximately $183,852 in gross net operating losses, of which approximately $121,792 will carry forward indefinitely. The remaining net operating losses of approximately $62,060 will begin to expire in 2024.

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The components of income before income taxes are as follows:

	2021	2020	2019
United States	$ 762,472	$ 706,594	$ 613,910
Foreign	437,874	(327,226)	245,373
Income before income taxes	$ 1,200,346	$ 379,368	$ 859,283

The components of income tax expense are as follows:

	2021	2020	2019
Current:			
Federal	$ 116,425	$ 130,680	$ 162,883
State	34,311	35,474	45,488
Foreign	119,144	77,541	60,376
Deferred:			
Federal	24,233	2,048	(21,617)
State	9,485	801	(11,273)
Foreign	(2,042)	(30,571)	(23,049)
	$ 301,556	$ 215,973	$ 212,808

The reasons for the difference between total tax expense and the amount computed by applying the statutory Federal income tax rate to income before income taxes are as follows:

	2021	2020	2019
Statutory rate applied to income (1)	$ 252,073	$ 79,667	$ 180,449
Plus state income taxes, net of Federal tax benefit	34,599	28,658	27,030
Taxation of foreign operations, net (2)	2,299	(9,072)	(17,663)
U.S. tax reform - transition tax (3)	—	—	4,492
Non-deductible goodwill impairment tax effect	—	106,411	—
Foreign rate change - deferred tax remeasurement	17,032	9,045	6,215
Valuation allowance	(2,486)	1,995	4,503
Other	(1,961)	(731)	7,782
	$ 301,556	$ 215,973	$ 212,808

(1) U.S. statutory rates applied to income are as follows: 2021, 2020 and 2019 at 21%.

(2) The Company's effective tax rate reflects the impact of having operations outside of the U.S. which are taxed at statutory rates different from the U.S. statutory rate, with some income being fully or partially exempt from income taxes due to various operating and financing activities.

(3) Impact of the Tax Cuts and Jobs Act, enacted December 22, 2017.

The Company accounts for Global Intangible Low Taxed income in the year the tax is incurred as a period cost.

The Company, or one of its subsidiaries, files income tax returns in the U.S., various states, and foreign jurisdictions. With few exceptions, the Company is no longer subject to federal, state and local tax examinations by tax authorities for years before 2018 or subject to non-United States income tax examinations for years ended prior to 2013. The Company is currently under audit in the U.S. and some of its foreign jurisdictions. Some audits may conclude in the next 12 months and the unrecognized tax benefits recorded in relation to the audits may differ from actual settlement amounts. It is not possible to estimate the effect, if any, of the amount of such change during the next 12 months to previously recorded uncertain tax positions in connection with the audits; however, the Company does not anticipate that total unrecognized tax benefits will significantly change in the next 12 months.

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A reconciliation of the beginning and ending amounts of unrecognized tax benefits is as follows:

	2021	2020	2019
Balance at beginning of year	$ 23,237	$ 21,461	$ 18,428
Additions based on tax positions related to the current year	2,196	3,771	3,701
Additions for tax positions of prior years	156	3,480	620
Reductions for tax positions for prior years	(733)	(1,382)	(965)
Reduction for lapse in statute of limitations	(2,843)	(3,765)	—
Settlements	(2,512)	(328)	(323)
Balance at end of year	$ 19,501	$ 23,237	$ 21,461

The amount of gross unrecognized tax benefits, including interest and penalties, as of December 31, 2021 and 2020 was approximately $20,406 and $25,870, respectively, of which approximately $18,595 and $21,426, respectively, if recognized, would affect the effective tax rate.

During the tax years ended December 31, 2021, 2020 and 2019, the Company paid, received refunds, or accrued insignificant interest and penalties. The Company recognizes potential interest and penalties related to unrecognized tax benefits as a component of income tax expense.

As of December 31, 2021, the Company estimates that it has an outside basis difference in certain foreign subsidiaries of approximately $731,000, which includes the cumulative undistributed earnings from the Company's foreign subsidiaries. The Company continues to be indefinitely reinvested in this outside basis difference. Determining the amount of net unrecognized deferred tax liability related to any additional outside basis difference in these entities is not practicable. This is due to the complexities associated with the calculation to determine residual taxes on the undistributed earnings, including the availability of foreign tax credits, applicability of any additional local withholding tax and other indirect tax consequences that may arise due to the distribution of these earnings.

14. Guarantees

The Company guarantees the borrowings of certain independently controlled automotive parts stores and businesses (“independents”) and certain other affiliates in which the Company has a noncontrolling equity ownership interest (“affiliates”). Presently, the independents are generally consolidated by unaffiliated enterprises that have controlling financial interests through ownership of a majority voting interest in the independents. The Company has no voting interest or equity conversion rights in any of the independents. The Company does not control the independents or the affiliates but receives a fee for the guarantees. The Company has concluded that the independents are variable interest entities, but that the Company is not the primary beneficiary. Specifically, the equity holders of the independents have the power to direct the activities that most significantly impact the entities’ economic performance including, but not limited to, decisions about hiring and terminating personnel, local marketing and promotional initiatives, pricing and selling activities, credit decisions, monitoring and maintaining appropriate inventories, and store hours. Separately, the Company concluded that the affiliates are not variable interest entities. The Company’s maximum exposure to loss as a result of its involvement with these independents and affiliates is generally equal to the total borrowings subject to the Company’s guarantees. While such borrowings of the independents and affiliates are outstanding, the Company is required to maintain compliance with certain covenants. At December 31, 2021, the Company was in compliance with all such covenants.

At December 31, 2021, the total borrowings of the independents and affiliates subject to guarantee by the Company were approximately $917,461. These loans generally mature over periods from one to six years. The Company regularly monitors the performance of these loans and the ongoing operating results, financial condition and ratings from credit rating agencies of the independents and affiliates that participate in the guarantee programs. In the event that the Company is required to make payments in connection with these guarantees, the Company would obtain and liquidate certain collateral pledged by the independents or affiliates (e.g., accounts receivable and inventory) to recover all or a substantial portion of the amounts paid under the guarantees. The Company recognizes a liability equal to current expected credit losses over the lives of the loans in the guaranteed loan portfolio, based on a consideration of historical experience, current conditions, the nature and expected value of any

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collateral, and reasonable and supportable forecasts. To date, the Company has had no significant losses in connection with guarantees of independents' and affiliates' borrowings and the current expected credit loss reserve is not material. As of December 31, 2021, there are no material guaranteed loans for which the borrower is experiencing financial difficulty and recovery is expected to be provided substantially through the operation or sale of the collateral.

The Company has recognized certain assets and liabilities amounting to $81,000 and $81,000 for the guarantees related to the independents' and affiliates' borrowings at December 31, 2021 and 2020, respectively. These assets and liabilities are included in other assets and other long-term liabilities in the consolidated balance sheets. The liabilities relate to the Company's noncontingent obligation to stand ready to perform under the guarantee programs and they are distinct from the Company's current expected credit loss reserve.

15. Commitments and Contingencies

Legal Matters

The Company is subject to various legal proceedings, many involving routine litigation incidental to the businesses, including approximately 2,018 pending product liability lawsuits resulting from its national distribution of automotive parts and supplies. Many of these involve claims of personal injury allegedly resulting from the use of automotive parts distributed by the Company. The amount accrued for pending and future claims as of December 31, 2021 and 2020 was $180,746 and $169,461, respectively. While litigation of any type contains an element of uncertainty, the Company believes that its insurance coverage and its defense, and ultimate resolution of pending and reasonably anticipated claims will continue to occur within the ordinary course of the Company's business and that resolution of these claims will not have a material effect on the Company's business, results of operations or financial condition.

On April 17, 2017, a jury awarded damages against the Company of $81,500 in a litigated automotive product liability dispute. Through post-trial motions and offsets from previous settlements, the initial verdict was reduced to $77,100. The Company believed the verdict was not supported by the facts or the law and was contrary to the Company's role in the automotive parts industry. The Company challenged the verdict through an appeal to a higher court. On February 19, 2020, the Washington Court of Appeals issued an order entirely reversing the jury's finding on damages and ordering a new trial on damages. The plaintiffs subsequently appealed this order to the Washington Supreme Court. On July 7, 2020, the Washington Supreme Court indicated that it would consider a further appeal on this matter, and oral arguments occurred on November 10, 2020. On July 8, 2021, the Washington Supreme Court overturned the order of the Washington Court of Appeals and reinstated the trial court's damage award of $77,100 against the Company. The Company recorded an adjustment to increase selling, general and other expenses by approximately $77,421, inclusive of statutory interest and insurance coverage, in the consolidated statement of income for the year ended December 31, 2021. The damage award and statutory interest was fully paid as of December 31, 2021.

Fire at S.P. Richards Headquarters and Distribution Center

On July 19, 2019, a fire occurred at a building owned by the Company in Atlanta, Georgia, which primarily held the S.P. Richards headquarters office and was connected to its Atlanta distribution center. The Company maintains property and casualty loss insurance coverage. The Company recognized a gain of $3,862 and $13,448 during the years ended December 31, 2021 and 2020, respectively, for insurance recoveries in excess of losses it has incurred on inventory, property, plant and equipment and other fire-related costs. The gain is included within other non-operating (income) expenses on the consolidated statements of income.

Environmental Liabilities

Item 103 of SEC Regulation S-K requires disclosure of certain environmental matters when a governmental authority is a party to the proceedings and such proceedings involve potential monetary sanctions that the Company reasonably believes will exceed an applied threshold not to exceed $1,000. Applying this threshold, there are no environmental matters to disclose for this period.

16. Restructuring

In October of 2019, the Company approved certain restructuring actions (the "2019 Cost Savings Plan") across its subsidiaries primarily targeted at simplifying organizational structures and distribution networks. Among other things,

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the 2019 Cost Savings Plan resulted in workforce reductions and facility closures and consolidations. The Company executed a VRP for its U.S. and Canadian subsidiaries in the fourth quarter of 2019 in connection with this plan.

The table below summarizes costs incurred for the 2019 Cost Savings Plan:

	2021	2020	2019
Restructuring costs	$ —	$ 50,019	$ 100,023
Special termination costs	—	—	42,757
Total costs incurred	$ —	$ 50,019	$ 142,780

The 2019 Cost Savings Plan was approved and funded by the Company's corporate office and therefore these costs are not allocated to the Company's segments. See the segment data footnote for more information. No material further costs are expected to be incurred for the 2019 Cost Savings Plan.

The table below summarizes the activity related to the restructuring costs discussed above. As of December 31, 2021, the remaining restructuring liability is included in other current liabilities on the consolidated balance sheets and is immaterial.

	Severance and other employee costs	Facility and closure costs	Accelerated operating lease costs	Asset impairments	Total
Liability as of January 1, 2021	$ 21,394	$ 10,133	$ —	$ —	$ 31,527
Restructuring adjustments (1)	(1,776)	(457)	(929)	—	(3,162)
Cash payments	(18,890)	(9,355)	—	—	(28,245)
Non-cash charges	—	—	929	—	929
Translation	(437)	(197)	—	—	(634)
Liability as of December 31, 2021	$ 291	$ 124	$ —	$ —	$ 415

	Severance and other employee costs	Facility and closure costs	Accelerated operating lease costs	Asset impairments	Total
Liability as of January 1, 2020	$ 72,192	$ 6,639	$ —	$ —	$ 78,831
Restructuring costs	20,631	16,421	6,724	6,243	50,019
Cash payments	(72,365)	(13,245)	—	—	(85,610)
Non-cash charges	—	—	(6,724)	(6,243)	(12,967)
Translation	936	318	—		1,254
Liability as of December 31, 2020	$ 21,394	$ 10,133	$ —	$ —	$ 31,527

(1) The 2021 restructuring adjustments are included within selling, administrative and other expenses on the consolidated statements of income.

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17. Quarterly Financial Data (Unaudited)

The following is a summary of the quarterly results of operations for the years ended December 31, 2021 and 2020:

	Three Months Ended			
(In thousands, except per share data)	March 31, 2021	June 30, 2021	Sept. 30, 2021	Dec. 31, 2021
Net sales	$ 4,464,714	$ 4,783,738	$ 4,818,849	$ 4,803,209
Gross profit	$ 1,540,815	$ 1,689,105	$ 1,710,767	$ 1,693,449
Net income from continuing operations	$ 217,710	$ 196,496	$ 228,585	$ 255,999
Net income	$ 217,710	$ 196,496	$ 228,585	$ 255,999
Earnings per share from continuing operations:				
Basic	$ 1.51	$ 1.36	$ 1.60	$ 1.80
Diluted	$ 1.50	$ 1.36	$ 1.59	$ 1.79
Earnings per share:				
Basic	$ 1.51	$ 1.36	$ 1.60	$ 1.80
Diluted	$ 1.50	$ 1.36	$ 1.59	$ 1.79

	Three Months Ended			
(In thousands, except per share data)	March 31, 2020	June 30, 2020	Sept. 30, 2020	Dec. 31, 2020
Net sales	$ 4,092,526	$ 3,823,227	$ 4,370,086	$ 4,251,594
Gross profit	$ 1,388,178	$ 1,290,487	$ 1,528,066	$ 1,448,110
Net income (loss) from continuing operations	$ 122,346	$ (363,501)	$ 232,918	$ 171,632
Net income (loss)	$ 136,535	$ (564,372)	$ 227,531	$ 171,204
Earnings per share from continuing operations:				
Basic	$ 0.84	$ (2.52)	$ 1.61	$ 1.19
Diluted	$ 0.84	$ (2.52)	$ 1.61	$ 1.18
Earnings per share:				
Basic	$ 0.94	$ (3.91)	$ 1.58	$ 1.19
Diluted	$ 0.94	$ (3.91)	$ 1.57	$ 1.18

We recorded the quarterly earnings per share amounts as if each quarter was a discrete period. As a result, the sum of the basic and diluted earnings per share will not necessarily total the annual basic and diluted earnings per share.

Certain of the quarterly results identified in the table above include material, unusual or infrequently occurring items as follows on a pre-tax basis.

In the second quarter of 2020, the Company recorded a goodwill impairment charge of $506,721. Refer to the goodwill and other intangible assets footnote within the Notes to the Consolidated Financial Statements for additional information.

During the fourth quarter of 2020, the Company determined that inventory was overstated because certain consideration received from vendors was not properly recognized as a reduction to carrying amount of inventory in the years ending December 31, 2019 and prior. The Company corrected this misstatement and recorded an adjustment to decrease inventory and increase cost of goods sold by $40,000 during the quarter ended December 31, 2020. In accordance with Staff Accounting Bulletin ("SAB") No. 99, *Materiality*, and SAB No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*, the Company concluded that this misstatement was not material to the Company's previously issued annual and interim financial statements. The Company also concluded the correction of this misstatement during the quarter ended December 31, 2020 was not material to the 2020 consolidated financial statements.

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18. Subsequent Events

Accounts Receivable Sales Agreement Amendment

On January 3, 2022, the Company amended its A/R Sales Agreement to increase the facility limit by an additional $200,000 bringing the total to $1,000,000. The terms of the A/R Sales Agreement limit the balance of receivables sold to approximately $1,000,000 at any point in time. Refer to the Accounts Receivable Sales Agreement footnote in the Notes to the Consolidated Financial Statements for more information.

Kaman Distribution Group Acquisition

On January 3, 2022, the Company, through its wholly-owned subsidiary, Motion Industries, Inc., acquired all of the equity interests in Kaman Distribution Group ("KDG") for a purchase price of approximately $1,309,000 in cash. KDG, which is headquartered in Bloomfield, Connecticut, is a power transmission, automation and fluid power industrial distributor and solutions provider with operations throughout the United States, providing electro-mechanical products, bearings, power transmission, motion control and electrical and fluid power components to MRO and OEM customers. KDG has approximately 1,700 employees with approximately 220 locations across the United States and Puerto Rico. KDG has estimated annual revenues of approximately $1,100,000.

The net cash consideration transferred of approximately $1,309,000 is net of the estimated cash acquired of approximately $30,000.

The acquisition was financed using a combination of borrowings under the existing unsecured revolving credit facility, proceeds of $200,000 from the amendment of our A/R Sales Agreement and $109,000 of cash.

The following table summarizes the preliminary, estimated fair values of the assets acquired and liabilities assumed at the acquisition date. The fair value of the acquired identifiable intangible assets is provisional pending completion of the final valuations for these assets. The Company is in the process of analyzing the estimated values of all assets acquired and liabilities assumed as of the acquisition date, including, among other things, obtaining valuations of certain tangible and intangible assets, as well as the fair value of certain contracts and the determination of certain tax balances. Due to the limited time since the acquisition date, the allocation of the purchase price is still in review as of the date these financial statements were issued and therefore is preliminary and could materially change.

	As of January 3, 2022
Trade accounts receivable	$ 156,000
Merchandise inventories	166,000
Prepaid expenses and other current assets	39,000
Property, plant and equipment	26,000
Operating lease assets	49,000
Other assets	1,000
Total identifiable assets acquired (excluding other intangible assets and goodwill)	437,000
Trade accounts payable	85,000
Other current liabilities	32,000
Operating lease liabilities	17,000
Deferred tax liabilities	121,000
Other long-term liabilities	39,000
Total liabilities assumed	294,000
Net identifiable assets acquired (excluding other intangible assets and goodwill)	143,000
Other intangible assets and goodwill	1,166,000
Net assets acquired	$ 1,309,000

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The goodwill will be assigned to the Industrial segment and is attributable primarily to expected synergies and the assembled workforce. Approximately $261,000 of the estimated goodwill recognized as part of the acquisition is expected to be tax deductible.

Approximately $7,000 in acquisition costs related to this acquisition were included in the line item "other" within non-operating (income) expenses on the consolidated statement of income for the year ended December 31, 2021.

If the KDG acquisition had occurred on January 1, 2021 and if its results of operations had been included in the consolidated results of the Company since that date, the unaudited pro forma consolidated statement of income of the Company would have reflected approximately $19,918,700 in net sales and net income on a per share diluted basis of $6.01 for the year ended December 31, 2021. The pro forma information is not necessarily indicative of the results of operations that the Company would have reported had the transaction actually occurred at the beginning of this period, nor is it necessarily indicative of future results.

The adjustments to the pro forma amounts include, but are not limited to, applying the Company's accounting policies, amortization related to fair value adjustments to intangible assets, one-time acquisition accounting adjustments, interest expense on acquisition related debt and debt not assumed, and any associated tax effects. The pro forma results do not include any cost savings or other synergies that may result from the acquisition.

1.750% and 2.750% Senior Note Offering

On January 6, 2022, the Company issued $500,000 aggregate principal amount of unsecured 1.750% Senior Notes due 2025 at a price to the public of 99.721% of their face value with U.S. Bank National Association as trustee. Interest on the 1.750% Senior Notes due 2025 is payable semi-annually on February 1 and August 1 of each year, beginning on August 1, 2022, and is computed on the basis of a 360-day year. Simultaneously, on January 6, 2022, the Company issued $500,000 aggregate principal amount of unsecured 2.750% Senior Notes due 2032 at a price to the public of 98.810% of their face value with U.S. Bank National Association as trustee. Interest on the 2.750% Senior Notes due 2032 is payable semi-annually on February 1 and August 1 of each year, beginning on August 1, 2022, and is computed on the basis of a 360-day year.

The Company utilized the proceeds from this offering to repay a portion of the borrowings under the Revolving Credit Facility incurred to finance a significant portion of the KDG Acquisition.

ITEM 9. ***CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.***

Not applicable.

ITEM 9A. ***CONTROLS AND PROCEDURES.***

Management's conclusion regarding the effectiveness of disclosure controls and procedures

As of the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the Company's disclosure controls and procedures, as such term is defined in SEC Rule 13a-15(e). Based on that evaluation, the Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures were effective, as of December 31, 2021, to ensure that material information was accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management's report on internal control over financial reporting

The management of Genuine Parts Company and its Subsidiaries (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934.

The Company's internal control system was designed to provide reasonable assurance to the Company's management and to the board of directors regarding the preparation and fair presentation of the Company's published consolidated financial statements. The 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 U.S. 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.

All internal control systems, no matter how well designed, have inherent limitations and may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. 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.

The Company's management, including our CEO and CFO, assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2021. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) ("COSO") in "Internal Control-Integrated Framework." Based on this assessment, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2021.

Changes in internal control over financial reporting

There have been no changes in the Company's internal control over financial reporting during the Company's fourth fiscal quarter ended December 31, 2021 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2021 has been audited by Ernst & Young LLP, an independent registered public accounting firm, which also audited our Consolidated Financial Statements for the year ended December 31, 2021. Ernst & Young LLP's report on our internal control over financial reporting is set forth below.

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Genuine Parts Company and Subsidiaries

Opinion on Internal Control over Financial Reporting

We have audited Genuine Parts Company and Subsidiaries' internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Genuine Parts Company and Subsidiaries (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of Genuine Parts Company and Subsidiaries as of December 31, 2021 and 2020, the related consolidated statements of income, comprehensive income, equity and cash flows for each of the three years in the period ended December 31, 2021, and the related notes and our report dated February 17, 2022 expressed an unqualified opinion thereon.

Basis of Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the 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 audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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 (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) 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 (3) 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.

/s/ Ernst & Young LLP

Atlanta, Georgia

February 17, 2022

ITEM 9B. *OTHER INFORMATION.*

Not applicable.

ITEM 9C. *DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS*

Not applicable.

PART III.

ITEM 10. *DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.*

INFORMATION ABOUT OUR EXECUTIVE OFFICERS.

Executive officers of the Company are appointed by the Board of Directors and each serves at the pleasure of the Board of Directors until his or her successor has been elected and qualified, or until his or her earlier death, resignation, removal, retirement or disqualification. The current executive officers of the Company are:

Paul D. Donahue, age 65, was appointed Chairman of the Board and Chief Executive Officer of the Company in April of 2019. He served as President and Chief Executive Officer from May 2016 - April 2019. Mr. Donahue was President of the Company from January 2012 until April 2019, and he has been a Director of the Company since April 2012. Previously, Mr. Donahue served as President of the Company's U.S. Automotive Parts Group from July 2009 to February 1, 2016. Mr. Donahue served as Executive Vice President of the Company from August 2007 until his appointment as President in 2012. Previously, Mr. Donahue was President and Chief Operating Officer of S.P. Richards Company from 2004 to 2007 and was Executive Vice President-Sales and Marketing in 2003, the year he joined the Company.

William P. Stengel, age 44, was appointed President of the Company on January 15, 2021. Mr. Stengel previously served as Executive Vice President and Chief Transformation Officer of the Company from November 2019. Previously, Mr. Stengel worked for HD Supply, an Atlanta-based industrial distributor, where he served as President and Chief Executive Officer of HD Supply Facilities Maintenance, from June of 2017 to October of 2018. Prior to his role as President/CEO, he served as Chief Operating Officer for HD Supply Facilities Maintenance from September of 2016 to May of 2017 and prior to that role, he served as Chief Commercial Officer of HD Supply Facilities Maintenance from January of 2016 to September of 2016. Mr. Stengel served as Senior Vice President, Strategic Business Development and Investor Relations of HD Supply from June of 2013 to January of 2016. Prior to HD Supply, Mr. Stengel worked in the Strategic Business Development group at the Home Depot as well as at Bank of America and Stonebridge Associates in various investment banking roles.

Carol B. Yancey, age 58, was appointed Executive Vice President and Chief Financial Officer of the Company in March 2013, and also held the additional title of Corporate Secretary of the Company up to February 2015. Ms. Yancey was Senior Vice President - Finance and Corporate Secretary from 2005 until her appointment as Executive Vice President - Finance in November 2012. Previously, Ms. Yancey was named Vice President of the Company in 1999 and Corporate Secretary in 1995. Prior to that, she served as Assistant Corporate Secretary from 1994 to 1995, Director of Shareholder Relations from 1992 to 1994, and Director of Investor Relations in 1991, when she joined the Company.

James R. Neill, age 60, was appointed Executive Vice President and Chief Human Resource Officer of the Company in February of 2020. Prior to that, he served as Senior Vice President of Human Resources from April 2014 to February of 2020. Mr. Neill was Senior Vice President of Employee Development and HR Services from April 2013 until his appointment as Senior Vice President of Human Resources of the Company. Previously, Mr. Neill served as the Senior Vice President of Human Resources at Motion Industries from 2008 to 2013. Mr. Neill joined Motion in 2006 as Vice President of Human Resources and served in that role from 2006 to 2007.

Randall P. Breaux, age 59, was appointed President of Motion Industries on January 1, 2019. Mr. Breaux was Executive Vice President of Marketing, Distribution, and Strategic Planning at Motion from January 2018 until his appointment to President. Previously, he served as Senior Vice President of Marketing, Distribution, and Purchasing from 2015 to 2017. Mr. Breaux joined Motion in 2011 as Senior Vice President of Marketing, Product Management, and Strategic Planning.

Kevin E. Herron, age 59, was appointed President of the U.S. Automotive Group on January 1, 2019. Mr. Herron previously served as Executive Vice President - U.S. Automotive Parts Group from 2018 to 2019, and previous to that role, he was Group Senior Vice President of the U.S. Automotive Parts Group from 2014 to 2018. From 2010 to 2014 he was Division Vice President for the Midwest of the U.S. Automotive Parts Group, and prior to that he was Regional Vice President for UAP, the Canadian division of the Automotive Parts Group. He held that role from 2006 to 2010. Prior to that, Mr. Herron served as Regional Vice President of Corporate Stores from 2004 to 2006, and previously he was District Manager in Maine from 1995 to 2003 and held the same title in Vermont during 1994. Prior to those roles, he was Area Manager in Syracuse, New York from 1991 to 1993. Mr. Herron began his career at the Company as a management trainee in Syracuse and served in that role from 1989 to 1990.

Further information required by this item is set forth under the heading "Nominees for Director", under the heading "Corporate Governance - Code of Conduct", under the heading "Corporate Governance - Board Committees - Audit

Committee", and under the heading "Corporate Governance - Director Nominating Process" of the Proxy Statement and is incorporated herein by reference. We have adopted a Code of Conduct, which is available on the "Investor Relations" section of our website. Any amendments to, or waivers of, the Code of Conduct will be disclosed on our website promptly following the date of such amendment or waiver.

ITEM 11. ***EXECUTIVE COMPENSATION.***

Information required by this item is set forth under the headings "Executive Compensation", "Additional Information Regarding Executive Compensation", "2021 Grants of Plan-Based Awards", "2021 Outstanding Equity Awards at Fiscal Year-End", "2021 Option Exercises and Stock Vested", "2021 Pension Benefits", "2021 Nonqualified Deferred Compensation", "Post Termination Payments and Benefits", "Compensation, Nominating and Governance Committee Report", "Compensation, Nominating and Governance Committee Interlocks and Insider Participation" and "Compensation of Directors" of the Proxy Statement and is incorporated herein by reference.

ITEM 12. ***SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.***

Certain information required by this item is set forth below. Additional information required by this item is set forth under the headings "Security Ownership of Certain Beneficial Owners" and "Security Ownership of Management" of the Proxy Statement and is incorporated herein by reference.

Equity Compensation Plan Information

The following table gives information as of December 31, 2021 about the common stock that may be issued under all of the Company's existing equity compensation plans:

Plan Category	(a) Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights(1)		(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 Shareholders:	282,400	(2)	$ 85.12	—	
	1,316,795	(3)	$ 95.60	7,362,781	(5)
Equity Compensation Plans Not Approved by Shareholders:	128,027	(4)	n/a	871,973	
Total	1,727,222		—	8,234,754	

(1) Reflects the maximum number of shares issuable pursuant to the exercise or conversion of stock options, stock appreciation rights, restricted stock units and common stock equivalents. The actual number of shares issued upon exercise of stock appreciation rights is calculated based on the excess of fair market value of our common stock on date of exercise and the grant price of the stock appreciation rights.

(2) Genuine Parts Company 2006 Long-Term Incentive Plan

(3) Genuine Parts Company 2015 Incentive Plan

(4) Genuine Parts Company Directors' Deferred Compensation Plan, as amended

(5) All of these shares are available for issuance pursuant to grants of full-value stock awards.

ITEM 13. ***CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.***

Information required by this item is set forth under the headings "Corporate Governance — Independent Directors" and "Transactions with Related Persons" of the Proxy Statement and is incorporated herein by reference.

ITEM 14. ***PRINCIPAL ACCOUNTANT FEES AND SERVICES.***

Information required by this item is set forth under the heading "Proposal 3. Ratification of Selection of Independent Auditors" of the Proxy Statement and is incorporated herein by reference.

PART IV.

ITEM 15. *EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.*

(a) Documents filed as part of this report

(1) Financial Statements

The following consolidated financial statements of Genuine Parts Company and Subsidiaries are incorporated in this Item 15 by reference from Part II-Item 8. Financial Statements and Supplemental Data included in this Annual Report on Form 10-K. See Index to Consolidated Financial Statements.

Report of independent registered public accounting firm on the financial statements

Consolidated balance sheets — December 31, 2021 and 2020

Consolidated statements of income — Years ended December 31, 2021, 2020 and 2019

Consolidated statements of comprehensive income — Years ended December 31, 2021, 2020 and 2019

Consolidated statements of equity — Years ended December 31, 2021, 2020 and 2019

Consolidated statements of cash flows — Years ended December 31, 2021, 2020 and 2019

Notes to consolidated financial statements — December 31, 2021

(2) Financial Statement Schedules

Schedules are omitted because the information is not required or because the information required is included in the financial statements or notes thereto.

(3) Exhibits

The following exhibits are filed as part of or incorporated by reference in this report. Exhibits that are incorporated by reference to documents filed previously by the Company under the Securities Exchange Act of 1934, as amended, are filed with the Securities and Exchange Commission under File No. 1-5690. The Company will furnish a copy of any exhibit upon request to the Company’s Corporate Secretary.

Instruments with respect to long-term debt where the total amount of securities authorized there under does not exceed 10% of the total assets of the Registrant and its subsidiaries on a consolidated basis have not been filed. The Registrant agrees to furnish to the Commission a copy of each such instrument upon request.

Exhibit Number	Description
Exhibit 2.1	Interest Purchase Agreement, by and among Ruby Holdings II, LLC, as the Company, Ruby Topco LLC, as the Seller, Motion Industries, Inc., as the Buyer and Genuine Parts Company, as the Parent, dated as of December 15, 2021
Exhibit 3.1	Amended and Restated Articles of Incorporation of the Company, as amended April 23, 2007. (Incorporated herein by reference from the Company's Current Report on Form 8-K, dated April 23, 2007.)
Exhibit 3.2	By-Laws of the Company, as amended and restated November 19, 2018. (Incorporated herein by reference from the Company's Current Report on Form 8-K, dated November 19, 2018.)
Exhibit 4.1	Description of Genuine Parts Company Common Stock.
Exhibit 4.2	Specimen Common Stock Certificate. (Incorporated herein by reference from the Company's Registration Statement on Form S-1, Registration No. 33-63874.)
Exhibit 4.3	Indenture, dated October 29, 2020, between the Company and U.S. Bank National Association (Incorporated herein by reference from the Company's Current Report on Form 8-K, dated October 27, 2020)
Exhibit 4.4	Officer's Certificate, dated October 29, 2020, pursuant to Sections 3.01 and 3.03 of the Indenture, dated October 29, 2020, setting forth the terms of the 1.875% Senior Notes due 2030 (Incorporated herein by reference from the Company's Current Report on Form 8-K, dated October 27, 2020)
Exhibit 4.5	Form of 1.875% Senior Notes due 2030 (included in Exhibit 4.4)
Exhibit 10.1*	The Genuine Parts Company Tax-Deferred Savings Plan, effective January 1, 1993. (Incorporated herein by reference from the Company's Annual Report on Form 10-K, dated March 3, 1995.)

Exhibit 10.2*	Amendment No. 1 to the Genuine Parts Company Tax-Deferred Savings Plan, dated June 1, 1996, effective June 1, 1996. (Incorporated herein by reference from the Company's Annual Report on Form 10-K, dated March 7, 2005.)
Exhibit 10.3*	Amendment No. 2 to the Genuine Parts Company Tax-Deferred Savings Plan, dated April 19, 1999, effective April 19, 1999. (Incorporated herein by reference from the Company's Annual Report on Form10-K, dated March 10, 2000.)
Exhibit 10.4*	Amendment No. 3 to the Genuine Parts Company Tax-Deferred Savings Plan, dated November 28, 2001, effective July 1, 2001. (Incorporated herein by reference from the Company's Annual Report on Form 10-K, dated March 7, 2002.)
Exhibit 10.5*	Amendment No. 4 to the Genuine Parts Company Tax-Deferred Savings Plan, dated June 5, 2003, effective June 5, 2003. (Incorporated herein by reference from the Company's Annual Report on Form 10-K, dated March 8, 2004.)
Exhibit 10.6*	Amendment No. 5 to the Genuine Parts Company Tax-Deferred Savings Plan, dated December 28, 2005, effective January 1, 2006. (Incorporated herein by reference from the Company's Annual Report on Form 10-K, dated March 3, 2006.)
Exhibit 10.7*	Amendment No. 6 to the Genuine Parts Company Tax-Deferred Savings Plan, dated November 28, 2007, effective January 1, 2008. (Incorporated herein by reference from the Company's Annual Report on Form 10-K, dated February 29, 2008.)
Exhibit 10.8*	Amendment No. 7 to the Genuine Parts Company Tax-Deferred Savings Plan, dated November 16, 2010, effective January 1, 2011. (Incorporated herein by reference from the Company's Annual Report on Form 10-K, dated February 25, 2011.)
Exhibit 10.9*	Amendment No. 8 to the Genuine Parts Company Tax-Deferred Savings Plan, dated December 7, 2012, effective December 7, 2012. (Incorporated herein by reference from the Company's Annual Report on Form 10-K, dated February 26, 2013.)
Exhibit 10.10*	The Genuine Parts Company Original Deferred Compensation Plan, as amended and restated as of August 19, 1996. (Incorporated herein by reference from the Company's Annual Report on Form 10-K, dated March 8, 2004.)
Exhibit 10.11*	Amendment to the Genuine Parts Company Original Deferred Compensation Plan, dated April 19, 1999, effective April 19, 1999. (Incorporated herein by reference from the Company's Annual Report on Form 10-K, dated March 10, 2000.)
Exhibit 10.12*	Genuine Parts Company Supplemental Retirement Plan, as amended and restated as of January 1, 2009. (Incorporated herein by reference from the Company's Annual Report on Form 10-K, dated February 27, 2009.)
Exhibit 10.13*	Amendment No. 1 to the Genuine Parts Company Supplemental Retirement Plan, as amended and restated as of January 1, 2009, dated August 16, 2010, effective August 16, 2010. (Incorporated herein by reference from the Company's Annual Report on Form 10-K, dated February 25, 2011.)
Exhibit 10.14*	Amendment No. 2 to the Genuine Parts Company Supplemental Retirement Plan, as amended and restated as of January 1, 2009, dated November 16, 2010, effective January 1, 2011. (Incorporated herein by reference from the Company's Annual Report on Form 10-K, dated February 25, 2011.)
Exhibit 10.15*	Amendment No. 3 to the Genuine Parts Company Supplemental Retirement Plan, as amended and restated as of January 1, 2009, dated December 7, 2012, effective December 31, 2013. (Incorporated herein by reference from the Company's Annual Report on Form 10-K, dated February 26, 2013.)
Exhibit 10.16*	Genuine Parts Company Directors' Deferred Compensation Plan, as amended and restated effective January 1, 2003, and executed November 11, 2003. (Incorporated herein by reference from the Company's Annual Report on Form 10-K, dated March 8, 2004.)

Exhibit 10.17*	Amendment No. 1 to the Genuine Parts Company Directors' Deferred Compensation Plan, dated November 19, 2007, effective January 1, 2008. (Incorporated herein by reference from the Company's Annual Report on Form 10-K, dated February 29, 2008.)
Exhibit 10.18*	Amendment No. 2 to the Genuine Parts Company Director's Deferred Compensation Plan, dated December 7, 2012, effective December 7, 2012. (Incorporated herein by reference from the Company's Annual Report on Form 10-K, dated February 26, 2013.)
Exhibit 10.19*	Genuine Parts Company 2006 Long-Term Incentive Plan, effective April 17, 2006. (Incorporated herein by reference from the Company's Current Report on Form 8-K, dated April 18, 2006.)
Exhibit 10.20*	Amendment to the Genuine Parts Company 2006 Long-Term Incentive Plan, dated November 20, 2006, effective November 20, 2006. (Incorporated herein by reference from the Company's Annual Report on Form 10-K, dated February 28, 2007.)
Exhibit 10.21*	Amendment No. 2 to the Genuine Parts Company 2006 Long-Term Incentive Plan, dated November 19, 2007, effective November 19, 2007. (Incorporated herein by reference from the Company's Annual Report on Form 10-K, dated February 29, 2008.)
Exhibit 10.22*	Genuine Parts Company 2015 Incentive Plan, effective November 17, 2014. (Incorporated herein by reference from the Company's Current Report on Form 8-K, dated April 28, 2015.)
Exhibit 10.30*	Genuine Parts Company Performance Restricted Stock Unit Award Agreement. (Incorporated herein by reference from the Company's Quarterly Report on Form 10-Q, dated May 7, 2014.)
Exhibit 10.24*	Genuine Parts Company Stock Appreciation Rights Agreement. (Incorporated herein by reference from the Company's Annual Report on Form 10-K, dated February 26, 2013.)
Exhibit 10.25*	Form of Executive Officer Change in Control Agreement. (Incorporated herein by reference from the Company's Annual Report on Form 10-K, dated February 26, 2015.)
Exhibit 10.26	Genuine Parts Company Note Purchase Agreement dated October 30, 2017 by and among Genuine Parts Company, J.P. Morgan Securities, LLC and Merill Lynch, Pierce, Fenner & Smith Incorporated, as agents, and the other Lender Parties. (Incorporated herein by reference from the Company's Annual Report on Form 10-K dated February 27, 2018.)
Exhibit 10.27	First Amendment, dated as of May 28, 2019, to Genuine Parts Company Note Purchase Agreement dated as of October 30, 2017 by and among Genuine Parts Company and each holder of Original Notes party thereto (Incorporated herein by reference from the Company's Annual Report on Form 10-K, dated February 19, 2021).
Exhibit 10.28	Second Amendment, dated as of May 1, 2020, to Genuine Parts Company Note Purchase Agreement dated as of October 30, 2017 by and among Genuine Parts Company and each holder of Original Notes party thereto. (Incorporated herein by reference to the Company's Quarterly Report on Form 10-Q dated July 30, 2020).
Exhibit 10.29*	Genuine Parts Company Form of Restricted Stock Unit Award Certificate. (Incorporated herein by reference from the Company's Annual Report on Form 10-K, dated February 25, 2019.)
Exhibit 10.30*	Genuine Parts Company Form of Performance Restricted Stock Unit Award Certificate. (Incorporated herein by reference from the Company's Annual Report on Form 10-K, dated February 25, 2019.)
Exhibit 10.31*	Description of Director Compensation (Incorporated herein by reference from the Company's Quarterly Report on Form 10-Q, dated July 22, 2021).
Exhibit 10.32	Syndicated Facility Agreement dated October 30, 2020 among Genuine Parts Company, UAP, Inc., and Certain Designated Subsidiaries as Borrowers, JPMorgan Chase Bank, N.A., as Administrative Agent, Domestic Swing Line Lender and L/C Issuer, JPMorgan Chase Bank, N.A., acting through its Toronto Branch, as Canadian Swing Line Lender and the other Lenders and L/C Issuers party thereto. (Incorporated herein by reference from the Company's Current Report on Form 8-K dated November 2, 2020.)
Exhibit 10.33	First Amendment, dated as of September 30, 2021, to Genuine Parts Company Syndicated Facility Agreement dated October 30, 2020 among Genuine Parts Company, UAP, Inc., and Certain Designated Subsidiaries as Borrowers, JPMorgan Chase Bank, N.A., as Administrative Agent, Domestic Swing Line Lender and L/C Issuer, JPMorgan Chase Bank, N.A., acting through its Toronto Bank, as Canadian Swing Line Lender and the other Lenders and L/C Issuers party thereto. (Incorporated herein by reference from the Company's Quarterly Report on Form 10-Q dated October 21, 2021.)

* Indicates management contracts and compensatory plans and arrangements.

Exhibit 21	Subsidiaries of the Company.
Exhibit 23	Consent of Independent Registered Public Accounting Firm.
Exhibit 31.1	Certification signed by Chief Executive Officer pursuant to SEC Rule 13a-14(a).
Exhibit 31.2	Certification signed by Chief Financial Officer pursuant to SEC Rule 13a-14(a).
Exhibit 32	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by the Chief Executive Officer and Chief Financial Officer (furnished herewith)
Exhibit 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.
Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
Exhibit 101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
Exhibit 104	The cover page from this Annual Report on Form 10-K for the year ended December 31, 2021 formatted in Inline XBRL

ITEM 16. *FORM 10-K SUMMARY.*

Not applicable.

SIGNATURES.

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

	Genuine Parts Company (Registrant)
Date: February 17, 2022	/s/ Paul D. Donahue
	Paul D. Donahue Chairman and Chief Executive Officer
Date: February 17, 2022	/s/ Carol B. Yancey
	Carol B. Yancey Executive Vice President and Chief Financial Officer (Duly Authorized Officer and Principal Financial Officer)
Date: February 17, 2022	/s/ Napoleon B. Rutledge Jr.
	Napoleon B. Rutledge Jr. Senior Vice President and Chief Accounting Officer (Duly Authorized Officer and Principal Accounting 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.

/s/ Paul D. Donahue 2/14/2022
Paul D. Donahue (Date)
Director
Chairman and Chief Executive Officer
(Principal Executive Officer)

/s/ Carol B. Yancey 2/14/2022
Carol B. Yancey (Date)
Executive Vice President and Chief Financial Officer (Principal Financial Officer)

/s/ Napoleon B. Rutledge Jr. 2/14/2022
Napoleon B. Rutledge Jr. (Date)
Senior Vice President and Chief Accounting Officer
(Duly Authorized Officer and Principal Accounting Officer)

/s/ Elizabeth W. Camp 2/14/2022
Elizabeth W. Camp (Date)
Director

/s/ Richard Cox, Jr. 2/14/2022
Richard Cox, Jr. (Date)
Director

/s/ Gary P. Fayard 2/14/2022
Gary P. Fayard (Date)
Director

/s/ P. Russell Hardin 2/14/2022
P. Russell Hardin (Date)
Director

/s/ John R. Holder 2/14/2022
John R. Holder
Director

/s/ Donna W. Hyland 2/14/2022
Donna W. Hyland (Date)
Director

/s/ John D. Johns 2/14/2022
John D. Johns (Date)
Director

/s/ Jean-Jacques Lafont 2/14/2022
Jean-Jacques Lafont (Date)
Director

/s/ Robert C. Loudermilk, Jr. 2/14/2022
Robert C. Loudermilk, Jr. (Date)
Director

/s/ Wendy B. Needham 2/14/2022
Wendy B. Needham (Date)
Director

/s/ Juliette W. Pryor 2/14/2022
Juliette W. Pryor (Date)
Director

/s/ E. Jenner Wood, III 2/14/2022
E. Jenner Wood, III (Date)
Director

UCC-119

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

FORM 10-Q

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

For the quarterly period ended March 31, 2021
OR

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

For the transition period from __________ to __________
Commission file number: 1-5690

GENUINE PARTS COMPANY
(Exact name of registrant as specified in its charter)

GA	**58-0254510**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
2999 WILDWOOD PARKWAY, ATLANTA, GA	**30339**
(Address of principal executive offices)	**(Zip Code)**

678-934-5000
(Registrant's telephone number, including area code)

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

Title of Each Class	Trading Symbol	Name of each exchange on which registered
Common Stock, $1.00 par value per share	GPC	New York Stock Exchange

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 check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§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 the 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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

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There were 144,472,216 shares of common stock outstanding as of April 19, 2021.

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PART I – FINANCIAL INFORMATION
Item 1. Financial Statements

GENUINE PARTS COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(in thousands, except share and per share data)	March 31, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 1,117,988	$ 990,166
Trade accounts receivable, less allowance for doubtful accounts (2021 – $39,800; 2020 – $36,622)	1,809,637	1,556,966
Merchandise inventories, net	3,600,658	3,506,271
Prepaid expenses and other current assets	1,149,877	1,060,360
Total current assets	7,678,160	7,113,763
Goodwill	1,885,447	1,917,477
Other intangible assets, less accumulated amortization	1,455,333	1,498,257
Deferred tax assets	51,907	65,658
Property, plant and equipment, less accumulated depreciation (2021 – $1,296,920; 2020 – $1,268,170)	1,165,236	1,162,043
Operating lease assets	1,044,127	1,038,877
Other assets	663,333	644,140
Total assets	$ 13,943,543	$ 13,440,215
Liabilities and equity		
Current liabilities:		
Trade accounts payable	$ 4,479,398	$ 4,128,084
Current portion of debt	160,373	160,531
Dividends payable	117,714	114,043
Other current liabilities	1,578,866	1,491,426
Total current liabilities	6,336,351	5,894,084
Long-term debt	2,458,020	2,516,614
Operating lease liabilities	788,907	789,294
Pension and other post–retirement benefit liabilities	254,558	265,687
Deferred tax liabilities	206,630	212,910
Other long-term liabilities	562,968	543,623
Equity:		
Preferred stock, par value – $1 per share; authorized – 10,000,000 shares; none issued	—	—
Common stock, par value – $1 per share; authorized – 450,000,000 shares; issued and outstanding – 2021 – 144,458,057 shares; 2020 – 144,354,335 shares	144,458	144,354
Additional paid-in capital	117,867	117,165
Accumulated other comprehensive loss	(1,023,760)	(1,036,502)
Retained earnings	4,085,998	3,979,779
Total parent equity	3,324,563	3,204,796
Noncontrolling interests in subsidiaries	11,546	13,207
Total equity	3,336,109	3,218,003
Total liabilities and equity	$ 13,943,543	$ 13,440,215

See accompanying notes to condensed consolidated financial statements.

GENUINE PARTS COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

(in thousands, except per share data)	Three Months Ended March 31, 2021	2020
Net sales	$ 4,464,714	$ 4,092,526
Cost of goods sold	2,923,899	2,704,348
Gross profit	1,540,815	1,388,178
Operating expenses:		
Selling, administrative and other expenses	1,195,164	1,142,697
Depreciation and amortization	72,296	67,254
Provision for doubtful accounts	4,909	6,519
Restructuring costs	—	2,982
Total operating expenses	1,272,369	1,219,452
Non-operating (income) expense:		
Interest expense	19,062	20,965
Other	(36,475)	(12,832)
Total non-operating (income) expense	(17,413)	8,133
Income before income taxes	285,859	160,593
Income taxes	68,149	38,247
Net income from continuing operations	217,710	122,346
Net income from discontinued operations	—	14,189
Net income	$ 217,710	$ 136,535
Dividends declared per common share	$ 0.8150	$ 0.7900
Basic earnings per share:		
Continuing operations	$ 1.51	$ 0.84
Discontinued operations	—	0.10
Basic earnings per share	$ 1.51	$ 0.94
Diluted earnings per share:		
Continuing operations	$ 1.50	$ 0.84
Discontinued operations	—	0.10
Diluted earnings per share	$ 1.50	$ 0.94
Weighted average common shares outstanding	144,413	145,052
Dilutive effect of stock options and non-vested restricted stock awards	887	571
Weighted average common shares outstanding – assuming dilution	145,300	145,623

See accompanying notes to condensed consolidated financial statements.

GENUINE PARTS COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(UNAUDITED)

	Three Months Ended March 31,	
(in thousands, except per share data)	2021	2020
Net income	$ 217,710	$ 136,535
Other comprehensive income (loss), net of income taxes:		
Foreign currency translation adjustments, net of income taxes in 2021 — $21,185; 2020 — $15,560	(295)	(182,613)
Cash flow hedge adjustments, net of income taxes in 2021 — $1,384; 2020 — $6,604	3,741	(17,856)
Pension and postretirement benefit adjustments, net of income taxes in 2021 — $3,421; 2020 — $3,017	9,296	8,448
Other comprehensive income (loss), net of income taxes	12,742	(192,021)
Comprehensive income (loss)	$ 230,452	$ (55,486)

See accompanying notes to condensed consolidated financial statements.

GENUINE PARTS COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(UNAUDITED)

	Three Months Ended March 31, 2021							
(in thousands, except share and per share data)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Parent Equity	Non-controlling Interests in Subsidiaries	Total Equity
January 1, 2021	144,354,335	$ 144,354	$ 117,165	$ (1,036,502)	$ 3,979,779	$ 3,204,796	$ 13,207	$ 3,218,003
Net income	—	—	—	—	217,710	217,710	—	217,710
Other comprehensive income, net of tax	—	—	—	12,742	—	12,742	—	12,742
Cash dividend declared, $0.8150 per share	—	—	—	—	(117,714)	(117,714)	—	(117,714)
Share-based awards exercised, including tax benefit of $1,764	103,722	104	(5,533)	—	—	(5,429)	—	(5,429)
Share-based compensation	—	—	6,235	—	—	6,235	—	6,235
Cumulative effect from adoption of ASU 2019-12 (1)	—	—	—	—	6,223	6,223	—	6,223
Noncontrolling interest activities	—	—	—	—	—	—	(1,661)	(1,661)
March 31, 2021	144,458,057	$ 144,458	$ 117,867	$ (1,023,760)	$ 4,085,998	$ 3,324,563	$ 11,546	$ 3,336,109

	Three Months Ended March 31, 2020							
(in thousands, except share and per share data)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Parent Equity	Non-controlling Interests in Subsidiaries	Total Equity
January 1, 2020	145,378,158	$ 145,378	$ 98,777	$ (1,141,308)	$ 4,571,860	$ 3,674,707	$ 20,793	$ 3,695,500
Net income	—	—	—	—	136,535	136,535	—	136,535
Other comprehensive loss, net of tax	—	—	—	(192,021)	—	(192,021)	—	(192,021)
Cash dividend declared, $0.7900 per share	—	—	—	—	(114,476)	(114,476)	—	(114,476)
Share-based awards exercised, including tax benefit of $221	7,629	7	(348)	—	—	(341)	—	(341)
Share-based compensation	—	—	5,449	—	—	5,449	—	5,449
Purchase of stock	(1,136,444)	(1,136)	—	—	(94,583)	(95,719)	—	(95,719)
Cumulative effect from adoption of ASU 2016-13 (2)	—	—	—	—	(11,432)	(11,432)	—	(11,432)
Noncontrolling interest activities	—	—	—	—	—	—	(464)	(464)
March 31, 2020	144,249,343	$ 144,249	$ 103,878	$ (1,333,329)	$ 4,487,904	$ 3,402,702	$ 20,329	$ 3,423,031

(1) The Company adopted Accounting Standards Update ("ASU") 2019-12, *Simplifying the Accounting for Income Taxes*, during the first quarter of 2021.

(2) The Company adopted ASU 2016-13, *Measurement of Credit Losses on Financial Instruments,* during the first quarter of 2020.

See accompanying notes to condensed consolidated financial statements.

GENUINE PARTS COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(in thousands)	Three Months Ended March 31, 2021	2020
Operating activities:		
Net income	$ 217,710	$ 136,535
Net income from discontinued operations	—	14,189
Net income from continuing operations	217,710	122,346
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	72,296	67,254
Share-based compensation	6,235	4,495
Excess tax benefits from share-based compensation	(1,764)	(221)
Changes in operating assets and liabilities	6,465	(166,014)
Net cash provided by operating activities from continuing operations	300,942	27,860
Investing activities:		
Purchases of property, plant and equipment	(48,391)	(38,914)
Proceeds from sale of property, plant and equipment	16,863	3,327
Proceeds from divestitures of businesses	10,345	10,442
Acquisitions of businesses and other investing activities	(19,489)	(3,833)
Net cash used in investing activities from continuing operations	(40,672)	(28,978)
Financing activities:		
Proceeds from debt	31,599	1,318,905
Payments on debt	(26,767)	(1,057,667)
Share-based awards exercised	(5,429)	(341)
Dividends paid	(114,043)	(110,851)
Purchases of stock	—	(95,719)
Other financing activities	(1,354)	(871)
Net cash (used in) provided by financing activities from continuing operations	(115,994)	53,456
Cash flows from discontinued operations:		
Net cash provided by operating activities from discontinued operations	—	46,200
Net cash used in investing activities from discontinued operations	—	(6,495)
Net cash provided by financing activities from discontinued operations	—	—
Net cash provided by discontinued operations	—	39,705
Effect of exchange rate changes on cash and cash equivalents	(16,454)	(14,566)
Net increase in cash and cash equivalents	127,822	77,477
Cash and cash equivalents at beginning of period	990,166	276,992
Cash and cash equivalents at end of period	$ 1,117,988	$ 354,469

See accompanying notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except per share data)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and therefore do not include all information and footnotes required by accounting principles generally accepted in the U.S. ("U.S. GAAP") for complete financial statements. On June 30, 2020, the Company completed the divestiture of its Business Products Group. Refer to the acquisitions, divestitures and discontinued operations footnote for more information. The Company's results of operations for the Business Products Group are reported as discontinued operations and all information related to the discontinued operations has been excluded from the notes to the condensed consolidated financial statements for all periods presented. Net income from discontinued operations for each period includes all costs that are directly attributable to these businesses and excludes certain corporate overhead costs that were previously allocated. Additionally, revenue from freight services provided by the Automotive Parts Group are grossed up and recast in continuing operations in each period because those sales are continuing with the discontinued operations after the divestiture. Except as disclosed herein, there have been no material changes in the information disclosed in the notes to the consolidated financial statements included in the Annual Report on Form 10-K of Genuine Parts Company (the "Company," "we," "our," "us," or "its") for the year ended December 31, 2020. Accordingly, the unaudited condensed consolidated financial statements and related disclosures herein should be read in conjunction with the Company's 2020 Annual Report on Form 10-K.

The preparation of interim financial statements requires management to make estimates and assumptions that affect the amounts reported in the unaudited condensed consolidated financial statements. Specifically, the Company makes estimates and assumptions in its unaudited condensed consolidated financial statements for inventory adjustments, the accrual of bad debts, credit losses on guaranteed loans, customer sales returns, and volume incentives earned, among others. Inventory adjustments (including adjustments for a majority of inventories that are valued under the last-in, first-out ("LIFO") method) are accrued on an interim basis and adjusted in the fourth quarter based on the annual book to physical inventory adjustment and LIFO valuation. Reserves for bad debts, credit losses on guaranteed loans and customer sales returns are estimated and accrued on an interim basis based on a consideration of historical experience, current conditions, and reasonable and supportable forecasts. Volume incentives are estimated based upon cumulative and projected purchasing levels. In the opinion of management, all adjustments necessary for a fair presentation of the Company's financial results for the interim periods have been made. These adjustments are of a normal recurring nature. The Company has reclassified certain prior period amounts to conform to the current period presentation.

The results of operations for the three months ended March 31, 2021 are not necessarily indicative of results for the year ended December 31, 2021. The Company's results of operations improved in the first quarter of 2021 relative to the first quarter of 2020 as a result of several positive trends caused by the global response to the coronavirus ("COVID-19") outbreak, which was declared a pandemic in March 2020. In particular, as widespread vaccine distribution continued, we have seen economic recovery in many of the markets where we operate and a significant uptick in consumer mobility. However, the Company's operations remain vulnerable to reversal of these trends or other continuing negative effects caused by COVID-19. The extent to which the pandemic impacts the Company will depend on numerous factors and future developments that the Company cannot predict, including the severity of the virus; the occurrence of additional waves or spikes in infection rates; the duration of the outbreak; governmental, business or other actions taken in response to the pandemic and the efficacy of these actions, including partial or complete shut downs, travel restrictions, and shelter-in-place orders among other actions; the effectiveness and distribution of COVID-19 vaccines; and impacts on the Company's supply chain, its ability to keep operating locations open, and on customer demand. The Company has evaluated subsequent events through the date the unaudited condensed consolidated financial statements covered by this quarterly report were issued.

2. Segment Information

The following table presents a summary of the Company's reportable segment financial information from continuing operations:

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Net sales:		
Automotive	$ 2,953,165	$ 2,582,685
Industrial	1,511,549	1,509,841
Total net sales	$ 4,464,714	$ 4,092,526
Segment profit:		
Automotive	$ 235,678	$ 142,578
Industrial	125,292	113,933
Total segment profit	360,970	256,511
Interest expense, net	(18,324)	(19,868)
Intangible asset amortization	(25,544)	(22,740)
Corporate expense	(31,243)	(55,061)
Other unallocated costs (1)	—	1,751
Income before income taxes from continuing operations	$ 285,859	$ 160,593

(1) The following table presents a summary of the other unallocated costs:

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Other unallocated costs:		
Restructuring costs (2)	$ —	$ (2,982)
Gain on insurance proceeds related to SPR Fire (3)	—	12,282
Transaction and other costs (4)	—	(7,549)
Total other unallocated costs	$ —	$ 1,751

(2) Adjustment reflects restructuring costs related to the execution of the 2019 Cost Savings Plan. The costs are primarily associated with severance and other employee costs, including a voluntary retirement program, and facility and closure costs related to the consolidation of operations.

(3) Adjustment reflects insurance recoveries in excess of losses incurred on inventory, property, plant and equipment and other fire-related costs related to the S.P. Richards Headquarters and Distribution Center.

(4) Adjustment reflects $6,000 of incremental costs associated with COVID-19 for the three months ended March 31, 2020 and costs associated with certain divestitures. COVID-19 related costs include incremental costs incurred relating to fees to cancel marketing events and increased cleaning and sanitization materials, among other things.

Net sales are disaggregated by geographical region for each of the Company's reportable segments, as the Company deems this presentation best depicts how the nature, amount, timing and uncertainty of net sales and cash flows are affected by economic factors. The following table presents disaggregated geographical net sales from contracts with customers by reportable segment:

	Three Months Ended March 31,	
	2021	2020
North America:		
Automotive	$ 1,862,805	$ 1,731,496
Industrial	1,399,399	1,410,715
Total North America	$ 3,262,204	$ 3,142,211
Australasia:		
Automotive	$ 367,869	$ 272,924
Industrial	112,150	99,126
Total Australasia	$ 480,019	$ 372,050
Europe – Automotive	$ 722,491	$ 578,265
Total net sales	$ 4,464,714	$ 4,092,526

3. Accumulated Other Comprehensive Loss

The following tables present the changes in accumulated other comprehensive loss ("AOCL") by component for the three months ended March 31:

	Changes in Accumulated Other Comprehensive Loss by Component			
	Pension and Other Post-Retirement Benefits	Cash Flow Hedges	Foreign Currency Translation	Total
Beginning balance, January 1, 2021	$ (692,868)	$ (30,007)	$ (313,627)	$ (1,036,502)
Other comprehensive loss before reclassifications	—	—	(295)	(295)
Amounts reclassified from accumulated other comprehensive loss	9,296	3,741	—	13,037
Other comprehensive income (loss), net of income taxes	9,296	3,741	(295)	12,742
Ending balance, March 31, 2021	$ (683,572)	$ (26,266)	$ (313,922)	$ (1,023,760)

	Changes in Accumulated Other Comprehensive Loss by Component			
	Pension and Other Post-Retirement Benefits	Cash Flow Hedges	Foreign Currency Translation	Total
Beginning balance, January 1, 2020	$ (704,415)	$ (20,671)	$ (416,222)	$ (1,141,308)
Other comprehensive loss before reclassifications	—	(19,300)	(182,613)	(201,913)
Amounts reclassified from accumulated other comprehensive loss	8,448	1,444	—	9,892
Other comprehensive income (loss), net of income taxes	8,448	(17,856)	(182,613)	(192,021)
Ending balance, March 31, 2020	$ (695,967)	$ (38,527)	$ (598,835)	$ (1,333,329)

The AOCL components related to the pension benefits are included in the computation of net periodic benefit income in the employee benefit plans footnote. Generally, tax effects in AOCL are established at the currently enacted tax rate and reclassified to net income in the same period that the related pre-tax AOCL reclassifications are recognized.

4. Recent Accounting Pronouncements

Changes to U.S. GAAP are established by the Financial Accounting Standards Board ("FASB") in the form of Accounting Standards Updates ("ASU") to the FASB Accounting Standards Codification ("ASC"). The Company considers the applicability and impact of all ASUs and has determined that any recently adopted accounting pronouncements did not have a material impact on the Company's condensed consolidated financial statements and all recent accounting pronouncements not yet adopted are not applicable or are expected to have an immaterial impact on the Company's condensed consolidated financial statements.

5. Employee Benefit Plans

Net periodic benefit income from the Company's pension plans included the following components for the three months ended March 31:

	Pension Benefits	
	2021	2020
Service cost	$ 3,041	$ 2,982
Interest cost	17,906	20,925
Expected return on plan assets	(38,732)	(38,523)
Amortization of prior service cost	172	173
Amortization of actuarial loss	12,456	11,122
Net periodic benefit income	$ (5,157)	$ (3,321)

Service cost is recorded in selling, administrative and other expenses in the condensed consolidated statements of income while all other components are recorded within other non-operating (income) expense. Pension benefits also include amounts related to supplemental retirement plans.

6. Guarantees

The Company guarantees the borrowings of certain independently controlled automotive parts stores and businesses ("independents") and certain other affiliates in which the Company has a noncontrolling equity ownership interest ("affiliates"). Presently, the independents are generally consolidated by unaffiliated enterprises that have controlling financial interests through ownership of a majority voting interest in the independents. The Company has no voting interest or equity conversion rights in any of the independents. The Company does not control the independents or the affiliates but receives a fee for the guarantees. The Company has concluded that the independents are variable interest entities, but that the Company is not the primary beneficiary. Specifically, the equity holders of the independents have the power to direct the activities that most significantly impact the entities' economic performance including, but not limited to, decisions about hiring and terminating personnel, local marketing and promotional initiatives, pricing and selling activities, credit decisions, monitoring and maintaining appropriate inventories, and store hours. Separately, the Company concluded that the affiliates are not variable interest entities. The Company's maximum exposure to loss as a result of its involvement with these independents and affiliates is generally equal to the total borrowings subject to the Company's guarantees. While such borrowings of the independents and affiliates are outstanding, the Company is required to maintain compliance with certain covenants, including a debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") ratio and certain limitations on additional borrowings. At March 31, 2021, the Company was in compliance with all such covenants.

As of March 31, 2021, the total borrowings of the independents and affiliates subject to guarantee by the Company were approximately $911,865. These loans generally mature over periods from one to six years. The Company regularly monitors the performance of these loans and the ongoing operating results, financial condition and ratings from credit rating agencies of the independents and affiliates that participate in the guarantee programs. In the event that the Company is required to make payments in connection with these guarantees, the Company would obtain and liquidate certain collateral pledged by the independents or affiliates (e.g., accounts receivable and inventory) to recover all or a substantial portion of the amounts paid under the guarantees. The Company recognizes a liability equal to current expected credit losses over the lives of the loans in the guaranteed loan portfolio, based on a consideration of historical experience, current conditions, the nature and expected value of any collateral, and reasonable and supportable forecasts. To date, the Company has had no significant losses in connection with guarantees of independents' and affiliates' borrowings and the current expected credit loss reserve is not material. As of March 31, 2021, there are no material guaranteed loans for which the borrower is experiencing financial difficulty and recovery is expected to be provided substantially through the operation or sale of the collateral.

As of March 31, 2021, the Company has recognized certain assets and liabilities amounting to $82,000 each for the guarantees related to the independents' and affiliates' borrowings. These assets and liabilities are included in other assets and other long-term liabilities in the condensed consolidated balance sheets. The liabilities relate to the Company's noncontingent obligation to stand ready to perform under the guarantee programs and they are distinct from the Company's current expected credit loss reserve.

7. Accounts Receivable Sales Agreement

In 2020, the Company entered into an accounts receivable sales agreement (the "A/R Sales Agreement") to sell short-term receivables from certain customer trade accounts to an unaffiliated financial institution on a revolving basis. The A/R Sales Agreement has a 364 day term, which the Company intends to renew each year.

As part of the A/R Sales Agreement, the Company continuously sells designated pools of receivables as they are originated by it and certain U.S. subsidiaries to a separate bankruptcy-remote special purpose entity ("SPE"). The assets of the SPE would be first available to satisfy the creditor claims of the unaffiliated financial institution. The Company controls and therefore consolidates the SPE in its condensed consolidated financial statements.

The SPE transferred ownership and control of certain receivables that met certain qualifying conditions to the unaffiliated financial institution in exchange for cash. The Company accounts for transactions with the unaffiliated financial institution as sales of financial assets, with the associated receivables derecognized from the Company's condensed consolidated balance sheet. The remaining receivables held by the SPE were pledged to secure the collectability of the sold receivables. The amount of receivables pledged as collateral as of March 31, 2021 and December 31, 2020 is approximately $957,000 and $771,000, respectively.

The Company continues to be involved with the receivables transferred by the SPE to the unaffiliated financial institution by providing collection services. As cash is collected on sold receivables, the SPE continuously transfers ownership and control of new qualifying receivables to the unaffiliated financial institution so that the total principal amount outstanding of receivables sold is approximately $800,000 at any point in time (which is the maximum amount allowed under the agreement). The future amount of receivables outstanding as sold could decrease, based on the level of activity and other factors. Total principal amount outstanding of receivables sold is approximately $800,000 as of March 31, 2021 and December 31, 2020, respectively.

The following table summarizes the activity and amounts outstanding under the A/R Sales Agreement as of:

	Three Months Ended March 31,	
	2021	2020
Receivables sold to the financial institution and derecognized	$ 1,927,931	$ —
Cash collected on sold receivables	$ 1,927,928	$ —

Upon entry into the A/R Sales Agreement, the Company received an initial benefit from cash from operations of approximately $800,000 in the year ended December 31, 2020. Continuous cash activity related to the A/R Sales Agreement is reflected in cash from operating activities in the condensed consolidated statement of cash flows. The SPE incurs fees due to the unaffiliated financial institution related to the accounts receivable sales transactions. Those fees, which are immaterial, are recorded within other non-operating (income) expense in the condensed consolidated statements of income. The SPE has a recourse obligation to repurchase from the unaffiliated financial institution any previously sold receivables that are not collected due to the occurrence of certain events, including credit quality deterioration and customer sales returns. The reserve recognized for this recourse obligation as of March 31, 2021 and December 31, 2020 is not material. The servicing liability related to the Company's collection services also is not material, given the high quality of the customers underlying the receivables and the anticipated short collection period.

8. Fair Value of Financial Instruments

Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Fair value is a market-based measurement that is determined based on assumptions that market participants would use in pricing an asset or liability. Additionally, ASC 820, *Fair Value Measurements*, defines levels within a hierarchy based upon observable and non-observable inputs.

- Level 1. Observable inputs such as quoted prices in active markets;
- Level 2. Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and

- Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions

As of March 31, 2021 the fair value of the Company's senior unsecured notes was approximately $2,617,989, which are designated as Level 2 in the fair value hierarchy. Our valuation technique is based primarily on prices and other relevant information generated by observable transactions involving identical or comparable assets or liabilities.

Derivative instruments are recognized in the consolidated balance sheets at fair value and are designated as Level 2 in the fair value hierarchy. They are valued using inputs other than quoted prices, such as foreign exchange rates and yield curves. Refer to the Derivatives and Hedging footnote for further information.

Fair value measurements of non-financial assets and non-financial liabilities are primarily used in the impairment analyses of goodwill, other intangible assets, and long-lived assets. These involve fair value measurements on a nonrecurring basis using Level 3 inputs as defined in the fair value hierarchy. The carrying amounts reflected in the consolidated balance sheets for cash and cash equivalents, trade accounts receivable, trade accounts payable, and borrowings under the line of credit approximate their respective fair values based on the short-term nature of these instruments.

9. Derivatives and Hedging

The Company is exposed to various risks arising from business operations and market conditions, including fluctuations in interest rates and certain foreign currencies. When deemed appropriate, the Company uses derivative and non-derivative instruments as risk management tools to mitigate the potential impact of interest rate and foreign exchange rate risks. The objective of using these tools is to reduce fluctuations in the Company's earnings and cash flows associated with changes in these rates. Derivative financial instruments are not used for trading or other speculative purposes. The Company has not historically incurred, and does not expect to incur in the future, any losses as a result of counterparty default related to derivative instruments.

The Company formally documents relationships between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking various hedge transactions. This process includes linking cash flow hedges to specific forecasted transactions or variability of cash flows to be paid. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the designated derivative and non-derivative instruments that are used in hedging transactions are highly effective in offsetting changes in the cash flows of the hedged items. When a designated instrument is determined not to be highly effective as a hedge or the underlying hedged transaction is no longer probable, hedge accounting is discontinued prospectively.

Cash Flow Hedges

In 2020, the Company terminated its interest rate swaps and settled the outstanding balances through cash payments totaling $41,000. The remaining amount in AOCL is being amortized to interest expense on a straight-line basis over the remaining life of the previously hedged instrument.

Net Investment Hedges

The Company has designated certain derivative instruments and a portion of its foreign currency denominated debt, a non-derivative financial instrument, as hedges of the foreign currency exchange rate exposure of the Company's Euro-denominated net investment in a European subsidiary. The Company applies the spot method to assess the hedge effectiveness of the derivative instruments and this assessment for each instrument excludes the initial value related to the difference at contract inception between the foreign exchange spot rate and the forward rate (i.e., the forward points). The initial value of this excluded component is recognized as a reduction to interest expense in a systematic and rational manner over the term of the derivative instrument. All other changes in value for the net investment hedges are included in AOCL within foreign currency translation and would only be reclassified to earnings if the European subsidiary were liquidated, or otherwise disposed.

The following table summarizes the location and carrying amounts of the derivative instruments and the foreign currency denominated debt, a non-derivative financial instrument, that are designated and qualify as part of hedging relationships:

		March 31, 2021		December 31, 2020	
Instrument	Balance Sheet Location	Notional	Balance	Notional	Balance
Net investment hedges:					
Forward contracts	Prepaid expenses and other current assets	$ 925,810	$ 43,870	$ 800,000	$ 7,668
Forward contracts	Other current liabilities	$ 235,180	$ 11,556	$ 360,990	$ 19,442
Foreign currency debt	Long-term debt	€ 700,000	$ 820,120	€ 700,000	$ 861,070

The tables below presents gains and losses related to designated cash flow hedges and net investment hedges:

	Gain (Loss) Recognized in AOCL before Reclassifications		Gain Recognized in Interest Expense for Excluded Components	
	2021	2020	2021	2020
Three Months Ended March 31,				
Cash flow hedges:				
Interest rate contracts	$ —	$ (24,461)	$ —	$ —
Net investment hedges:				
Forward contracts	37,515	46,848	6,574	6,522
Foreign currency debt	40,950	10,780	—	—
Total	$ 78,465	$ 33,167	$ 6,574	$ 6,522

10. Commitments and Contingencies

Legal Matters

As more fully discussed in the Company's notes to the consolidated financial statements in its 2020 Annual Report on Form 10-K, a jury awarded damages against the Company in a litigated automotive product liability dispute. On February 19, 2020, the Washington Court of Appeals issued an order entirely reversing the jury's finding on damages and ordering a new trial on damages. The plaintiffs subsequently appealed this order to the Washington Supreme Court. On July 7, 2020, the Washington Supreme Court indicated that it would consider a further appeal on this matter, and oral arguments occurred on November 10, 2020. A ruling from Washington Supreme Court is expected in 2021. At the time of the filing of these financial statements, based upon the Company's legal defenses and insurance coverage, the Company does not believe this matter will have a material impact to the condensed consolidated financial statements.

11. Acquisitions, Divestitures and Discontinued Operations

Acquisitions

The Company acquired several businesses for approximately $20,340 and $20,874, net of cash acquired, during the three months ended March 31, 2021 and March 31, 2020, respectively. The measurement period is still open for certain businesses acquired in prior periods, but there have been no significant measurement period adjustments from finalizing acquisition accounting during the three months ended March 31, 2021.

Divestitures

The Company received cash proceeds from divestitures of businesses totaling $10,345 and $10,442 for the three months ended March 31, 2021 and March 31, 2020, respectively.

Discontinued Operations

Business Products Group

During 2020, the Company completed the divestiture of its Business Products Group as part of its long-term strategic initiative to streamline its operations and optimize its portfolio so that it can drive shareholder value by focusing on its global Automotive and Industrial Parts Groups. This divestiture represented a single plan to exit the Business Products Group segment and was considered a strategic shift that had a major effect on the Company's operations and financial results. Therefore, the results of operations, financial position and cash flows for the Business Products Group are reported as discontinued operations for all periods presented.

The Company retains an investment in S.P. Richard's ("SPR"), a business that previously belonged to the Business Products Group, with a carrying value of $70,883, which is included within other assets on the condensed consolidated balance sheets, as of March 31, 2021. The Company maintains an allowance equal to the current expected credit loss based on a consideration of

historical experience, current market conditions and reasonable and supportable forecasts related to this investment and other related assets of $17,000.

The Company also remains involved with SPR for a limited period of time through various lease, sublease, freight distribution and transition service agreements. The Company has concluded that SPR is a variable interest entity, but the Company is not the primary beneficiary and therefore the entity is not consolidated. Among other things, the Company does not have any voting rights and does not have the power to direct the activities that most significantly affect SPR's economic performance. For a limited period of time as SPR completes its transition away from the Company's shared services platform, the Company continues to pay certain payables on SPR's behalf and at SPR's direction with full reimbursement from SPR under the terms of a transition services agreement.

The Company's results of operations for discontinued operations were:

	Three Months Ended March 31, 2020
Net sales	$ 467,006
Cost of goods sold	354,393
Gross profit	112,613
Operating and non-operating expenses	90,076
Loss on divestiture	4,185
Income before income taxes	18,352
Income taxes	4,163
Net income from discontinued operations	$ 14,189

12. Earnings Per Share

As more fully discussed in the share-based compensation footnote of the Company's notes to the consolidated financial statements in its 2020 Annual Report on Form 10-K, the Company maintains various long-term incentive plans, which provide for the granting of stock options, stock appreciation rights ("SARs"), restricted stock, restricted stock units ("RSUs"), performance awards, dividend equivalents and other share-based awards. Certain outstanding options to purchase are not included in the diluted earnings per share calculation because their inclusion would have been anti-dilutive. There were no anti-dilutive shares outstanding for the three months ended March 31, 2021, as compared to approximately 1,410 for the three months ended March 31, 2020.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and accompanying notes contained herein and with the audited consolidated financial statements, accompanying notes, related information and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2020. The results of operations for the three months ended March 31, 2021 are not necessarily indicative of results for the year ended December 31, 2021.

Forward-Looking Statements

Some statements in this report, as well as in other materials we file with the Securities and Exchange Commission ("SEC"), release to the public, or make available on our website, constitute forward-looking statements that are subject to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All statements in the future tense and all statements accompanied by words such as "expect," "likely," "outlook," "forecast," "preliminary," "would," "could," "should," "position," "will," "project," "intend," "plan," "on track," "anticipate," "to come," "may," "possible," "assume," or similar expressions are intended to identify such forward-looking statements. These forward-looking statements include our expected ability to operate and protect our workforce during the COVID-19 pandemic, our strategies for growing our automotive and industrial businesses, the execution and effect of our cost savings initiatives, our efforts and initiatives to help us emerge from the pandemic well-positioned to execute our strategy, our ongoing efforts to maintain compliance and flexibility under our debt covenants, our liquidity position and actions to maximize cash flow to continue to operate during these highly uncertain times and plans for future cost savings. Senior officers may also make verbal statements to analysts, investors, the media and others that are forward-looking.

We caution you that all forward-looking statements involve risks and uncertainties, and while we believe that our expectations for the future are reasonable in view of currently available information, you are cautioned not to place undue reliance on our forward-looking statements. Actual results or events may differ materially from those indicated as a result of various important factors. Such factors may include, among other things, the extent and duration of the disruption to our business operations caused by the global health crisis associated with the COVID-19 pandemic, including the effects on the financial health of our business partners and customers, on supply chains and our suppliers, on vehicle miles driven as well as other metrics that affect our business, and on access to capital and liquidity provided by the financial and capital markets; our ability to maintain compliance with our debt covenants; our ability to successfully integrate acquired businesses into our operations and to realize the anticipated synergies and benefits; our ability to successfully implement our business initiatives in our two business segments; slowing demand for our products; the ability to maintain favorable supplier arrangements and relationships; disruptions in global supply chains and in our suppliers' operations, including as a result of the impact of COVID-19 on our suppliers and our supply chain; changes in national and international legislation or government regulations or policies, including changes to import tariffs, environmental and social policy, infrastructure programs and privacy legislation, and their impact to us and our suppliers and customers; changes in general economic conditions, including unemployment, inflation (including the impact of tariffs) or deflation and the United Kingdom's ("U.K.") exit from the European Union and the unpredictability of the impact following such exit; changes in tax policies; volatile exchange rates; volatility in oil prices; significant cost increases, such as rising fuel and freight expenses; our ability to successfully attract and retain employees in the current labor market; uncertain credit markets and other macroeconomic conditions; competitive product, service and pricing pressures; failure or weakness in our disclosure controls and procedures and internal controls over financial reporting, including as a result of the work from home environment; the uncertainties and costs of litigation; disruptions caused by a failure or breach of our information systems, as well as other risks and uncertainties discussed in our 2020 Annual Report on Form 10-K and Item 1A, Risk Factors, in this report on Form 10-Q (all of which risks may be amplified by the COVID-19 pandemic) and from time to time in our subsequent filings with the SEC.

Forward-looking statements speak only as of the date they are made, and we undertake no duty to update any forward-looking statements except as required by law. You are advised, however, to review any further disclosures we make on related subjects in our subsequent Forms 10-K, 10-Q, 8-K and other reports filed with the SEC.

Overview

Genuine Parts Company is a service organization engaged in the global distribution of automotive and industrial replacement parts. We have a long tradition of growth dating back to 1928, the year we were founded in Atlanta, Georgia. We conduct business in North America, Europe and Australasia from a network of more than 10,000 locations.

Our Automotive Parts Group operated in the U.S., Canada, Mexico, France, the U.K., Germany, Poland, the Netherlands, Belgium, Australia and New Zealand as of March 31, 2021, and accounted for 66% of total revenues for the three months ended March 31, 2021. Our Industrial Parts Group operated in the U.S., Canada, Mexico, Australia, New Zealand, Indonesia and

Singapore. The Industrial Parts Group accounted for 34% of the Company's total revenues for the three months ended March 31, 2021.

At Genuine Parts Company, our mission is to be a world-class service organization and the employer of choice, supplier of choice, valued customer, good corporate citizen and investment of choice. Our strategic financial objectives are intended to align with our mission and drive value for all our stakeholders. Our strategic financial objectives include: (1) top line revenue growth; (2) improved operating margin; (3) a strong balance sheet and cash flows; and (4) effective capital allocation.

COVID-19 Pandemic

Our business and results of operations improved in the first quarter of 2021 relative to the first quarter of 2020 as a result of several positive trends caused by the global response to the COVID-19 outbreak, which was declared a pandemic in March 2020. In particular, as widespread vaccine distribution continued, we have seen economic recovery in many of the markets where we operate and a significant uptick in consumer mobility. However, some areas continue to experience renewed outbreaks and surges in infection rates. As a result, our business segments continue to face many uncertainties and our operations remain vulnerable to reversal of these trends or other continuing negative effects caused by the pandemic.

The extent to which the COVID-19 pandemic impacts us will depend on numerous factors and future developments that we cannot predict, including the severity of the virus; the occurrence of additional waves or spikes in infection rates; the duration of the outbreak; governmental, business or other actions taken in response to the pandemic and the impact of these actions, including partial or complete shutdowns, travel restrictions, and shelter-in-place orders among other actions; the effectiveness and distribution of COVID-19 vaccines; and impacts on our supply chain, our ability to keep operating locations open, and customer demand.

As of March 31, 2021, substantially all our operations are open for business. Our supply chain partners have been very supportive, despite strain on the supply chain with respect to labor shortages and certain inventory shortages, delays in order fulfillment and increased backlogs our partners continue to do their part to help our service levels to our customers remain strong. We remain in constant communication with our employees regarding changing conditions and protocol. Based on the length and severity of COVID-19, we may experience continued volatility in customer demand and supply chain disruption. We will continue to evaluate the nature and extent of these potential impacts to our business, consolidated results of operations, segment results, liquidity and capital resources.

For further information regarding the impact of COVID-19 on our business, please see “Results of Operations,” “Financial Condition,” “Liquidity and Capital Resources,” “Changes in Internal Control over Financial Reporting,” Item 1A, “Risk Factors,” and Item 2, “Issuer Repurchase of Equity Securities” in this report, which are incorporated herein by reference.

Key Business Metrics

We consider comparable sales to be a key business metric because management has evaluated its results of operations using this metric and we believe that this key indicator provides additional perspective and insights when analyzing the operating performance of our business from period to period and trends in its historical operating results. This metric should not be considered superior to, as a substitute for or as an alternative to, and should be considered in conjunction with, the GAAP financial measures presented in this report.

Comparable Sales

Comparable sales refer to period-over-period comparisons of our net sales excluding the impact of acquisitions, foreign currency and other. We consider this metric useful to investors because it provides greater transparency into management’s view and assessment of our core ongoing operations. This is a metric that is widely used by analysts, investors and competitors in our industry, although our calculation of the metric may not be comparable to similar measures disclosed by other companies, because not all companies and analysts calculate this metric in the same manner.

Results of Operations

Overview

As a result of COVID-19 vaccine distribution and its positive impact on consumer mobility and demand, we are encouraged by the increased economic activity globally during the first quarter of 2021. Our Automotive Parts Group reported improved sales and segment profit margin across all regions during the three months ended March 31, 2021 when compared to the same prior year period and also when compared to the same period in 2019. Our Industrial Parts Group experienced continued recovery in their operations with improved sales trends and segment profit margin this quarter when compared to the same period in both 2020 and 2019. We improved our total segment profit margin in the quarter and are generating gross margin gains and realizing the continued benefits of our cost savings initiatives to more effectively leverage our cost structure. We believe our Automotive

Parts Group also benefited from improving product availability and colder weather in North America and Europe as compared to the same period in the prior year. In addition, we believe the pandemic-related government stimulus benefited many of our U.S. customers to further drive demand. Our Industrial Parts Group benefited from the strengthening industrial economy, which is evident in indicators such as the Purchasing Managers Index and Industrial Production Index.

Sales

Sales for the three months ended March 31, 2021 were $4.5 billion, a 9.1% increase compared to $4.1 billion for the same period of the prior year. The increase in sales is attributable to a 4.6% increase in comparable sales, a net favorable impact of foreign currency and other of 3.7%, and a 0.8% benefit from acquisitions. Foreign currency was positively impacted by the strengthening of the Australian dollar, Euro and Canadian dollar as compared to the U.S. dollar.

Sales for the Automotive Parts Group increased 14.3% for the three months ended March 31, 2021 compared to the same period in the prior year. This group's revenue increase for the three months ended March 31, 2021 consisted of an approximate 8.3% increase in comparable sales driven by strong demand in all geographical regions, the net impact of favorable foreign currency and other of 5.1%, and a 0.9% benefit from acquisitions.

Sales for the Industrial Parts Group increased 0.1% for the three months ended March 31, 2021 compared to the same period in 2020. The increase in this group's revenues reflects the favorable impact of foreign currency of 1.3% and a 0.6% benefit from acquisitions, mostly offset by an approximate 1.8% decrease in comparable sales as compared to the same period in 2020.

Cost of Goods Sold and Operating Expenses

Cost of goods sold for the three months ended March 31, 2021 was $2.9 billion, an 8.1% increase from $2.7 billion for the same period in 2020. As a percentage of net sales, cost of goods sold was 65.5% for the three months ended March 31, 2021, compared to 66.1% for the same three month period of 2020. Cost of goods sold includes the total cost of merchandise sold, including freight expenses associated with moving merchandise from our suppliers to our distribution centers, retail stores and branches, as well as supplier volume incentives and inventory adjustments. Gross profit as a percentage of net sales may fluctuate based on (i) changes in merchandise costs and related supplier volume incentives or pricing, (ii) variations in product and customer mix, (iii) price changes in response to competitive pressures, (iv) physical inventory and LIFO adjustments, (v) changes in foreign currency exchange rates, and (vi) the impact of tariffs. The increase in costs of goods sold for the three months ended March 31, 2021 are primarily driven by the sales increase as discussed above. Gross margin increased to 34.5% compared to 33.9% for the same three month period of 2020. The gross margin improvements primarily reflect the favorable impact of channel mix shifts, positive product mix, and strategic category management initiatives including pricing and global sourcing actions. In addition, there was minimal impact of price inflation for the three months ended March 31, 2021. We have reported improved year over year gross margin for 14 consecutive quarters.

Total operating expenses increased 4.3% to $1.3 billion for the three months ended March 31, 2021 compared to $1.2 billion for the same three month period in 2020. As a percentage of net sales, operating expenses decreased to 28.5% compared to 29.8% in the three month periods ended March 31, 2021 and 2020, respectively. The decrease in operating expenses as a percentage of net sales for the period is primarily related to improved leverage on stronger sales and cost control initiatives.

Our operating expenses are substantially comprised of compensation and benefit-related costs for personnel. Other major expense categories include facility occupancy costs for headquarters, distribution centers and retail store/branch operations, transportation and delivery costs, technology and digital costs, accounting, legal and professional services, insurance costs, and travel and advertising.

Segment Profit

The Automotive Parts Group's segment profit increased 65.3% in the three months ended March 31, 2021 compared to the same period of 2020, and its segment profit margin increased to 8.0% compared to 5.5% for the same period of the previous year. This improvement in segment profit margin reflects the strong operating results in all geographical regions, driven by primarily strong sales trends and the execution of our growth and operating initiatives.

The Industrial Parts Group's segment profit increased 10.0% in the three months ended March 31, 2021 compared to the same three month period of 2020, and its segment profit margin increased to 8.3% compared to 7.5% for the same period of the previous year. The improved segment profit margin reflects gross margin expansion and reduced expenses related to our cost control initiatives.

Income Taxes

Our effective income tax rate was 23.8% for both the three months ended March 31, 2021 and March 31, 2020.

Net Income from Continuing Operations

For the three months ended March 31, 2021, net income from continuing operations was $217.7 million, an increase of 77.9% compared to net income from continuing operations of $122.3 million for the same three month period of the prior year. On a per share diluted basis, net income from continuing operations was $1.50, an increase of 78.6% compared to $0.84 for the same three month period of 2020.

During the three months ended March 31, 2020, we incurred $1.8 million of adjustments. These adjustments represent restructuring costs, insurance proceeds related to the SPR Fire, and transaction and other costs. Transaction and other costs primarily include incremental costs associated with certain divestitures and COVID-19.

For the three months ended March 31, 2021, net income from continuing operations on an adjusted basis was also $217.7 million, an increase of 86.4% compared to adjusted net income from continuing operations of $116.8 million for the same three month period of the prior year. On a per share basis, net income from continuing operations on an adjusted basis was $1.50 for the three months ended March 31, 2021, an increase of 87.5% compared to $0.80 for the same three month period of 2020. For 2020, adjusted net income from continuing operations and adjusted diluted net income from continuing operations per common share are both non-GAAP measures (see table below for reconciliations to the most directly comparable GAAP measures).

The following table sets forth a reconciliation of net income from continuing operations and diluted net income from continuing operations per common share to adjusted net income from continuing operations and adjusted diluted net income from continuing operations per common share to account for the impact of these adjustments. We believe that the presentation of adjusted net income from continuing operations and adjusted diluted net income from continuing operations per common share, when considered together with the corresponding GAAP financial measures and the reconciliations to those measures, provide meaningful supplemental information to both management and investors that is indicative of the Company's core operations. We consider these metrics useful to investors because they provide greater transparency into management's view and assessment of our ongoing operating performance by removing items management believes are not representative of our continuing operations and may distort our longer-term operating trends. We believe these measures are useful and enhance the comparability of our results from period to period and with our competitors, as well as show ongoing results from operations distinct from items that are infrequent or not associated with our core operations. We do not, nor do we suggest that investors should, consider such non-GAAP financial measures, as superior to, in isolation from, or as a substitute for, GAAP financial information.

	Three Months Ended March 31,	
(in thousands)	2021	2020
GAAP net income from continuing operations	$ 217,710	$ 122,346
Adjustments:		
Restructuring costs (1)	—	2,982
Gain on insurance proceeds related to SPR Fire (2)	—	(12,282)
Transaction and other costs (3)	—	7,549
Total adjustments	—	(1,751)
Tax impact of adjustments	—	(3,810)
Adjusted net income from continuing operations	$ 217,710	$ 116,785

The table below represent amounts per common share assuming dilution:

(in thousands, except per share data)	Three Months Ended March 31, 2021	2020
GAAP net income from continuing operations	$ 1.50	$ 0.84
Adjustments:		
Restructuring costs (1)	—	0.02
Gain on insurance proceeds related to SPR Fire (2)	—	(0.08)
Transaction and other costs (3)	—	0.05
Total adjustments	—	(0.01)
Tax impact of adjustments	—	(0.03)
Adjusted diluted net income from continuing operations per common share	$ 1.50	$ 0.80
Weighted average common shares outstanding – assuming dilution	145,300	145,623

The table below clarifies where the adjusted items are presented in the condensed consolidated statements of income.

(in thousands)	Three Months Ended March 31, 2021	2020
Line item:		
Selling, administrative and other expenses	$ —	$ 7,549
Restructuring costs	—	2,982
Non-operating (income) expense: Other	—	(12,282)
Total adjustments	$ —	$ (1,751)

(1) Adjustment reflects restructuring costs related to the execution of the 2019 Cost Savings Plan. The costs are primarily associated with severance and other employee costs, including a voluntary retirement program, and facility and closure costs related to the consolidation of operations.

(2) Adjustment reflects insurance recoveries in excess of losses incurred on inventory, property, plant and equipment and other fire-related costs related to the S.P. Richards Headquarters and Distribution Center.

(3) Adjustment includes $6.0 million of incremental costs associated with COVID-19 for the three months ended March 31, 2020 and costs associated with certain divestitures. COVID-19 related costs include incremental costs incurred relating to fees to cancel marketing events and increased cleaning and sanitization materials, among other things.

Financial Condition

Our cash balance of $1.1 billion at March 31, 2021 increased $127.8 million, or 12.9%, from December 31, 2020. For the three months ended March 31, 2021, we had net cash provided by operating activities of $300.9 million, net cash used in investing activities of $40.7 million and net cash used in financing activities of $116.0 million. The cash provided by operating activities was up significantly from the prior year, primarily driven by higher net income for the three months ended March 31, 2021 and the effective management of our working capital. The investing activities consisted primarily of $48.4 million for capital expenditures and $19.5 million for acquisitions and other investing activities, partially offset by $27.2 million in proceeds from the sale of property, plant and equipment and divestitures. The financing activities consisted primarily of $114.0 million for dividends paid to the Company's shareholders.

Accounts receivable increased $252.7 million, or 16.2%, from December 31, 2020 primarily due to higher sales volume in March of 2021. Inventory increased $94.4 million, or 2.7%, due to increased economic activity globally and related product demand. Accounts payable increased $351.3 million, or 8.5% from December 31, 2020 partly due to extended payment terms with certain suppliers. Total debt of $2.6 billion at March 31, 2021 decreased $0.1 billion, or 2.2%, from December 31, 2020.

We continue to negotiate extended payment dates with our suppliers. Our current payment terms with the majority of our suppliers range from 30 to 360 days. Several global financial institutions offer voluntary supply chain finance ("SCF") programs which enable our suppliers, at their sole discretion, to sell their receivables from the Company to these financial

institutions on a non-recourse basis at a rate that takes advantage of our credit rating and may be beneficial to them. The SCF program is primarily available to suppliers of goods and services included in cost of goods sold in our condensed consolidated statements of comprehensive income (loss). The Company and our suppliers agree on commercial terms for the goods and services we procure, including prices, quantities and payment terms, regardless of whether the supplier elects to participate in the SCF program. The suppliers sell goods or services, as applicable, to the Company and they issue the associated invoices to the Company based on the agreed-upon contractual terms. Then, if they are participating in the SCF program, our suppliers, at their sole discretion, determine which invoices, if any, they want to sell to the financial institutions. In turn, we direct payment to the financial institutions, rather than the suppliers, for the invoices sold to the financial institutions. No guarantees are provided by the Company or any of our subsidiaries on third-party performance under the SCF program; however, the Company guarantees the payment by our subsidiaries to the financial institutions participating in the SCF program for the applicable invoices. We have no economic interest in a supplier's decision to participate in the SCF program, and we have no direct financial relationship with the financial institutions, as it relates to the SCF program. Accordingly, amounts due to our suppliers that elected to participate in the SCF program are included in the line item accounts payable in our condensed consolidated balance sheets. All activity related to amounts due to suppliers that elected to participate in the SCF program is reflected in cash flows from operating activities in our condensed consolidated statements of cash flows. As of March 31, 2021 and December 31, 2020, the outstanding payment obligations to the financial institutions are $1.9 billion and $1.8 billion, respectively. The amount settled through the SCF program was $577 million and $629 million for the three months ended March 31, 2021 and March 31, 2020, respectively.

Liquidity and Capital Resources

We ended the quarter with $2.6 billion of total liquidity (comprising $1.5 billion availability on the revolving credit facility and $1.1 billion of cash and cash equivalents). From time to time, we may enter into other credit facilities or financing arrangements to provide additional liquidity and to manage against foreign currency risk. We currently believe that the existing lines of credit and cash generated from operations will be sufficient to fund anticipated operations for the foreseeable future.

We have a strong cash position and solid financial strength to pursue strategic growth opportunities through disciplined, strategic capital deployment. Our key priorities include the reinvestment in our businesses through capital expenditures, mergers and acquisitions, the dividend and share repurchases. We have plans for additional investments in our businesses to drive growth, improve efficiencies and productivity, and drive shareholder value.

On February 16, 2021, we announced a 3% increase in the regular quarterly cash dividend for 2021. The Board of Directors increased the cash dividend payable to an annual rate of $3.26 per share compared with the previous dividend of $3.16 per share. GPC has paid a cash dividend every year since going public in 1948, and 2021 marks the 65th consecutive year of increased dividends paid to shareholders.

In addition, we qualify and are taking advantage of certain employer payroll tax credits and the deferral of certain tax payments that are allowed under the U.S. Coronavirus Aid, Relief, and Economic Security Act.

We expect to be able to continue to borrow funds at reasonable rates over the long term. At March 31, 2021, the Company's total average cost of debt was 2.65%, and the Company remained in compliance with all covenants connected with its borrowings, such covenants include, among others, a financial covenant to maintain a certain leverage ratio of consolidated debt to consolidated adjusted EBITDA under our credit facility.

Any failure to comply with our debt covenants or restrictions could result in a default under our financing arrangements or could require us to obtain waivers from our lenders for failure to comply with these restrictions. The occurrence of a default that remains uncured or the inability to secure a necessary consent or waiver could create cross defaults under other debt arrangements and have a material adverse effect on our business, financial condition, results of operations and cash flows.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

For quantitative and qualitative disclosures about market risk, refer to "Quantitative and Qualitative Disclosures About Market Risk" in Item 7A of Part II of our 2020 Annual Report on Form 10-K. Our exposure to market risk has not changed materially since December 31, 2020.

Item 4. Controls and Procedures

As of the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the Company's disclosure controls and procedures. Based on that evaluation, the Company's CEO and CFO concluded that the

Company's disclosure controls and procedures were effective as of the end of the period covered by this report to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or furnishes under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to the Company's management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 of the SEC that occurred during the Company's last quarter ended March 31, 2021 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are involved in various claims and legal actions that arise in the ordinary course of business. Although the results of litigation and claims cannot be predicted with certainty, we do not believe that the ultimate resolution of these actions will have a material adverse effect on our financial position, results of operations, liquidity and capital resources. Except as set forth herein, there have been no significant developments to the information presented in our 2020 Annual Report on Form 10-K with respect to litigation or commitments and contingencies. See the Commitments and Contingencies footnote to the condensed consolidated financial statements for more information, which information is incorporated by reference herein.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our 2020 Annual Report on Form 10-K, which could materially affect our business, financial condition or future results. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information about the Company's purchases of shares of the Company's common stock during the three months ended March 31, 2021:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
January 1, 2021 through January 31, 2021	361,685	$105.20	—	14,479,536
February 1, 2021 through February 28, 2021	59,900	$104.91	—	14,479,536
March 1, 2021 through March 31, 2021	230,353	$113.32	—	14,479,536
Totals	651,938	$108.04	—	14,479,536

(1) Includes shares surrendered by employees to the Company to satisfy tax withholding obligations in connection with the vesting of shares of restricted stock, the exercise of stock options and/or tax withholding obligations.

(2) On August 21, 2017, the Board of Directors announced that it had authorized the repurchase of 15.0 million shares. The authorization for the repurchase continues until all such shares have been repurchased or the repurchase plan is terminated by action of the Board of Directors. Approximately 14.5 million shares authorized remain available to be repurchased by the Company. There were no other repurchase plans announced as of March 31, 2021.

Item 6. Exhibits

(a) The following exhibits are filed or furnished as part of this report:

Exhibit 3.1	Amended and Restated Articles of Incorporation of the Company, dated April 23, 2007 (incorporated herein by reference from Exhibit 3.1 to the Company's Current Report on Form 8-K dated April 23, 2007)
Exhibit 3.2	By-Laws of the Company, as amended and restated November 19, 2018 (incorporated herein by reference from Exhibit 3.2 to the Company's Current Report on Form 8-K dated November 19, 2018)
Exhibit 31.1	Certification pursuant to SEC Rule 13a-14(a) signed by the Chief Executive Officer – filed herewith
Exhibit 31.2	Certification pursuant to SEC Rule 13a-14(a) signed by the Chief Financial Officer – filed herewith
Exhibit 32	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by the Chief Executive Officer and Chief Financial Officer – furnished herewith
Exhibit 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.
Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
Exhibit 101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
Exhibit 104	The cover page from this Annual Report on Form 10-Q for the period ended March 31, 2021 formatted in Inline XBRL

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Genuine Parts Company
(Registrant)

Date: April 22, 2021

/s/ Carol B. Yancey

Carol B. Yancey
Executive Vice President and Chief Financial Officer
(Duly Authorized Officer and Principal Financial Officer)

Date: April 22, 2021

/s/ Napoleon B. Rutledge Jr.

Napoleon B. Rutledge Jr.
Senior Vice President and Chief Accounting Officer
(Duly Authorized Officer and Principal Accounting Officer)

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

FORM 10-Q

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

For the quarterly period ended June 30, 2021
OR

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

For the transition period from __________ to __________
Commission file number: 1-5690

GENUINE PARTS COMPANY
(Exact name of registrant as specified in its charter)

UCC-120

GA **(State or other jurisdiction of incorporation or organization)**	**58-0254510** **(I.R.S. Employer Identification No.)**
2999 WILDWOOD PARKWAY, ATLANTA, GA **(Address of principal executive offices)**	**30339** **(Zip Code)**

678-934-5000
(Registrant's telephone number, including area code)

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

Title of Each Class	Trading Symbol	Name of each exchange on which registered
Common Stock, $1.00 par value per share	GPC	New York Stock Exchange

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 check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§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 the 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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

There were 143,212,499 shares of common stock outstanding as of July 19, 2021.

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PART I – FINANCIAL INFORMATION
Item 1. Financial Statements

GENUINE PARTS COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(in thousands, except share and per share data)	June 30, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 987,389	$ 990,166
Trade accounts receivable, less allowance for doubtful accounts (2021 – $43,751; 2020 – $36,622)	1,899,978	1,556,966
Merchandise inventories, net	3,679,113	3,506,271
Prepaid expenses and other current assets	1,155,114	1,060,360
Total current assets	7,721,594	7,113,763
Goodwill	1,922,544	1,917,477
Other intangible assets, less accumulated amortization	1,461,886	1,498,257
Deferred tax assets	52,380	65,658
Property, plant and equipment, less accumulated depreciation (2021 – $1,336,175; 2020 – $1,268,170)	1,175,953	1,162,043
Operating lease assets	1,059,068	1,038,877
Other assets	692,557	644,140
Total assets	$ 14,085,982	$ 13,440,215
Liabilities and equity		
Current liabilities:		
Trade accounts payable	$ 4,729,240	$ 4,128,084
Current portion of debt	48,094	160,531
Dividends payable	117,536	114,043
Other current liabilities	1,626,325	1,491,426
Total current liabilities	6,521,195	5,894,084
Long-term debt	2,472,980	2,516,614
Operating lease liabilities	798,079	789,294
Pension and other post–retirement benefit liabilities	255,175	265,687
Deferred tax liabilities	230,463	212,910
Other long-term liabilities	562,945	543,623
Equity:		
Preferred stock, par value – $1 per share; authorized – 10,000,000 shares; none issued	—	—
Common stock, par value – $1 per share; authorized – 450,000,000 shares; issued and outstanding – 2021 – 143,301,673 shares; 2020 – 144,354,335 shares	143,302	144,354
Additional paid-in capital	111,972	117,165
Retained earnings	3,982,159	3,979,779
Accumulated other comprehensive loss	(1,003,554)	(1,036,502)
Total parent equity	3,233,879	3,204,796
Noncontrolling interests in subsidiaries	11,266	13,207
Total equity	3,245,145	3,218,003
Total liabilities and equity	$ 14,085,982	$ 13,440,215

See accompanying notes to condensed consolidated financial statements.

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GENUINE PARTS COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except per share data)	2021	2020	2021	2020
Net sales	$ 4,783,738	$ 3,823,227	$ 9,248,452	$ 7,915,753
Cost of goods sold	3,094,633	2,532,740	6,018,532	5,237,088
Gross profit	1,689,105	1,290,487	3,229,920	2,678,665
Operating expenses:				
Selling, administrative and other expenses	1,349,309	971,589	2,544,473	2,114,286
Depreciation and amortization	73,960	66,733	146,256	133,987
Provision for doubtful accounts	5,037	11,300	9,946	17,819
Restructuring costs	—	25,059	—	28,041
Goodwill impairment charge	—	506,721	—	506,721
Total operating expenses	1,428,306	1,581,402	2,700,675	2,800,854
Non-operating (income) expenses:				
Interest expense	16,107	25,465	35,169	46,430
Other	(24,915)	(11,944)	(61,390)	(24,776)
Total non-operating (income) expenses	(8,808)	13,521	(26,221)	21,654
Income (loss) before income taxes	269,607	(304,436)	555,466	(143,843)
Income taxes	73,111	59,065	141,260	97,312
Net income (loss) from continuing operations	196,496	(363,501)	414,206	(241,155)
Net loss from discontinued operations	—	(200,871)	—	(186,682)
Net income (loss)	$ 196,496	$ (564,372)	$ 414,206	$ (427,837)
Dividends declared per common share	$ 0.8150	$ 0.7900	$ 1.6300	$ 1.5800
Basic earnings (loss) per share:				
Continuing operations	$ 1.36	$ (2.52)	$ 2.87	$ (1.67)
Discontinued operations	—	(1.39)	—	(1.29)
Basic earnings (loss) per share	$ 1.36	$ (3.91)	$ 2.87	$ (2.96)
Diluted earnings (loss) per share:				
Continuing operations	$ 1.36	$ (2.52)	$ 2.85	$ (1.67)
Discontinued operations	—	(1.39)	—	(1.29)
Diluted earnings (loss) per share	$ 1.36	$ (3.91)	$ 2.85	$ (2.96)
Weighted average common shares outstanding	144,211	144,262	144,312	144,657
Dilutive effect of stock options and non-vested restricted stock awards	772	—	846	—
Weighted average common shares outstanding – assuming dilution	144,983	144,262	145,158	144,657

See accompanying notes to condensed consolidated financial statements.

GENUINE PARTS COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except per share data)	2021	2020	2021	2020
Net income (loss)	$ 196,496	$ (564,372)	$ 414,206	$ (427,837)
Other comprehensive income (loss), net of income taxes:				
Foreign currency translation adjustments, net of income taxes in 2021 — $7,019 and $14,166; 2020 — $12,114 and $3,445, respectively	7,131	111,599	6,836	(71,014)
Cash flow hedge adjustments, net of income taxes in 2021 — $1,383 and $2,767; 2020 — $560 and $6,044, respectively	3,741	1,514	7,482	(16,342)
Pension and postretirement benefit adjustments, net of income taxes in 2021 — $3,434 and $6,855; 2020 — $3,008 and $6,025, respectively	9,334	7,844	18,630	16,292
Other comprehensive income (loss), net of income taxes	20,206	120,957	32,948	(71,064)
Comprehensive income (loss)	$ 216,702	$ (443,415)	$ 447,154	$ (498,901)

See accompanying notes to condensed consolidated financial statements.

GENUINE PARTS COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(UNAUDITED)

(in thousands, except share and per share data)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Parent Equity	Non-controlling Interests in Subsidiaries	Total Equity
	Three Months Ended June 30, 2021							
April 1, 2021	144,458,057	$ 144,458	$ 117,867	$ (1,023,760)	$ 4,085,998	$ 3,324,563	$ 11,546	$ 3,336,109
Net income	—	—	—	—	196,496	196,496	—	196,496
Other comprehensive income, net of tax	—	—	—	20,206	—	20,206	—	20,206
Cash dividend declared, $0.8150 per share	—	—	—	—	(117,406)	(117,406)	—	(117,406)
Share-based awards exercised	279,441	280	(14,181)	—	—	(13,901)	—	(13,901)
Share-based compensation	—	—	8,286	—	—	8,286	—	8,286
Purchase of stock	(1,435,825)	(1,436)	—	—	(182,929)	(184,365)	—	(184,365)
Noncontrolling interest activities	—	—	—	—	—	—	(280)	(280)
June 30, 2021	143,301,673	$ 143,302	$ 111,972	$ (1,003,554)	$ 3,982,159	$ 3,233,879	$ 11,266	$ 3,245,145

(in thousands, except share and per share data)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Parent Equity	Non-controlling Interests in Subsidiaries	Total Equity
	Six Months Ended June 30, 2021							
January 1, 2021	144,354,335	$ 144,354	$ 117,165	$ (1,036,502)	$ 3,979,779	$ 3,204,796	$ 13,207	$ 3,218,003
Net income	—	—	—	—	414,206	414,206	—	414,206
Other comprehensive loss, net of tax	—	—	—	32,948	—	32,948	—	32,948
Cash dividend declared, $1.6300 per share	—	—	—	—	(235,120)	(235,120)	—	(235,120)
Share-based awards exercised	383,163	384	(19,714)	—	—	(19,330)	—	(19,330)
Share-based compensation	—	—	14,521	—	—	14,521	—	14,521
Purchase of stock	(1,435,825)	(1,436)	—	—	(182,929)	(184,365)	—	(184,365)
Cumulative effect from adoption of ASU 2019-12 (1)	—	—	—	—	6,223	6,223	—	6,223
Noncontrolling interest activities	—	—	—	—	—	—	(1,941)	(1,941)
June 30, 2021	143,301,673	$ 143,302	$ 111,972	$ (1,003,554)	$ 3,982,159	$ 3,233,879	$ 11,266	$ 3,245,145

GENUINE PARTS COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY (CONTINUED)
(UNAUDITED)

Three Months Ended June 30, 2020

(in thousands, except share and per share data)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Parent Equity	Non-controlling Interests in Subsidiaries	Total Equity
April 1, 2020	144,249,343	$ 144,249	$ 103,878	$ (1,333,329)	$ 4,487,904	$ 3,402,702	$ 20,329	$ 3,423,031
Net loss	—	—	—	—	(564,372)	(564,372)	—	(564,372)
Other comprehensive income, net of tax	—	—	—	120,957	—	120,957	—	120,957
Cash dividend declared, $0.7900 per share	—	—	—	—	(113,968)	(113,968)	—	(113,968)
Share-based awards exercised	14,846	15	(464)	—	—	(449)	—	(449)
Share-based compensation	—	—	4,405	—	—	4,405	—	4,405
Noncontrolling interest activities	—	—	—	—	—	—	1,284	1,284
June 30, 2020	144,264,189	$ 144,264	$ 107,819	$ (1,212,372)	$ 3,809,564	$ 2,849,275	$ 21,613	$ 2,870,888

Six Months Ended June 30, 2020

(in thousands, except share and per share data)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Parent Equity	Non-controlling Interests in Subsidiaries	Total Equity
January 1, 2020	145,378,158	$ 145,378	$ 98,777	$ (1,141,308)	$ 4,571,860	$ 3,674,707	$ 20,793	$ 3,695,500
Net loss	—	—	—	—	(427,837)	(427,837)	—	(427,837)
Other comprehensive loss, net of tax	—	—	—	(71,064)	—	(71,064)	—	(71,064)
Cash dividend declared, $1.5800 per share	—	—	—	—	(228,444)	(228,444)	—	(228,444)
Share-based awards exercised	22,475	22	(812)	—	—	(790)	—	(790)
Share-based compensation	—	—	9,854	—	—	9,854	—	9,854
Purchase of stock	(1,136,444)	(1,136)	—	—	(94,583)	(95,719)	—	(95,719)
Cumulative effect from adoption of ASU 2016-13 (2)	—	—	—	—	(11,432)	(11,432)	—	(11,432)
Noncontrolling interest activities	—	—	—	—	—	—	820	820
June 30, 2020	144,264,189	$ 144,264	$ 107,819	$ (1,212,372)	$ 3,809,564	$ 2,849,275	$ 21,613	$ 2,870,888

(1) The Company adopted Accounting Standards Update ("ASU") 2019-12, *Simplifying the Accounting for Income Taxes*, during the first quarter of 2021.

(2) The Company adopted ASU 2016-13, *Measurement of Credit Losses on Financial Instruments,* during the first quarter of 2020.

See accompanying notes to condensed consolidated financial statements.

GENUINE PARTS COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(in thousands)	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Operating activities:		
Net income (loss)	$ 414,206	$ (427,837)
Net loss from discontinued operations	—	(186,682)
Net income (loss) from continuing operations	414,206	(241,155)
Adjustments to reconcile net income (loss) from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	146,256	133,987
Share-based compensation	14,521	9,854
Excess tax (benefits) deficiencies from share-based compensation	(6,627)	162
Realized currency losses	—	11,356
Goodwill impairment charge	—	506,721
Changes in operating assets and liabilities	136,074	499,795
Net cash provided by operating activities from continuing operations	704,430	920,720
Investing activities:		
Purchases of property, plant and equipment	(89,993)	(74,358)
Proceeds from sale of property, plant and equipment	22,065	6,838
Proceeds from divestitures of businesses	13,705	382,737
Acquisitions of businesses and other investing activities	(97,168)	(15,393)
Net cash (used in) provided by investing activities from continuing operations	(151,391)	299,824
Financing activities:		
Proceeds from debt	31,599	1,885,109
Payments on debt	(142,295)	(2,082,271)
Share-based awards exercised	(19,330)	(790)
Dividends paid	(231,627)	(225,327)
Purchases of stock	(184,365)	(95,719)
Other financing activities	(2,159)	(8,357)
Net cash used in financing activities from continuing operations	(548,177)	(527,355)
Cash flows from discontinued operations:		
Net cash provided by operating activities from discontinued operations	—	31,668
Net cash used in investing activities from discontinued operations	—	(11,131)
Net cash provided by financing activities from discontinued operations	—	—
Net cash provided by discontinued operations	—	20,537
Effect of exchange rate changes on cash and cash equivalents	(7,639)	(6,959)
Net increase in cash and cash equivalents	(2,777)	706,767
Cash and cash equivalents at beginning of period	990,166	276,992
Cash and cash equivalents at end of period	$ 987,389	$ 983,759

See accompanying notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except per share data)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and therefore do not include all information and footnotes required by accounting principles generally accepted in the U.S. ("U.S. GAAP") for complete financial statements. On June 30, 2020, the Company completed the divestiture of its Business Products Group. Refer to the acquisitions, divestitures and discontinued operations footnote for more information. The Company's results of operations for the Business Products Group are reported as discontinued operations and all information related to the discontinued operations has been excluded from the notes to the condensed consolidated financial statements for all periods presented. Net income from discontinued operations for each period includes all costs that are directly attributable to these businesses and excludes certain corporate overhead costs that were previously allocated. Additionally, revenue from freight services provided by the Automotive Parts Group are grossed up and recast in continuing operations in each period because those sales are continuing with the discontinued operations after the divestiture. Except as disclosed herein, there have been no material changes in the information disclosed in the notes to the consolidated financial statements included in the Annual Report on Form 10-K of Genuine Parts Company (the "Company," "we," "our," "us," or "its") for the year ended December 31, 2020. Accordingly, the unaudited condensed consolidated financial statements and related disclosures herein should be read in conjunction with the Company's 2020 Annual Report on Form 10-K.

The preparation of interim financial statements requires management to make estimates and assumptions that affect the amounts reported in the unaudited condensed consolidated financial statements. Specifically, the Company makes estimates and assumptions in its unaudited condensed consolidated financial statements for inventory adjustments, the accrual of bad debts, credit losses on guaranteed loans, customer sales returns, and volume incentives earned, among others. Inventory adjustments (including adjustments for a majority of inventories that are valued under the last-in, first-out ("LIFO") method) are accrued on an interim basis and adjusted in the fourth quarter based on the annual book to physical inventory adjustment and LIFO valuation. Reserves for bad debts, credit losses on guaranteed loans and customer sales returns are estimated and accrued on an interim basis based on a consideration of historical experience, current conditions, and reasonable and supportable forecasts. Volume incentives are estimated based upon cumulative and projected purchasing levels. In the opinion of management, all adjustments necessary for a fair presentation of the Company's financial results for the interim periods have been made. These adjustments are of a normal recurring nature. The Company has reclassified certain prior period amounts to conform to the current period presentation.

The results of operations for the three and six months ended June 30, 2021 are not necessarily indicative of results for the year ended December 31, 2021. The Company's results of operations improved in the first half of 2021 relative to the first half of 2020 as a result of several positive trends caused by the global response to the coronavirus ("COVID-19") outbreak, which was declared a pandemic in March 2020. In particular, as widespread vaccine distribution continued, we have seen economic recovery in many of the markets where we operate and a significant uptick in consumer mobility. However, the Company's operations remain vulnerable to continuing negative effects caused by COVID-19. The extent to which the pandemic impacts the Company will depend on numerous factors and future developments that the Company cannot predict, including the severity of the virus; the occurrence of additional waves or spikes in infection rates, including the spread of variant strains; the duration of the outbreak; governmental, business or other actions taken in response to the pandemic and the efficacy of these actions, including partial or complete shut downs, travel restrictions, and shelter-in-place orders among other actions; the effectiveness and distribution of COVID-19 vaccines; the ability of the global population to access such vaccines; impacts on the Company's supply chain, its ability to attract talent and keep operating locations open, and on customer demand. The Company has evaluated subsequent events through the date the unaudited condensed consolidated financial statements covered by this quarterly report were issued.

2. Segment Information

The following table presents a summary of the Company's reportable segment financial information from continuing operations:

	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Net sales:				
Automotive	$ 3,196,299	$ 2,495,799	$ 6,149,464	$ 5,078,484
Industrial	1,587,439	1,327,428	3,098,988	2,837,269
Total net sales	$ 4,783,738	$ 3,823,227	$ 9,248,452	$ 7,915,753
Segment profit:				
Automotive	$ 290,758	$ 218,906	$ 526,436	$ 361,484
Industrial	150,413	108,928	275,705	222,861
Total segment profit	441,171	327,834	802,141	584,345
Interest expense, net	(15,362)	(24,876)	(33,686)	(44,744)
Intangible asset amortization	(27,384)	(23,256)	(52,928)	(45,996)
Corporate expense	(51,397)	(28,613)	(82,640)	(83,674)
Other unallocated costs (1)	(77,421)	(555,525)	(77,421)	(553,774)
Income (loss) before income taxes from continuing operations	$ 269,607	$ (304,436)	$ 555,466	$ (143,843)

(1) The following table presents a summary of the other unallocated costs:

	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Other unallocated costs:				
Product liability damages award (2)	$ (77,421)	$ —	$ (77,421)	$ —
Goodwill impairment charge (3)	—	(506,721)	—	(506,721)
Restructuring costs (4)	—	(25,059)	—	(28,041)
Realized currency loss (5)	—	(11,356)	—	(11,356)
Gain on insurance proceeds related to SPR Fire (6)	—	1,166	—	13,448
Transaction and other costs (7)	—	(13,555)	—	(21,104)
Total other unallocated costs	$ (77,421)	$ (555,525)	$ (77,421)	$ (553,774)

(2) Adjustment reflects damages reinstated by the Washington Supreme Court order on July 8, 2021 in connection with a 2017 automotive product liability claim. Refer to the commitments and contingencies footnote to the condensed consolidated financial statements for more information.

(3) Adjustment reflects the 2020 goodwill impairment charge related to the Company's European reporting unit.

(4) Adjustment reflects restructuring costs related to the execution of certain restructuring actions across the Company's subsidiaries primarily targeted at simplifying the organizational structures and distribution networks implemented by the Company in October 2019 (the “2019 Cost Savings Plan”). The costs are primarily associated with severance and other employee costs, including a voluntary retirement program, and facility and closure costs related to the consolidation of operations.

(5) Adjustment reflects realized currency losses related to divestitures.

(6) Adjustment reflects insurance recoveries in excess of losses incurred on inventory, property, plant and equipment and other fire-related costs related to the S.P. Richards Headquarters and Distribution Center.

(7) Adjustment reflects (i) $2,481 and $8,490 of incremental costs associated with COVID-19 for the three and six months ended June 30, 2020, respectively, and (ii) costs associated with certain divestitures. COVID-19 related costs include

incremental costs incurred relating to fees to cancel marketing events and increased cleaning and sanitization materials, among other things.

Net sales are disaggregated by geographical region for each of the Company's reportable segments, as the Company deems this presentation best depicts how the nature, amount, timing and uncertainty of net sales and cash flows are affected by economic factors. The following table presents disaggregated geographical net sales from contracts with customers by reportable segment:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
North America:				
Automotive	$ 2,076,562	$ 1,715,567	$ 3,939,367	$ 3,447,063
Industrial	1,469,775	1,231,208	2,869,174	2,641,923
Total North America	$ 3,546,337	$ 2,946,775	$ 6,808,541	$ 6,088,986
Australasia:				
Automotive	$ 388,708	$ 282,797	$ 756,577	$ 555,721
Industrial	117,664	96,220	229,814	195,346
Total Australasia	$ 506,372	$ 379,017	$ 986,391	$ 751,067
Europe – Automotive	$ 731,029	$ 497,435	$ 1,453,520	$ 1,075,700
Total net sales	$ 4,783,738	$ 3,823,227	$ 9,248,452	$ 7,915,753

3. Accumulated Other Comprehensive Loss

The following tables present the changes in accumulated other comprehensive loss ("AOCL") by component for the six months ended June 30:

	Changes in Accumulated Other Comprehensive Loss by Component			
	Pension and Other Post-Retirement Benefits	Cash Flow Hedges	Foreign Currency Translation	Total
Beginning balance, January 1, 2021	$ (692,868)	$ (30,007)	$ (313,627)	$ (1,036,502)
Other comprehensive income before reclassifications	—	—	6,836	6,836
Amounts reclassified from accumulated other comprehensive loss	18,630	7,482	—	26,112
Other comprehensive income, net of income taxes	18,630	7,482	6,836	32,948
Ending balance, June 30, 2021	$ (674,238)	$ (22,525)	$ (306,791)	$ (1,003,554)

	Changes in Accumulated Other Comprehensive Loss by Component			
	Pension and Other Post-Retirement Benefits	Cash Flow Hedges	Foreign Currency Translation	Total
Beginning balance, January 1, 2020	$ (704,415)	$ (20,671)	$ (416,222)	$ (1,141,308)
Other comprehensive loss before reclassifications	—	(21,046)	(82,370)	(103,416)
Amounts reclassified from accumulated other comprehensive loss	16,292	4,704	11,356	32,352
Other comprehensive income (loss), net of income taxes	16,292	(16,342)	(71,014)	(71,064)
Ending balance, June 30, 2020	$ (688,123)	$ (37,013)	$ (487,236)	$ (1,212,372)

The AOCL components related to the pension benefits are included in the computation of net periodic benefit income in the employee benefit plans footnote. The nature of the cash flow hedges are discussed in the derivatives and hedging footnote.

Generally, tax effects in AOCL are established at the currently enacted tax rate and reclassified to net income (loss) in the same period that the related pre-tax AOCL reclassifications are recognized.

4. Recent Accounting Pronouncements

Changes to U.S. GAAP are established by the Financial Accounting Standards Board ("FASB") in the form of Accounting Standards Updates ("ASU") to the FASB Accounting Standards Codification ("ASC"). The Company considers the applicability and impact of all ASUs and has determined that any recently adopted accounting pronouncements did not have a material impact on the Company's condensed consolidated financial statements and all recent accounting pronouncements not yet adopted are not applicable or are expected to have an immaterial impact on the Company's condensed consolidated financial statements.

5. Employee Benefit Plans

Net periodic benefit income from the Company's pension plans included the following components:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Service cost	$ 3,101	$ 2,925	$ 6,142	$ 5,907
Interest cost	17,962	20,865	35,868	41,790
Expected return on plan assets	(38,858)	(38,410)	(77,590)	(76,933)
Amortization of prior service credit	172	173	344	346
Amortization of actuarial loss	12,509	11,088	24,965	22,210
Net periodic benefit income	$ (5,114)	$ (3,359)	$ (10,271)	$ (6,680)

Service cost is recorded in selling, administrative and other expenses in the condensed consolidated statements of income while all other components are recorded within other non-operating (income) expenses. Pension benefits also include amounts related to supplemental retirement plans.

6. Guarantees

The Company guarantees the borrowings of certain independently controlled automotive parts stores and businesses ("independents") and certain other affiliates in which the Company has a noncontrolling equity ownership interest ("affiliates"). Presently, the independents are generally consolidated by unaffiliated enterprises that have controlling financial interests through ownership of a majority voting interest in the independents. The Company has no voting interest or equity conversion rights in any of the independents. The Company does not control the independents or the affiliates but receives a fee for the guarantees. The Company has concluded that the independents are variable interest entities, but that the Company is not the primary beneficiary. Specifically, the equity holders of the independents have the power to direct the activities that most significantly impact the entities' economic performance including, but not limited to, decisions about hiring and terminating personnel, local marketing and promotional initiatives, pricing and selling activities, credit decisions, monitoring and maintaining appropriate inventories, and store hours. Separately, the Company concluded that the affiliates are not variable interest entities. The Company's maximum exposure to loss as a result of its involvement with these independents and affiliates is generally equal to the total borrowings subject to the Company's guarantees. While such borrowings of the independents and affiliates are outstanding, the Company is required to maintain compliance with certain covenants. At June 30, 2021, the Company was in compliance with all such covenants.

As of June 30, 2021, the total borrowings of the independents and affiliates subject to guarantee by the Company were approximately $896,080. These loans generally mature over periods from one to six years. The Company regularly monitors the performance of these loans and the ongoing operating results, financial condition and ratings from credit rating agencies of the independents and affiliates that participate in the guarantee programs. In the event that the Company is required to make payments in connection with these guarantees, the Company would obtain and liquidate certain collateral pledged by the independents or affiliates (e.g., accounts receivable and inventory) to recover all or a substantial portion of the amounts paid under the guarantees. The Company recognizes a liability equal to current expected credit losses over the lives of the loans in the guaranteed loan portfolio, based on a consideration of historical experience, current conditions, the nature and expected value of any collateral, and reasonable and supportable forecasts. To date, the Company has had no significant losses in connection with guarantees of independents' and affiliates' borrowings and the current expected credit loss reserve is not material. As of June 30, 2021, there are no material guaranteed loans for which the borrower is experiencing financial difficulty and recovery is expected to be provided substantially through the operation or sale of the collateral.

As of June 30, 2021, the Company has recognized certain assets and liabilities amounting to $78,000 each for the guarantees related to the independents' and affiliates' borrowings. These assets and liabilities are included in other assets and other long-term liabilities in the condensed consolidated balance sheets. The liabilities relate to the Company's noncontingent obligation to stand ready to perform under the guarantee programs and they are distinct from the Company's current expected credit loss reserve.

7. Accounts Receivable Sales Agreement

The Company has an accounts receivable sales agreement (the "A/R Sales Agreement") to sell short-term receivables from certain customer trade accounts to an unaffiliated financial institution on a revolving basis. The A/R Sales Agreement has a 3 year term, which the Company intends to renew.

As part of the A/R Sales Agreement, the Company continuously sells designated pools of receivables as they are originated by it and certain U.S. subsidiaries to a separate bankruptcy-remote special purpose entity ("SPE"). The assets of the SPE would be first available to satisfy the creditor claims of the unaffiliated financial institution. The Company controls and therefore consolidates the SPE in its condensed consolidated financial statements.

The SPE transferred ownership and control of certain receivables that met certain qualifying conditions to the unaffiliated financial institution in exchange for cash. The Company accounts for transactions with the unaffiliated financial institution as sales of financial assets, with the associated receivables derecognized from the Company's condensed consolidated balance sheet. The remaining receivables held by the SPE were pledged to secure the collectability of the sold receivables. The amount of receivables pledged as collateral as of June 30, 2021 and December 31, 2020 is approximately $959,000 and $771,000, respectively.

The Company continues to be involved with the receivables transferred by the SPE to the unaffiliated financial institution by providing collection services. As cash is collected on sold receivables, the SPE continuously transfers ownership and control of new qualifying receivables to the unaffiliated financial institution so that the total principal amount outstanding of receivables sold is approximately $800,000 at any point in time (which is the maximum amount allowed under the agreement). The future amount of receivables outstanding as sold could decrease, based on the level of activity and other factors. Total principal amount outstanding of receivables sold is approximately $800,000 as of June 30, 2021 and December 31, 2020, respectively.

The following table summarizes the activity under the A/R Sales Agreement for the following periods:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Receivables sold to the financial institution and derecognized	$ 1,888,942	$ 902,326	$ 3,816,873	$ 902,326
Cash collected on sold receivables	$ 1,888,940	$ 402,302	$ 3,816,868	$ 402,302

Upon entry into the A/R Sales Agreement, the Company received an initial benefit from cash from operations of approximately $800,000 in the year ended December 31, 2020. Continuous cash activity related to the A/R Sales Agreement is reflected in cash from operating activities in the condensed consolidated statement of cash flows. The SPE incurs fees due to the unaffiliated financial institution related to the accounts receivable sales transactions. Those fees, which are immaterial, are recorded within other non-operating (income) expense in the condensed consolidated statements of income. The SPE has a recourse obligation to repurchase from the unaffiliated financial institution any previously sold receivables that are not collected due to the occurrence of certain events, including credit quality deterioration and customer sales returns. The reserve recognized for this recourse obligation as of June 30, 2021 and December 31, 2020 is not material. The servicing liability related to the Company's collection services also is not material, given the high quality of the customers underlying the receivables and the anticipated short collection period.

8. Fair Value of Financial Instruments

Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Fair value is a market-based measurement that is determined based on assumptions that market participants would use in pricing an asset or liability. Additionally, ASC 820, *Fair Value Measurements*, defines levels within a hierarchy based upon observable and non-observable inputs.

- Level 1. Observable inputs such as quoted prices in active markets;
- Level 2. Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and

- Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions

As of June 30, 2021 the fair value of the Company's senior unsecured notes was approximately $2,617,081, which are designated as Level 2 in the fair value hierarchy. Our valuation technique is based primarily on prices and other relevant information generated by observable transactions involving identical or comparable assets or liabilities.

Derivative instruments are recognized in the consolidated balance sheets at fair value and are designated as Level 2 in the fair value hierarchy. They are valued using inputs other than quoted prices, such as foreign exchange rates and yield curves. Refer to the derivatives and hedging footnote for further information.

Fair value measurements of non-financial assets and non-financial liabilities are primarily used in the impairment analyses of goodwill, other intangible assets, and long-lived assets. These involve fair value measurements on a nonrecurring basis using Level 3 inputs as defined in the fair value hierarchy. The carrying amounts reflected in the consolidated balance sheets for cash and cash equivalents, trade accounts receivable, trade accounts payable, and borrowings under the line of credit approximate their respective fair values based on the short-term nature of these instruments.

9. Derivatives and Hedging

The Company is exposed to various risks arising from business operations and market conditions, including fluctuations in interest rates and certain foreign currencies. When deemed appropriate, the Company uses derivative and non-derivative instruments as risk management tools to mitigate the potential impact of interest rate and foreign exchange rate risks. The objective of using these tools is to reduce fluctuations in the Company’s earnings and cash flows associated with changes in these rates. Derivative financial instruments are not used for trading or other speculative purposes. The Company has not historically incurred, and does not expect to incur in the future, any losses as a result of counterparty default related to derivative instruments.

The Company formally documents relationships between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking various hedge transactions. This process includes linking cash flow hedges to specific forecasted transactions or variability of cash flow to be paid. The Company also formally assesses, both at the hedge’s inception and on an ongoing basis, whether the designated derivative and non-derivative instruments that are used in hedging transactions are highly effective in offsetting changes in the cash flows of the hedged items. When a designated instrument is determined not to be highly effective as a hedge or the underlying hedged transaction is no longer probable, hedge accounting is discontinued prospectively.

Cash Flow Hedges

In 2020, the Company terminated its interest rate swaps and settled the outstanding balances through cash payments totaling $41,000. The remaining amount in AOCL is being amortized to interest expense on a straight-line basis over the remaining life of the previously hedged instrument.

Net Investment Hedges

The Company has designated certain derivative instruments and a portion of its foreign currency denominated debt, a non-derivative financial instrument, as hedges of the foreign currency exchange rate exposure of the Company's Euro-denominated net investment in a European subsidiary. The Company applies the spot method to assess the hedge effectiveness of the derivative instruments and this assessment for each instrument excludes the initial value related to the difference at contract inception between the foreign exchange spot rate and the forward rate (i.e., the forward points). The initial value of this excluded component is recognized as a reduction to interest expense in a systematic and rational manner over the term of the derivative instrument. All other changes in value for the net investment hedges are included in AOCL within foreign currency translation and would only be reclassified to earnings if the European subsidiary were liquidated, or otherwise disposed.

The following table summarizes the location and carrying amounts of the derivative instruments and the foreign currency denominated debt, a non-derivative financial instrument, that are designated and qualify as part of hedging relationships:

		June 30, 2021		December 31, 2020	
Instrument	Balance Sheet Location	Notional	Balance	Notional	Balance
Net investment hedges:					
Forward contracts	Prepaid expenses and other current assets	$ 925,810	$ 37,783	$ 800,000	$ 7,668
Forward contracts	Other current liabilities	$ 235,180	$ 12,223	$ 360,990	$ 19,442
Foreign currency debt	Long-term debt	€ 700,000	$ 832,790	€ 700,000	$ 861,070

The tables below presents gains and losses related to designated cash flow hedges and net investment hedges:

	Gain (Loss) Recognized in AOCL Before Reclassifications		Gain Recognized in Interest Expense For Excluded Components	
	2021	2020	2021	2020
Three Months Ended June 30,				
Cash flow hedges:				
Interest rate contracts	$ —	$ (4,370)	$ —	$ —
Net investment hedges:				
Forward contracts	(13,329)	(31,147)	6,574	7,476
Foreign currency debt	(12,670)	(13,720)	—	—
Total	$ (25,999)	$ (49,237)	$ 6,574	$ 7,476

	Gain (Loss) Recognized in AOCL Before Reclassifications		Gain Recognized in Interest Expense For Excluded Components	
	2021	2020	2021	2020
Six Months Ended June 30,				
Cash flow hedges:				
Interest rate contracts	$ —	$ (28,830)	$ —	$ —
Net investment hedges:				
Forward contracts	24,186	15,701	13,148	13,998
Foreign currency debt	28,280	(2,940)	—	—
Total	$ 52,466	$ (16,069)	$ 13,148	$ 13,998

10. Commitments and Contingencies

Legal Matters

As more fully discussed in the Company's notes to the consolidated financial statements in its 2020 Annual Report on Form 10-K, a jury awarded damages in 2017 against the Company in a litigated automotive product liability dispute. On February 19, 2020, the Washington Court of Appeals issued an order entirely reversing the jury's finding on damages and ordering a new trial on damages. The plaintiffs subsequently appealed this order to the Washington Supreme Court. On July 7, 2020, the Washington Supreme Court indicated that it would consider a further appeal on this matter, and oral arguments occurred on November 10, 2020. On July 8, 2021, the Washington Supreme Court overturned the order of the Washington Court of Appeals and reinstated the trial court's damage award of $77,100 against the Company. The Company recorded an adjustment to increase Selling, general and other expenses by approximately $77,421, inclusive of statutory interest and insurance coverage, in the Condensed Consolidated Statements of Income for the three and six months ended June 30, 2021.

Environmental Liabilities

Item 103 of SEC Regulation S-K requires disclosure of certain environmental matters when a governmental authority is a party to the proceedings and such proceedings involve potential monetary sanctions that the Company reasonably believes will exceed an applied threshold not to exceed $1 million. Applying this threshold, there are no environmental matters to disclose for this period.

11. Acquisitions, Divestitures and Discontinued Operations

Acquisitions

The Company acquired several businesses for approximately $98,018 and $33,047, net of cash acquired, during the six months ended June 30, 2021 and June 30, 2020, respectively. The measurement period is still open for certain businesses acquired in prior periods, but there have been no significant measurement period adjustments during the three and six months ended June 30, 2021.

Divestitures

The Company received cash proceeds from divestitures of businesses totaling $13,705 and $382,737 for the six months ended June 30, 2021 and June 30, 2020, respectively.

Discontinued Operations

Business Products Group

During 2020, the Company completed the divestiture of its Business Products Group as part of its long-term strategic initiative to streamline its operations and optimize its portfolio so that it can drive shareholder value by focusing on its global Automotive and Industrial Parts Groups. This divestiture represented a single plan to exit the Business Products Group segment and was considered a strategic shift that had a major effect on the Company's operations and financial results. Therefore, the results of operations, financial position and cash flows for the Business Products Group are reported as discontinued operations for all prior periods presented.

The Company retains an investment in S.P. Richard's ("SPR"), a business that previously belonged to the Business Products Group, with a carrying value of $70,576, which is included within other assets on the condensed consolidated balance sheets, as of June 30, 2021. The Company maintains an allowance equal to the current expected credit loss based on a consideration of historical experience, current market conditions and reasonable and supportable forecasts related to this investment and other related assets of $17,000.

The Company also remains involved with SPR for a limited period of time through various lease, sublease, freight distribution and transition service agreements. The Company has concluded that SPR is a variable interest entity, but the Company is not the primary beneficiary and therefore the entity is not consolidated. Among other things, the Company does not have any voting rights and does not have the power to direct the activities that most significantly affect SPR's economic performance. For a limited period of time as SPR completes its transition away from the Company's shared services platform, the Company continues to pay certain payables on SPR's behalf and at SPR's direction with full reimbursement from SPR under the terms of a transition services agreement.

The Company's results of operations for discontinued operations were:

	Three Months Ended June 30, 2020	Six Months Ended June 30, 2020
Net sales	$ 379,938	$ 846,944
Cost of goods sold	277,614	632,007
Gross profit	102,324	214,937
Operating expenses	89,385	179,461
Loss on disposal	216,133	220,318
Loss before income taxes	(203,194)	(184,842)
Income tax (benefit) expense	(2,323)	1,840
Net loss from discontinued operations	$ (200,871)	$ (186,682)

12. Income Taxes

The Company's effective income tax rate was 27.1% for the three months ended June 30, 2021, compared to negative 19.4% for the same three month period in 2020. The effective income tax rate was 25.4% for the six months ended June 30, 2021, compared to negative 67.7% for the same period in 2020. The rate increase is primarily due to the non-deductible goodwill impairment charge that occurred in 2020. In addition, during the second quarter of 2021 the United Kingdom enacted legislation raising its corporate tax rate from 19% to 25% effective April 2023. The Company remeasured its deferred tax assets and liabilities as of June 30, 2021, primarily related to its intangible assets. The rate increase was partially offset by stock compensation excess tax benefits.

13. Earnings Per Share

As more fully discussed in the share-based compensation footnote of the Company's notes to the consolidated financial statements in its 2020 Annual Report on Form 10-K, the Company maintains various long-term incentive plans, which provide for the granting of stock options, stock appreciation rights ("SARs"), restricted stock, restricted stock units ("RSUs"), performance awards, dividend equivalents and other share-based awards. Certain outstanding options to purchase shares of common stock are not included in the diluted earnings per share calculation because their inclusion would have been anti-dilutive. Options to purchase approximately 186 and 99 shares of common stock were outstanding but excluded from the computations of diluted earnings per share for the three and six month periods ended June 30, 2021, respectively, as compared

to approximately 2,537 and 2,418 for the three and six month periods ended June 30, 2020, respectively. These options were excluded because their inclusion would have been anti-dilutive.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and accompanying notes contained herein and with the audited consolidated financial statements, accompanying notes, related information and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2020. The results of operations for the three and six months ended June 30, 2021 are not necessarily indicative of the year ended December 31, 2021.

Forward-Looking Statements

Some statements in this report, as well as in other materials we file with the Securities and Exchange Commission ("SEC"), release to the public, or make available on our website, constitute forward-looking statements that are subject to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All statements in the future tense and all statements accompanied by words such as "expect," "likely," "outlook," "forecast," "preliminary," "would," "could," "should," "position," "will," "project," "intend," "plan," "on track," "anticipate," "to come," "may," "possible," "assume," or similar expressions are intended to identify such forward-looking statements. These forward-looking statements include our expected ability to operate and protect our workforce during the COVID-19 pandemic, our strategies for growing our automotive and industrial businesses, the execution and effect of our cost savings initiatives, our efforts and initiatives to help us emerge from the pandemic well-positioned to execute our strategy, our ongoing efforts to maintain compliance and flexibility under our debt covenants, our liquidity position and actions to maximize cash flow to continue to operate during these highly uncertain times and plans for future cost savings. Senior officers may also make verbal statements to analysts, investors, the media and others that are forward-looking.

We caution you that all forward-looking statements involve risks and uncertainties, and while we believe that our expectations for the future are reasonable in view of currently available information, you are cautioned not to place undue reliance on our forward-looking statements. Actual results or events may differ materially from those indicated as a result of various important factors. Such factors may include, among other things, the extent and duration of the disruption to our business operations caused by the global health crisis associated with the COVID-19 pandemic, including the effects on the financial health of our business partners and customers, on supply chains and our suppliers, on vehicle miles driven as well as other metrics that affect our business, and on access to capital and liquidity provided by the financial and capital markets; our ability to maintain compliance with our debt covenants; our ability to successfully integrate acquired businesses into our operations and to realize the anticipated synergies and benefits; our ability to successfully implement our business initiatives in our two business segments; slowing demand for our products; the ability to maintain favorable supplier arrangements and relationships; disruptions in global supply chains and in our suppliers' operations, including as a result of the impact of COVID-19 on our suppliers and our supply chain; changes in national and international legislation or government regulations or policies, including changes to import tariffs, environmental and social policy, infrastructure programs and privacy legislation, and their impact to us and our suppliers and customers; changes in general economic conditions, including unemployment, inflation (including the impact of tariffs) or deflation and the United Kingdom's ("U.K.") exit from the European Union and the unpredictability of the impact following such exit; changes in tax policies; volatile exchange rates; volatility in oil prices; significant cost increases, such as rising fuel and freight expenses; our ability to successfully attract and retain employees in the current labor market; uncertain credit markets and other macroeconomic conditions; competitive product, service and pricing pressures; failure or weakness in our disclosure controls and procedures and internal controls over financial reporting, including as a result of the work from home environment; the uncertainties and costs of litigation; disruptions caused by a failure or breach of our information systems, as well as other risks and uncertainties discussed in our 2020 Annual Report on Form 10-K (all of which risks may be amplified by the COVID-19 pandemic) and from time to time in our subsequent filings with the SEC.

Forward-looking statements speak only as of the date they are made, and we undertake no duty to update any forward-looking statements except as required by law. You are advised, however, to review any further disclosures we make on related subjects in our subsequent Forms 10-K, 10-Q, 8-K and other reports filed with the SEC.

Overview

Genuine Parts Company is a service organization engaged in the global distribution of automotive and industrial replacement parts. We have a long tradition of growth dating back to 1928, the year we were founded in Atlanta, Georgia. We conduct business in North America, Europe and Australasia from a network of more than 10,000 locations.

The Company's Automotive Parts Group operated in the U.S., Canada, Mexico, France, the U.K., Germany, Poland, the Netherlands, Belgium, Australia and New Zealand as of June 30, 2021, and accounted for 66% of total revenue for the six months ended June 30, 2021. Our Industrial Parts Group operated in the U.S., Canada, Mexico, Australia, New Zealand,

Indonesia and Singapore. The Industrial Parts Group accounted for 34% of the Company's total revenue for the six months ended June 30, 2021.

At Genuine Parts Company, our mission is to be a world-class service organization and the employer of choice, supplier of choice, valued customer, good corporate citizen and investment of choice. Our strategic financial objectives are intended to align with our mission and drive value for all our stakeholders. Our strategic financial objectives include: (1) top line revenue growth; (2) improved operating margin; (3) a strong balance sheet and cash flows; and (4) effective capital allocation.

COVID-19 Pandemic

Our business and results of operations improved in the first half of 2021 relative to the first half of 2020 as a result of several positive trends caused by the global response to the COVID-19 outbreak, which was declared a pandemic in March 2020. In particular, as widespread vaccine distribution continued, we have seen economic recovery in many of the markets where we operate and a significant uptick in consumer mobility. However, some areas, primarily Europe and Australasia, continue to experience renewed outbreaks and surges in infection rates. As a result, our business segments continue to face many uncertainties and our operations remain vulnerable to continuing negative effects caused by the pandemic.

The extent to which the COVID-19 pandemic impacts us will depend on numerous factors and future developments that we cannot predict, including the severity of the virus; the occurrence of additional waves or spikes in infection rates, including the spread of variant strains; the duration of the outbreak; governmental, business or other actions taken in response to the pandemic and the impact of these actions, including partial or complete shutdowns, travel restrictions, and shelter-in-place orders among other actions; the effectiveness and distribution of COVID-19 vaccines; the ability of the global population to access such vaccines; impacts on our supply chain, our ability to attract talent and keep operating locations open, and customer demand.

As of June 30, 2021, substantially all our operations are open for business. Our supply chain partners have been very supportive, despite strain on the supply chain with respect to labor shortages and certain inventory shortages, delays in order fulfillment and increased backlogs. Our partners continue to do their part to help our service levels to our customers remain strong. We remain in constant communication with our employees regarding changing conditions and protocol. Based on the length and severity of COVID-19, we may experience continued volatility in customer demand and supply chain disruption. We will continue to evaluate the nature and extent of these potential impacts to our business, consolidated results of operations, segment results, liquidity and capital resources.

For further information regarding the impact of COVID-19 on our business, please see “Results of Operations,” “Financial Condition,” “Liquidity and Capital Resources,” “Changes in Internal Control over Financial Reporting,” Item 1A, “Risk Factors,” and Item 2, “Unregistered Sales of Equity Securities and Use of Proceeds” in this report, which are incorporated herein by reference.

Key Business Metrics

We consider comparable sales to be a key business metric because management has evaluated its results of operations using this metric and we believe that this key indicator provides additional perspective and insights when analyzing the operating performance of our business from period to period and trends in its historical operating results. This metric should not be considered superior to, as a substitute for or as an alternative to, and should be considered in conjunction with, the GAAP financial measures presented in this report.

Comparable Sales

Comparable sales refer to period-over-period comparisons of our net sales excluding the impact of acquisitions, foreign currency and other. We consider this metric useful to investors because it provides greater transparency into management’s view and assessment of our core ongoing operations. This is a metric that is widely used by analysts, investors and competitors in our industry, although our calculation of the metric may not be comparable to similar measures disclosed by other companies, because not all companies and analysts calculate this metric in the same manner.

Results of Operations

Overview

As a result of COVID-19 vaccine distribution and its positive impact on consumer mobility and demand, we are encouraged by the increase in consumer activity during the first half of 2021 as our key markets continue to reopen. In addition, we continue to realize the benefits of our cost savings initiatives to more effectively leverage our cost structure in both our Automotive and Industrial Parts Groups. Both our segments reported improved sales and segment profit margin during the three and six months ended June 30, 2021 when compared to the same prior year periods. The Automotive Parts Group benefited from the broad

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economic recovery, an increase in customer mobility and miles driven, as well as favorable weather trends. Additionally, the Industrial Parts Group experienced continued recovery in their operations and benefited from our operational initiatives, including the improved omni-channel capabilities and the expansion of our services and solutions business.

Sales

Sales for the three months ended June 30, 2021 were $4.8 billion, a 25.1% increase as compared to $3.8 billion in the same period of the prior year. The increase in sales is attributable to a 19.5% increase in comparable sales, a net favorable impact of foreign currency and other of 4.1% and a 1.5% benefit from acquisitions. Sales for the six months ended June 30, 2021 were $9.2 billion, a 16.8% increase as compared to $7.9 billion in the same period of the prior year. The increase in sales is due to a 11.8% comparable sales increase, a 3.9% net favorable impact of foreign currency and other and a 1.1% benefit from acquisitions. The increases in comparable sales is driven primarily by the increased consumer activity as our key markets continue to reopen when compared to the three and six months ended June 30, 2020. The impact of price inflation was minimal for the three and six months ended June 30, 2021.

Sales for the Automotive Parts Group increased 28.1% for the three months ended June 30, 2021, as compared to the same period in the prior year. This group's revenue increase for the three months ended June 30, 2021 consisted of an approximate 21.1% increase in comparable sales, a 5.1% net favorable impact of foreign currency and other and a 1.9% benefit from acquisitions. This group's 21.1% revenue increase for the six months ended June 30, 2021 consisted of an approximate 14.8% increase in comparable sales, a 4.9% net favorable impact from foreign currency and other and a 1.4% benefit from acquisitions.

Sales for the Industrial Parts Group increased 19.6% for the three months ended June 30, 2021, as compared to the same period in 2020. The increase in this group's revenue reflects an approximate 16.4% increase in comparable sales, a 2.4% favorable foreign currency impact and a 0.8% benefit from acquisitions. This group's 9.2% sales increase for the six months ended June 30, 2021 reflects a 6.5% increase in comparable sales, a 2.0% favorable impact from foreign currency and a 0.7% benefit from acquisitions.

Cost of Goods Sold and Operating Expenses

Cost of goods sold for the three months ended June 30, 2021 was $3.1 billion, a 22.2% increase from $2.5 billion for the same period in 2020. As a percentage of net sales, cost of goods sold was 64.7% for the three months ended June 30, 2021, as compared to 66.2% in the same three month period of 2020. Cost of goods sold for the six months ended June 30, 2021 was $6.0 billion, a 14.9% increase from $5.2 billion for the same period in 2020. As a percentage of net sales, cost of goods sold was 65.1% for the six months ended June 30, 2021, as compared to 66.2% in the same six month period of 2020. The increase in cost of goods sold for the three and six months ended June 30, 2021 primarily relates to the overall increase in sales volume due to the increased consumer activity as compared to the same three and six month periods of the prior year.

Gross profit as a percentage of net sales may fluctuate based on (i) changes in merchandise costs and related supplier volume incentives or pricing, (ii) variations in product and customer mix, (iii) price changes in response to competitive pressures, (iv) physical inventory and LIFO adjustments, (v) changes in foreign currency exchange rates, and (vi) the impact of tariffs. Gross margin increased to 35.3% and 34.9% for the three and six months ended June 30, 2021, respectively, compared to 33.8% for the same three and six month periods of 2020. The gross margin improvements primarily reflect the impact of higher levels of supplier incentives on stronger sales and the favorable impact of channel and geographical mix shifts, positive product mix, and strategic category management initiatives including pricing and global sourcing actions. In addition, there was an approximate 1.5% positive impact of price inflation for the three months ended June 30, 2021. The impact of price inflation for the six month period ended June 30, 20201 was less than 1%. We have reported improved year over year gross margin for 15 consecutive quarters.

Total operating expenses decreased to $1.4 billion for the three months ended June 30, 2021 as compared to $1.6 billion for the same three month period in 2020. As a percentage of net sales, operating expenses improved to 29.9% as compared to 41.4% in the same three month period of the previous year. For the six months ended June 30, 2021, these expenses totaled $2.7 billion as compared to $2.8 billion for the same six month period in 2020. As a percentage of net sales, operating expenses improved to 29.2% as compared to 35.4% in the same six month period of the previous year. The decrease in operating expenses as a percentage of net sales for the three and six months ended June 30, 2021 is primarily related to the impact of a non-cash goodwill impairment charge included in operating expenses for these periods in 2020. Additionally, these metrics are improved due to the leverage on stronger sales and cost control initiatives.

Our operating expenses are substantially comprised of compensation and benefit-related costs for personnel. Other major expense categories include transportation and delivery costs driven by higher sales, facility occupancy costs, technology and digital costs, insurance costs, legal and professional services, and travel and advertising.

Segment Profit

The Automotive Parts Group's segment profit increased 32.8% in the three months ended June 30, 2021 as compared to the same period of 2020, and its segment profit margin improved to 9.1% as compared to 8.8% in the same period of the previous year. This improvement in segment profit margin reflects the positive impact of gross margin gains and the leveraging of expenses due to strong automotive sales volumes. For the six months ended June 30, 2021, the Automotive Parts Group's segment profit increased approximately 45.6% and the segment profit margin improved to 8.6% as compared to 7.1% in the same six month period of 2020. The improvement in segment profit margin for the six months is primarily due to our strong operating results, as a result of the increased consumer activity as our key markets continue to reopen, gross margin gains and the leveraging of expenses on higher sales.

The Industrial Parts Group's segment profit increased 38.1% in the three months ended June 30, 2021 as compared to the same three month period of 2020, and the segment profit margin for this group improved to 9.5% compared to 8.2% for the same period of the previous year. Segment profit for the Industrial Parts Group improved 23.7% in the six months ended June 30, 2021 as compared to the same six month period of 2020, and the segment profit margin for this group improved to 8.9% compared to 7.9% for the same period of the previous year. The improved segment profit margins for both periods reflect the positive impact of higher sales volumes, gross margin gains and efficiencies in the operating structure of the Industrial Parts Group. Additionally, the Industrial Parts Group benefited from the strengthening industrial economy, which is evident in indicators such as the Purchasing Managers Index and Industrial Production Index.

Income Taxes

The Company's effective income tax rate was 27.1% for the three months ended June 30, 2021, compared to negative 19.4% for the same three month period in 2020. The effective income tax rate was 25.4% for the six months ended June 30, 2021, compared to negative 67.7% for the same period in 2020. The rate increase is primarily due to the non-deductible goodwill impairment charge that occurred in 2020, as described below. In addition, during the second quarter of 2021 the United Kingdom enacted legislation raising its corporate tax rate from 19% to 25% effective April 2023. The Company remeasured its deferred tax assets and liabilities as of June 30, 2021 related to its intangible assets. The rate increase was partially offset by stock compensation excess tax benefits.

Net Income (Loss) from Continuing Operations

For the three months ended June 30, 2021, the Company recorded net income from continuing operations of $196.5 million, an increase of 154.1% as compared to net loss from continuing operations of $363.5 million in the same three month period of the prior year. On a per share diluted basis, net income was $1.36, an increase of 154.0% as compared to net loss per diluted share of $2.52 for the same three month period of 2020. For the six months ended June 30, 2021, the Company recorded net income from continuing operations of $414.2 million, an increase of 271.8% as compared to net loss from continuing operations of $241.2 million in the same six month period of the prior year. On a per share diluted basis, net income from continuing operations was $2.85, an increase of 270.7% as compared to net loss per diluted share of $1.67 in the same six month period of 2020. The increase in income for these periods was primarily driven by higher sales volume as a result of increased consumer activity as our key markets continue to reopen.

Further impacting net income from continuing operations during the three and six months ended June 30, 2021, the Company incurred $77.4 million of adjustments related to damages reinstated by the Washington Supreme Court order on July 8, 2021 in connection with a 2017 automotive product liability claim. Refer to the commitments and contingencies footnote to the condensed consolidated financial statements for more information. The Company believes these damages represent costs that do not arise in the ordinary course of the Company's business.

During the three and six months ended June 30, 2020, the Company incurred $555.5 million and $553.8 million of adjustments, respectively. These adjustments include goodwill impairment charge of $506.7 million related to our European reporting unit and also represents restructuring costs, realized currency losses, insurance proceeds related to the SPR Fire and transaction and other costs and income. Transaction and other costs primarily include incremental costs associated with certain divestitures and COVID-19.

For the three months ended June 30, 2021, the Company's adjusted net income from continuing operations was $252.6 million, an increase of 32.6% as compared to adjusted net income from continuing operations of $190.5 million in the same three month period of the prior year. On a per share basis, adjusted net income from continuing operations was $1.74 for the three months ended June 30, 2021, an increase of 31.8% as compared to $1.32 for the same three month period of 2020. For the six months ended June 30, 2021, adjusted net income from continuing operations was $470.3 million, an increase of 53.0% as compared to $307.3 million for the same six month period of 2020. On a per share diluted basis, adjusted net income from continuing operations was $3.24 for the six months ended June 30, 2021, an increase of 52.8% as compared to $2.12 for the same six month period of the prior year. Both adjusted net income from continuing operations and adjusted diluted net income from

continuing operations per common share are non-GAAP measures (see table below for reconciliations to the most directly comparable GAAP measures).

The following table sets forth a reconciliation of net income (loss) from continuing operations and diluted net income (loss) from continuing operations per common share to adjusted net income from continuing operations and adjusted diluted net income from continuing operations per common share to account for the impact of these adjustments. The Company believes that the presentation of adjusted net income from continuing operations and adjusted diluted net income from continuing operations per common share, which are not calculated in accordance with GAAP, when considered together with the corresponding GAAP financial measures and the reconciliations to those measures, provide meaningful supplemental information to both management and investors that is indicative of the Company's core operations. The Company considers these metrics useful to investors because they provide greater transparency into management's view and assessment of the Company's ongoing operating performance by removing items management believes are not representative of our continuing operations and may distort our longer-term operating trends. We believe these measures are useful and enhance the comparability of our results from period to period and with our competitors, as well as show ongoing results from operations distinct from items that are infrequent or not associated with the Company's core operations. The Company does not, nor does it suggest investors should, consider such non-GAAP financial measures, as superior to, in isolation from, or as a substitute for, GAAP financial information.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2021	2020	2021	2020
GAAP net income (loss) from continuing operations	$ 196,496	$ (363,501)	$ 414,206	$ (241,155)
Adjustments:				
Product liability damages award (1)	77,421	—	77,421	—
Goodwill impairment charge (2)	—	506,721	—	506,721
Restructuring costs (3)	—	25,059	—	28,041
Realized currency loss (4)	—	11,356	—	11,356
Gain on insurance proceeds related to SPR Fire (5)	—	(1,166)	—	(13,448)
Transaction and other costs (6)	—	13,555	—	21,104
Total adjustments	77,421	555,525	77,421	553,774
Tax impact of adjustments	(21,322)	(1,500)	(21,322)	(5,310)
Adjusted net income from continuing operations	$ 252,595	$ 190,524	$ 470,305	$ 307,309

The table below represent amounts per common share assuming dilution:

(in thousands, except per share data)	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
GAAP net income (loss) from continuing operations	$ 1.36	$ (2.52)	$ 2.85	$ (1.67)
Adjustments:				
Product liability damages award (1)	0.53	—	0.53	—
Goodwill impairment charge (2)	—	3.51	—	3.50
Restructuring costs (3)	—	0.17	—	0.19
Realized currency loss (4)	—	0.08	—	0.08
Gain on insurance proceeds related to SPR Fire (5)	—	(0.01)	—	(0.09)
Transaction and other costs (6)	—	0.10	—	0.15
Total adjustments	0.53	3.85	0.53	3.83
Tax impact of adjustments	(0.15)	(0.01)	(0.14)	(0.04)
Adjusted diluted net income from continuing operations per common share	$ 1.74	$ 1.32	$ 3.24	$ 2.12
Weighted average common shares outstanding – assuming dilution	144,983	144,262	145,158	144,657

The table below clarifies where the items that have been adjusted above to improve comparability of the financial information from period to period are presented in the condensed consolidated statements of income.

(in thousands)	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Line item:				
Cost of goods sold	$ —	$ 12,891	$ —	$ 12,891
Selling, administrative and other expenses	77,421	663	77,421	8,213
Goodwill impairment charge	—	506,721	—	506,721
Restructuring costs	—	25,059	—	28,041
Non-operating (income) expenses: Other	—	10,191	—	(2,092)
Total adjustments	$ 77,421	$ 555,525	$ 77,421	$ 553,774

(1) Adjustment reflects damages reinstated by the Washington Supreme Court order on July 8, 2021 in connection with a 2017 automotive product liability claim. Refer to the commitments and contingencies footnote to the condensed consolidated financial statements for more information.

(2) Adjustment reflects the 2020 goodwill impairment charge related to the Company's European reporting unit.

(3) Adjustment reflects restructuring costs related to the execution of the 2019 Cost Savings Plan. The costs are primarily associated with severance and other employee costs, including a voluntary retirement program, and facility and closure costs related to the consolidation of operations.

(4) Adjustment reflects realized currency losses related to divestitures.

(5) Adjustment reflects insurance recoveries in excess of losses incurred on inventory, property, plant and equipment and other fire-related costs related to the S.P. Richards Headquarters and Distribution Center.

(6) Adjustment reflects (i) $2,481 and $8,490 of incremental costs associated with COVID-19 for the three and six months ended June 30, 2020, respectively, and (ii) costs associated with certain divestitures. COVID-19 related costs include incremental costs incurred relating to fees to cancel marketing events and increased cleaning and sanitization materials, among other things.

Financial Condition

The Company's cash balance of $987.4 million at June 30, 2021 decreased $2.8 million, or 0.3%, from December 31, 2020. For the six months ended June 30, 2021, the Company had net cash provided by operating activities of $704.4 million, net cash used in investing activities of $151.4 million and net cash used in financing activities of $548.2 million. The cash provided by operating activities included net income of $414.2 million, adjustments to net income of $154.2 million primarily associated with depreciation and amortization expense, and changes in assets and liabilities of $136.1 million primarily associated with increased purchasing related to sales volume. The investing activities consisted primarily of $90.0 million in capital expenditures and $97.2 million in acquisitions and other investing activities, slightly offset by $35.8 million in proceeds from divestitures and the sale of property, plant and equipment. The financing activities consisted primarily of $231.6 million for dividends paid to the Company's shareholders, $184.4 million paid for share repurchases and $110.7 million net payments on debt.

Accounts receivable increased $343.0 million, or 22.0%, from December 31, 2020 primarily due to higher sales volumes. Inventory increased $172.8 million, or 4.9%, due to increased economic activity and related product demand. Accounts payable increased $601.2 million, or 14.6% from December 31, 2020 due to increased purchasing related to sales volume and, to a lesser extent, extended payment terms with certain suppliers. Total debt of $2.5 billion at June 30, 2021 decreased $0.2 billion, or 5.8%, from December 31, 2020.

We continue to negotiate extended payment dates with our suppliers. Our current payment terms with the majority of our suppliers range from 30 to 360 days. Several global financial institutions offer voluntary supply chain finance ("SCF") programs which enable our suppliers, at their sole discretion, to sell their receivables from the Company to these financial institutions on a non-recourse basis at a rate that takes advantage of our credit rating and may be beneficial to them. The SCF program is primarily available to suppliers of goods and services included in cost of goods sold in our condensed consolidated statements of comprehensive income (loss). The Company and our suppliers agree on commercial terms for the goods and services we procure, including prices, quantities and payment terms, regardless of whether the supplier elects to participate in the SCF program. The suppliers sell goods or services, as applicable, to the Company and they issue the associated invoices to the Company based on the agreed-upon contractual terms. Then, if they are participating in the SCF program, our suppliers, at their sole discretion, determine which invoices, if any, they want to sell to the financial institutions. In turn, we direct payment to the financial institutions, rather than the suppliers, for the invoices sold to the financial institutions. No guarantees are provided by the Company or any of our subsidiaries on third-party performance under the SCF program; however, the Company guarantees the payment by our subsidiaries to the financial institutions participating in the SCF program for the applicable invoices. We have no economic interest in a supplier's decision to participate in the SCF program, and we have no direct financial relationship with the financial institutions, as it relates to the SCF program. Accordingly, amounts due to our suppliers that elected to participate in the SCF program are included in the line item accounts payable in our condensed consolidated balance sheets. All activity related to amounts due to suppliers that elected to participate in the SCF program is reflected in cash flows from operating activities in our condensed consolidated statements of cash flows. As of June 30, 2021 and December 31, 2020, the outstanding payment obligations to the financial institutions are $2.1 billion and $1.8 billion, respectively. The amount settled through the SCF program was $1.2 billion and $1.3 billion for the six months ended June 30, 2021 and June 30, 2020, respectively.

Liquidity and Capital Resources

We ended the quarter with $2.5 billion of total liquidity (comprising $1.5 billion availability on the revolving credit facility and $1 billion of cash and cash equivalents). From time to time, we may enter into other credit facilities or financing arrangements to provide additional liquidity and to manage against foreign currency risk. We currently believe that the existing lines of credit and cash generated from operations will be sufficient to fund anticipated operations for the foreseeable future.

We have a strong cash position and solid financial strength to pursue strategic growth opportunities through disciplined, strategic capital deployment. Our key priorities include the reinvestment in our businesses through capital expenditures, mergers and acquisitions, the dividend and share repurchases. We have plans for additional investments in our businesses to drive growth, improve efficiencies and productivity, and drive shareholder value.

On February 16, 2021, we announced a 3% increase in the regular quarterly cash dividend for 2021. The Board of Directors increased the cash dividend payable to an annual rate of $3.26 per share compared with the previous dividend of $3.16 per share. GPC has paid a cash dividend every year since going public in 1948, and 2021 marks the 65th consecutive year of increased dividends paid to shareholders.

We expect to be able to continue to borrow funds at reasonable rates over the long term. At June 30, 2021, the Company's total average cost of debt was 2.35%, and the Company remained in compliance with all covenants connected with its borrowings,

such covenants include, among others, a financial covenant to maintain a certain leverage ratio of consolidated debt to consolidated adjusted EBITDA under our credit facility.

Any failure to comply with our debt covenants or restrictions could result in a default under our financing arrangements or could require us to obtain waivers from our lenders for failure to comply with these restrictions. The occurrence of a default that remains uncured or the inability to secure a necessary consent or waiver could create cross defaults under other debt arrangements and have a material adverse effect on our business, financial condition, results of operations and cash flows.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

For quantitative and qualitative disclosures about market risk, refer to “Quantitative and Qualitative Disclosures About Market Risk” in Item 7A of Part II of our 2020 Annual Report on Form 10-K. Our exposure to market risk has not changed materially since December 31, 2020.

Item 4. Controls and Procedures

As of the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of the Company’s management, including the Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), of the effectiveness of the Company’s disclosure controls and procedures. Based on that evaluation, the Company’s CEO and CFO concluded that the Company’s disclosure controls and procedures were effective as of the end of the period covered by this report to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or furnishes under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and that such information is accumulated and communicated to the Company’s management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Changes in internal control over financial reporting

There have been no changes in the Company’s internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 of the SEC that occurred during the Company’s last quarter ended June 30, 2021 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are involved in various claims and legal actions that arise in the ordinary course of business. Although the results of litigation and claims cannot be predicted with certainty, we do not believe that the ultimate resolution of these actions will have a material adverse effect on our financial position, results of operations, liquidity and capital resources. Except as set forth herein, there have been no significant developments to the information presented in our 2020 Annual Report on Form 10-K with respect to litigation or commitments and contingencies. Refer to the commitments and contingencies footnote to the condensed consolidated financial statements for more information, which information is incorporated by reference herein.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our 2020 Annual Report on Form 10-K, which could materially affect our business, financial condition or future results. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information about the Company's purchases of shares of the Company's common stock during the three months ended June 30, 2021:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
April 1, 2021 through April 30, 2021	110,416	$124.05	—	14,479,536
May 1, 2021 through May 31, 2021	652,096	$131.05	470,364	14,009,172
June 1, 2021 through June 30, 2021	1,028,696	$127.14	965,461	13,043,711
Totals	1,791,208	$128.37	1,435,825	13,043,711

(1) Includes shares surrendered by employees to the Company to satisfy tax withholding obligations in connection with the vesting of shares of restricted stock, the exercise of stock options and/or tax withholding obligations.

(2) On August 21, 2017, the Board of Directors announced that it had authorized the repurchase of 15.0 million shares. Under this program, shares may be repurchased in privately negotiated and/or open market transactions, including under plans complying with Rule 10b5-1 under the Exchange Act. The authorization for the repurchase continues until all such shares have been repurchased or the repurchase program is terminated by action of the Board of Directors. The program may be suspended at any time and does not have an expiration date. Approximately 13.0 million shares authorized remain available to be repurchased by the Company. There were no other repurchase programs announced as of June 30, 2021.

Item 6. Exhibits

(a) The following exhibits are filed or furnished as part of this report:

Exhibit 3.1	Amended and Restated Articles of Incorporation of the Company, dated April 23, 2007 (incorporated herein by reference from Exhibit 3.1 to the Company's Current Report on Form 8-K dated April 23, 2007)
Exhibit 3.2	By-Laws of the Company, as amended and restated November 19, 2018 (incorporated herein by reference from Exhibit 3.2 to the Company's Current Report on Form 8-K dated November 19, 2018)
Exhibit 10.1*	Description of Director Compensation
Exhibit 31.1	Certification pursuant to SEC Rule 13a-14(a) signed by the Chief Executive Officer – filed herewith
Exhibit 31.2	Certification pursuant to SEC Rule 13a-14(a) signed by the Chief Financial Officer – filed herewith
Exhibit 32	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by the Chief Executive Officer and Chief Financial Officer – furnished herewith
Exhibit 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.
Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
Exhibit 101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
Exhibit 104	The cover page from this Quarterly Report on Form 10-Q for the period ended June 30, 2020 formatted in Inline XBRL

* Indicates management contracts and compensatory plans and arrangements.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	Genuine Parts Company (Registrant)
Date: July 22, 2021	/s/ Carol B. Yancey
	Carol B. Yancey Executive Vice President and Chief Financial Officer (Duly Authorized Officer and Principal Financial Officer)
Date: July 22, 2021	/s/ Napoleon B. Rutledge Jr.
	Napoleon B. Rutledge Jr. Senior Vice President and Chief Accounting Officer (Duly Authorized Officer and Principal Accounting Officer)

UCC-121

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2021

OR

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

For the transition period from __________ to __________

Commission file number: 1-5690

GENUINE PARTS COMPANY

(Exact name of registrant as specified in its charter)

GA	**58-0254510**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
2999 WILDWOOD PARKWAY, ATLANTA, GA	**30339**
(Address of principal executive offices)	**(Zip Code)**

678-934-5000

(Registrant's telephone number, including area code)

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

Title of Each Class	Trading Symbol	Name of each exchange on which registered
Common Stock, $1.00 par value per share	GPC	New York Stock Exchange

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 check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§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 the 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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

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There were 142,421,748 shares of common stock outstanding as of October 18, 2021.

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PART I – FINANCIAL INFORMATION
Item 1. Financial Statements

GENUINE PARTS COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(in thousands, except share and per share data)	September 30, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 919,097	$ 990,166
Trade accounts receivable, less allowance for doubtful accounts (2021 – $44,807; 2020 – $36,622)	1,888,253	1,556,966
Merchandise inventories, net	3,748,418	3,506,271
Prepaid expenses and other current assets	1,226,416	1,060,360
Total current assets	7,782,184	7,113,763
Goodwill	1,890,821	1,917,477
Other intangible assets, less accumulated amortization	1,409,886	1,498,257
Deferred tax assets	43,726	65,658
Property, plant and equipment, less accumulated depreciation (2021 – $1,315,825; 2020 – $1,268,170)	1,107,374	1,162,043
Operating lease assets	1,040,724	1,038,877
Other assets	700,223	644,140
Total assets	$ 13,974,938	$ 13,440,215
Liabilities and equity		
Current liabilities:		
Trade accounts payable	$ 4,819,084	$ 4,128,084
Current portion of debt	—	160,531
Dividends payable	116,356	114,043
Other current liabilities	1,601,883	1,491,426
Total current liabilities	6,537,323	5,894,084
Long-term debt	2,432,539	2,516,614
Operating lease liabilities	781,750	789,294
Pension and other post–retirement benefit liabilities	254,727	265,687
Deferred tax liabilities	222,467	212,910
Other long-term liabilities	549,574	543,623
Equity:		
Preferred stock, par value – $1 per share; authorized – 10,000,000 shares; none issued	—	—
Common stock, par value – $1 per share; authorized – 450,000,000 shares; issued and outstanding – 2021 – 142,503,493 shares; 2020 – 144,354,335 shares	142,503	144,354
Additional paid-in capital	118,223	117,165
Retained earnings	3,995,537	3,979,779
Accumulated other comprehensive loss	(1,073,086)	(1,036,502)
Total parent equity	3,183,177	3,204,796
Noncontrolling interests in subsidiaries	13,381	13,207
Total equity	3,196,558	3,218,003
Total liabilities and equity	$ 13,974,938	$ 13,440,215

See accompanying notes to condensed consolidated financial statements.

GENUINE PARTS COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)
(UNAUDITED)

(in thousands, except per share data)	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Net sales	$ 4,818,849	$ 4,370,086	$ 14,067,301	$ 12,285,839
Cost of goods sold	3,108,082	2,842,020	9,126,614	8,079,108
Gross profit	1,710,767	1,528,066	4,940,687	4,206,731
Operating expenses:				
Selling, administrative and other expenses	1,338,768	1,140,156	3,883,241	3,254,442
Depreciation and amortization	72,121	69,097	218,377	203,084
Provision for doubtful accounts	4,284	5,633	14,230	23,452
Restructuring costs	—	10,968	—	39,009
Goodwill impairment charge	—	—	—	506,721
Total operating expenses	1,415,173	1,225,854	4,115,848	4,026,708
Non-operating (income) expenses:				
Interest expense	14,958	25,788	50,127	72,218
Other	(18,338)	(21,241)	(79,728)	(46,017)
Total non-operating (income) expenses	(3,380)	4,547	(29,601)	26,201
Income before income taxes	298,974	297,665	854,440	153,822
Income taxes	70,389	64,747	211,649	162,059
Net income (loss) from continuing operations	228,585	232,918	642,791	(8,237)
Net loss from discontinued operations	—	(5,387)	—	(192,069)
Net income (loss)	$ 228,585	$ 227,531	$ 642,791	$ (200,306)
Dividends declared per common share	$ 0.8150	$ 0.7900	$ 2.4450	$ 2.3700
Basic earnings (loss) per share:				
Continuing operations	$ 1.60	$ 1.61	$ 4.47	$ (0.06)
Discontinued operations	—	(0.03)	—	(1.33)
Basic earnings (loss) per share	$ 1.60	$ 1.58	$ 4.47	$ (1.39)
Diluted earnings (loss) per share:				
Continuing operations	$ 1.59	$ 1.61	$ 4.44	$ (0.06)
Discontinued operations	—	(0.04)	—	(1.33)
Diluted earnings (loss) per share	$ 1.59	$ 1.57	$ 4.44	$ (1.39)
Weighted average common shares outstanding	142,871	144,273	143,826	144,528
Dilutive effect of stock options and non-vested restricted stock awards	718	762	796	—
Weighted average common shares outstanding – assuming dilution	143,589	145,035	144,622	144,528

See accompanying notes to condensed consolidated financial statements.

GENUINE PARTS COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2021	2020	2021	2020
Net income (loss)	$ 228,585	$ 227,531	$ 642,791	$ (200,306)
Other comprehensive (loss) income, net of income taxes:				
Foreign currency translation adjustments, net of income taxes in 2021 — $11,328 and $25,494; 2020 — $22,896 and $19,451, respectively	(82,574)	34,063	(75,738)	(36,951)
Cash flow hedge adjustments, net of income taxes in 2021 — $1,384 and $4,151; 2020 — $1,313 and $4,731, respectively	3,741	3,550	11,223	(12,792)
Pension and postretirement benefit adjustments, net of income taxes in 2021 — $3,425 and $10,280; 2020 — $2,998 and $9,023, respectively	9,301	8,187	27,931	24,479
Other comprehensive (loss) income, net of income taxes	(69,532)	45,800	(36,584)	(25,264)
Comprehensive income (loss)	$ 159,053	$ 273,331	$ 606,207	$ (225,570)

See accompanying notes to condensed consolidated financial statements.

GENUINE PARTS COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(UNAUDITED)

	Three Months Ended September 30, 2021							
(in thousands, except share and per share data)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Parent Equity	Non-controlling Interests in Subsidiaries	Total Equity
July 1, 2021	143,301,673	$ 143,302	$ 111,972	$ (1,003,554)	$ 3,982,159	$ 3,233,879	$ 11,266	$ 3,245,145
Net income	—	—	—	—	228,585	228,585	—	228,585
Other comprehensive loss, net of tax	—	—	—	(69,532)	—	(69,532)	—	(69,532)
Cash dividend declared, $0.8150 per share	—	—	—	—	(116,486)	(116,486)	—	(116,486)
Share-based awards exercised	2,256	1	(69)	—	—	(68)	—	(68)
Share-based compensation	—	—	6,320	—	—	6,320	—	6,320
Purchase of stock	(800,436)	(800)	—	—	(98,721)	(99,521)	—	(99,521)
Noncontrolling interest activities	—	—	—	—	—	—	2,115	2,115
September 30, 2021	142,503,493	$ 142,503	$ 118,223	$ (1,073,086)	$ 3,995,537	$ 3,183,177	$ 13,381	$ 3,196,558

	Nine Months Ended September 30, 2021							
(in thousands, except share and per share data)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Parent Equity	Non-controlling Interests in Subsidiaries	Total Equity
January 1, 2021	144,354,335	$ 144,354	$ 117,165	$ (1,036,502)	$ 3,979,779	$ 3,204,796	$ 13,207	$ 3,218,003
Net income	—	—	—	—	642,791	642,791	—	642,791
Other comprehensive loss, net of tax	—	—	—	(36,584)	—	(36,584)	—	(36,584)
Cash dividend declared, $2.4450 per share	—	—	—	—	(351,606)	(351,606)	—	(351,606)
Share-based awards exercised	385,419	385	(19,783)	—	—	(19,398)	—	(19,398)
Share-based compensation	—	—	20,841	—	—	20,841	—	20,841
Purchase of stock	(2,236,261)	(2,236)	—	—	(281,650)	(283,886)	—	(283,886)
Cumulative effect from adoption of ASU 2019-12 (1)	—	—	—	—	6,223	6,223	—	6,223
Noncontrolling interest activities	—	—	—	—	—	—	174	174
September 30, 2021	142,503,493	$ 142,503	$ 118,223	$ (1,073,086)	$ 3,995,537	$ 3,183,177	$ 13,381	$ 3,196,558

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GENUINE PARTS COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY (CONTINUED)
(UNAUDITED)

(in thousands, except share and per share data)	Three Months Ended September 30, 2020							
	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Parent Equity	Non-controlling Interests in Subsidiaries	Total Equity
July 1, 2020	144,264,189	$ 144,264	$ 107,819	$ (1,212,372)	$ 3,809,564	$ 2,849,275	$ 21,613	$ 2,870,888
Net income	—	—	—	—	227,531	227,531	—	227,531
Other comprehensive income, net of tax	—	—	—	45,800	—	45,800	—	45,800
Cash dividend declared, $0.7900 per share	—	—	—	—	(113,982)	(113,982)	—	(113,982)
Share-based awards exercised	25,464	26	(990)	—	—	(964)	—	(964)
Share-based compensation	—	—	6,420	—	—	6,420	—	6,420
Noncontrolling interest activities	—	—	—	—	—	—	(920)	(920)
September 30, 2020	144,289,653	$ 144,290	$ 113,249	$ (1,166,572)	$ 3,923,113	$ 3,014,080	$ 20,693	$ 3,034,773

(in thousands, except share and per share data)	Nine Months Ended September 30, 2020							
	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Parent Equity	Non-controlling Interests in Subsidiaries	Total Equity
January 1, 2020	145,378,158	$ 145,378	$ 98,777	$ (1,141,308)	$ 4,571,860	$ 3,674,707	$ 20,793	$ 3,695,500
Net loss	—	—	—	—	(200,306)	(200,306)	—	(200,306)
Other comprehensive loss, net of tax	—	—	—	(25,264)	—	(25,264)	—	(25,264)
Cash dividend declared, $2.3700 per share	—	—	—	—	(342,426)	(342,426)	—	(342,426)
Share-based awards exercised	47,939	48	(1,802)	—	—	(1,754)	—	(1,754)
Share-based compensation	—	—	16,274	—	—	16,274	—	16,274
Purchase of stock	(1,136,444)	(1,136)	—	—	(94,583)	(95,719)	—	(95,719)
Cumulative effect from adoption of ASU 2016-13 (2)	—	—	—	—	(11,432)	(11,432)	—	(11,432)
Noncontrolling interest activities	—	—	—	—	—	—	(100)	(100)
September 30, 2020	144,289,653	$ 144,290	$ 113,249	$ (1,166,572)	$ 3,923,113	$ 3,014,080	$ 20,693	$ 3,034,773

(1) The Company adopted Accounting Standards Update ("ASU") 2019-12, *Simplifying the Accounting for Income Taxes*, during the first quarter of 2021.

(2) The Company adopted ASU 2016-13, *Measurement of Credit Losses on Financial Instruments,* during the first quarter of 2020.

See accompanying notes to condensed consolidated financial statements.

GENUINE PARTS COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended September 30,	
(in thousands)	2021	2020
Operating activities:		
Net income (loss)	$ 642,791	$ (200,306)
Net loss from discontinued operations	—	(192,069)
Net income (loss) from continuing operations	642,791	(8,237)
Adjustments to reconcile net income (loss) from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	218,377	203,084
Loss on software disposal	61,063	—
Share-based compensation	20,841	16,274
Excess tax (benefits) deficiencies from share-based compensation	(6,667)	375
Goodwill impairment charge	—	506,721
Realized currency and other divestiture losses	—	11,356
Changes in operating assets and liabilities	71,791	697,611
Net cash provided by operating activities from continuing operations	1,008,196	1,427,184
Investing activities:		
Purchases of property, plant and equipment	(138,206)	(105,428)
Proceeds from sale of property, plant and equipment	24,184	11,675
Proceeds from divestitures of businesses	16,687	382,737
Acquisitions of businesses and other investing activities	(142,567)	(59,062)
Net cash (used in) provided by investing activities from continuing operations	(239,902)	229,922
Financing activities:		
Proceeds from debt	242,332	1,888,622
Payments on debt	(403,126)	(2,466,031)
Share-based awards exercised	(19,398)	(1,754)
Dividends paid	(349,293)	(339,294)
Purchases of stock	(283,886)	(95,719)
Other financing activities	(5,353)	(15,032)
Net cash used in financing activities from continuing operations	(818,724)	(1,029,208)
Cash flows from discontinued operations:		
Net cash provided by operating activities from discontinued operations	—	13,323
Net cash used in investing activities from discontinued operations	—	(11,131)
Net cash provided by financing activities from discontinued operations	—	—
Net cash provided by discontinued operations	—	2,192
Effect of exchange rate changes on cash and cash equivalents	(20,639)	(6,959)
Net (decrease) increase in cash and cash equivalents	(71,069)	623,131
Cash and cash equivalents at beginning of period	990,166	276,992
Cash and cash equivalents at end of period	$ 919,097	$ 900,123

See accompanying notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except per share data)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and therefore do not include all information and footnotes required by accounting principles generally accepted in the U.S. ("U.S. GAAP") for complete financial statements. On June 30, 2020, the Company completed the divestiture of its Business Products Group. Refer to the acquisitions, divestitures and discontinued operations footnote for more information. The Company's results of operations for the Business Products Group are reported as discontinued operations and all information related to the discontinued operations has been excluded from the notes to the condensed consolidated financial statements for all periods presented. Net income from discontinued operations for each period includes all costs that are directly attributable to these businesses and excludes certain corporate overhead costs that were previously allocated. Additionally, revenue from freight services provided by the Automotive Parts Group are grossed up and recast in continuing operations in each period because those sales are continuing with the discontinued operations after the divestiture. Except as disclosed herein, there have been no material changes in the information disclosed in the notes to the consolidated financial statements included in the Annual Report on Form 10-K of Genuine Parts Company (the "Company," "we," "our," "us," or "its") for the year ended December 31, 2020. Accordingly, the unaudited condensed consolidated financial statements and related disclosures herein should be read in conjunction with the Company's 2020 Annual Report on Form 10-K.

The preparation of interim financial statements requires management to make estimates and assumptions that affect the amounts reported in the unaudited condensed consolidated financial statements. Specifically, the Company makes estimates and assumptions in its unaudited condensed consolidated financial statements for inventory adjustments, the accrual of bad debts, credit losses on guaranteed loans, customer sales returns, and volume incentives earned, among others. Inventory adjustments (including adjustments for a majority of inventories that are valued under the last-in, first-out ("LIFO") method) are accrued on an interim basis and adjusted in the fourth quarter based on the annual book to physical inventory adjustment and LIFO valuation. Reserves for bad debts, credit losses on guaranteed loans and customer sales returns are estimated and accrued on an interim basis based on a consideration of historical experience, current conditions, and reasonable and supportable forecasts. Volume incentives are estimated based upon cumulative and projected purchasing levels. In the opinion of management, all adjustments necessary for a fair presentation of the Company's financial results for the interim periods have been made. These adjustments are of a normal recurring nature.

The results of operations for the three and nine months ended September 30, 2021 are not necessarily indicative of results for the year ended December 31, 2021. The Company's results of operations continued to improve in 2021 relative to the same period of 2020 as a result of several positive trends caused by the global response to the coronavirus ("COVID-19") outbreak, which was declared a pandemic in March 2020. In particular, as widespread vaccine distribution continued, we have seen economic recovery in many of the markets where we operate and a significant uptick in consumer mobility. However, the Company's operations remain vulnerable to the continuing negative economic effects caused by the pandemic. The extent to which the pandemic impacts the Company will depend on numerous factors and future developments that the Company cannot predict, including the severity of the virus; the occurrence of additional waves or spikes in infection rates, including the spread of variant strains; the duration of the outbreak; governmental, business or other actions taken in response to the pandemic and the efficacy of these actions, including partial or complete shut downs, travel restrictions, and shelter-in-place orders among other actions; the effectiveness and distribution of COVID-19 vaccines; the ability of the global population to access such vaccines; impacts on customer demand, impacts on the Company's supply chain including the impact of higher shipping-related charges as a result of port slowdowns or congestion, and its ability to attract talent and keep operating locations open.

The Company has evaluated subsequent events through the date the unaudited condensed consolidated financial statements covered by this quarterly report were issued.

2. Segment Information

The following table presents a summary of the Company's reportable segment financial information from continuing operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net sales:				
Automotive	$ 3,204,534	$ 2,960,379	$ 9,353,998	$ 8,038,863
Industrial	1,614,315	1,409,707	4,713,303	4,246,976
Total net sales	$ 4,818,849	$ 4,370,086	$ 14,067,301	$ 12,285,839
Segment profit:				
Automotive	$ 281,150	$ 266,124	$ 807,586	$ 627,608
Industrial	165,754	125,620	441,459	348,481
Total segment profit	446,904	391,744	1,249,045	976,089
Interest expense, net	(14,167)	(25,221)	(47,853)	(69,965)
Intangible asset amortization	(25,311)	(24,223)	(78,239)	(70,219)
Corporate expense	(47,389)	(33,379)	(130,029)	(117,053)
Other unallocated costs (1)	(61,063)	(11,256)	(138,484)	(565,030)
Income before income taxes from continuing operations	$ 298,974	$ 297,665	$ 854,440	$ 153,822

(1) The following table presents a summary of the other unallocated costs:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Other unallocated costs:				
Loss on software disposal (2)	$ (61,063)	$ —	$ (61,063)	$ —
Product liability damages award (3)	—	—	(77,421)	—
Goodwill impairment charge (4)	—	—	—	(506,721)
Restructuring costs (5)	—	(10,968)	—	(39,009)
Realized currency loss (6)	—	—	—	(11,356)
Gain on insurance proceeds related to SPR Fire (7)	—	—	—	13,448
Transaction and other costs (8)	—	(288)	—	(21,392)
Total other unallocated costs	$ (61,063)	$ (11,256)	$ (138,484)	$ (565,030)

(2) Adjustment reflects a loss on an internally developed software project that was disposed of due to a change in management strategy related to advances in alternative technologies. Refer to the property, plant and equipment footnote to the condensed consolidated financial statements for more information.

(3) Adjustment reflects damages reinstated by the Washington Supreme Court order on July 8, 2021 in connection with a 2017 automotive product liability claim. Refer to the commitments and contingencies footnote to the condensed consolidated financial statements for more information.

(4) Adjustment reflects the 2020 goodwill impairment charge related to the Company's European reporting unit.

(5) Adjustment reflects restructuring costs related to the execution of certain restructuring actions across the Company's subsidiaries primarily targeted at simplifying the organizational structures and distribution networks implemented by the Company in October 2019 (the “2019 Cost Savings Plan”). The costs are

primarily associated with severance and other employee costs, including a voluntary retirement program, and facility and closure costs related to the consolidation of operations.

(6) Adjustment reflects realized currency losses related to divestitures.

(7) Adjustment reflects insurance recoveries in excess of losses incurred on inventory, property, plant and equipment and other fire-related costs related to the S.P. Richards Headquarters and Distribution Center.

(8) Adjustment reflects $8,490 of incremental costs associated with COVID-19 for the nine months ended September 30, 2020 and costs associated with certain divestitures. COVID-19 related costs include incremental costs incurred relating to fees to cancel marketing events and increased cleaning and sanitization materials, among other things.

Net sales are disaggregated by geographical region for each of the Company's reportable segments, as the Company deems this presentation best depicts how the nature, amount, timing and uncertainty of net sales and cash flows are affected by economic factors. The following table presents disaggregated geographical net sales from contracts with customers by reportable segment:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
North America:				
Automotive	$ 2,100,250	$ 1,934,503	$ 6,039,617	$ 5,381,566
Industrial	1,493,618	1,295,717	4,362,792	3,937,640
Total North America	$ 3,593,868	$ 3,230,220	$ 10,402,409	$ 9,319,206
Australasia:				
Automotive	$ 374,167	$ 355,874	$ 1,130,744	$ 911,595
Industrial	120,697	113,990	350,511	309,336
Total Australasia	$ 494,864	$ 469,864	$ 1,481,255	$ 1,220,931
Europe – Automotive	$ 730,117	$ 670,002	$ 2,183,637	$ 1,745,702
Total net sales	$ 4,818,849	$ 4,370,086	$ 14,067,301	$ 12,285,839

3. Accumulated Other Comprehensive Loss

The following tables present the changes in accumulated other comprehensive loss ("AOCL") by component for the nine months ended September 30:

	Changes in Accumulated Other Comprehensive Loss by Component			
	Pension and Other Post-Retirement Benefits	Cash Flow Hedges	Foreign Currency Translation	Total
Beginning balance, January 1, 2021	$ (692,868)	$ (30,007)	$ (313,627)	$ (1,036,502)
Other comprehensive loss before reclassifications	—	—	(75,738)	(75,738)
Amounts reclassified from accumulated other comprehensive loss	27,931	11,223	—	39,154
Other comprehensive income (loss), net of income taxes	27,931	11,223	(75,738)	(36,584)
Ending balance, September 30, 2021	$ (664,937)	$ (18,784)	$ (389,365)	$ (1,073,086)

	Changes in Accumulated Other Comprehensive Loss by Component			
	Pension and Other Post-Retirement Benefits	Cash Flow Hedges	Foreign Currency Translation	Total
Beginning balance, January 1, 2020	$ (704,415)	$ (20,671)	$ (416,222)	$ (1,141,308)
Other comprehensive loss before reclassifications	—	(21,248)	(48,307)	(69,555)
Amounts reclassified from accumulated other comprehensive loss	24,479	8,456	11,356	44,291
Other comprehensive income (loss), net of income taxes	24,479	(12,792)	(36,951)	(25,264)
Ending balance, September 30, 2020	$ (679,936)	$ (33,463)	$ (453,173)	$ (1,166,572)

The AOCL components related to the pension benefits are included in the computation of net periodic benefit income in the employee benefit plans footnote. The nature of the cash flow hedges are discussed in the derivatives and hedging footnote. Generally, tax effects in AOCL are established at the currently enacted tax rate and reclassified to net income (loss) in the same period that the related pre-tax AOCL reclassifications are recognized.

4. Recent Accounting Pronouncements

Changes to U.S. GAAP are established by the Financial Accounting Standards Board ("FASB") in the form of Accounting Standards Updates ("ASU") to the FASB Accounting Standards Codification ("ASC"). The Company considers the applicability and impact of all ASUs and has determined that any recently adopted accounting pronouncements did not have a material impact on the Company's condensed consolidated financial statements and all recent accounting pronouncements not yet adopted are not applicable or are expected to have an immaterial impact on the Company's condensed consolidated financial statements.

5. Property, Plant and Equipment

During the third quarter of 2021, the Company reconsidered its approach to an internally developed software project due to a change in management strategy related to advances in alternative technologies. The Company decided to dispose of the software project as of September 30, 2021. As a result, the Company recognized $61,063 of selling, administrative and other expense related to the disposal of this software.

6. Employee Benefit Plans

Net periodic benefit income from the Company's pension plans included the following components:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Service cost	$ 3,043	$ 3,012	$ 9,185	$ 8,919
Interest cost	17,915	20,942	53,783	62,732
Expected return on plan assets	(38,755)	(38,550)	(116,345)	(115,483)
Amortization of prior service cost	172	173	516	519
Amortization of actuarial loss	12,465	11,130	37,430	33,340
Net periodic benefit income	$ (5,160)	$ (3,293)	$ (15,431)	$ (9,973)

Service cost is recorded in selling, administrative and other expenses in the condensed consolidated statements of income (loss) while all other components are recorded within other non-operating (income) expenses. Pension benefits also include amounts related to supplemental retirement plans.

7. Guarantees

The Company guarantees the borrowings of certain independently controlled automotive parts stores and businesses ("independents") and certain other affiliates in which the Company has a noncontrolling equity ownership interest ("affiliates"). Presently, the independents are generally consolidated by unaffiliated enterprises that have controlling financial interests through ownership of a majority voting interest in the independents. The Company has no voting interest or equity conversion rights in any of the independents. The Company does not control the independents or the affiliates but receives a fee for the guarantees. The Company has concluded that the independents are variable interest entities, but that the Company is not the primary beneficiary. Specifically, the equity holders of the independents have the power to direct the activities that most significantly impact the entities' economic performance including, but not limited to, decisions about hiring and terminating personnel, local marketing and promotional initiatives, pricing and selling activities, credit decisions, monitoring and maintaining appropriate inventories, and store hours. Separately, the Company concluded that the affiliates are not variable interest entities. The Company's maximum exposure to loss as a result of its involvement with these independents and affiliates is generally equal to the total borrowings subject to the Company's guarantees. While such borrowings of the independents and affiliates are outstanding, the Company is required to maintain compliance with certain covenants. At September 30, 2021, the Company was in compliance with all such covenants.

As of September 30, 2021, the total borrowings of the independents and affiliates subject to guarantee by the Company were approximately $895,636. These loans generally mature over periods from one to six years. The Company regularly monitors the performance of these loans and the ongoing operating results, financial condition and ratings from credit rating agencies of the independents and affiliates that participate in the guarantee programs. In the event that the Company is required to make payments in connection with these guarantees, the Company would obtain and liquidate certain collateral pledged by the independents or affiliates (e.g., accounts receivable and inventory) to recover all or a substantial portion of the amounts paid under the guarantees. The Company recognizes a liability equal to current expected credit losses over the lives of the loans in the guaranteed loan portfolio, based on a consideration of historical experience, current conditions, the nature and expected value of any collateral, and reasonable and supportable forecasts. To date, the Company has had no significant losses in connection with guarantees of independents' and affiliates' borrowings and the current expected credit loss reserve is not material. As of September 30, 2021, there are no material guaranteed loans for which the borrower is experiencing financial difficulty and recovery is expected to be provided substantially through the operation or sale of the collateral.

As of September 30, 2021, the Company has recognized certain assets and liabilities amounting to $80,000 each for the guarantees related to the independents' and affiliates' borrowings. These assets and liabilities are included in other assets and other long-term liabilities in the condensed consolidated balance sheets. The liabilities relate to the Company's noncontingent obligation to stand ready to perform under the guarantee programs and they are distinct from the Company's current expected credit loss reserve.

8. Debt

On September 30, 2021, the Company entered into the first amendment to the Syndicated Facility Agreement (the "Unsecured Revolving Credit Facility"), dated as of October 30, 2020. The interest rates were amended to reduce the applicable rate by 12.5 basis points (resulting in a rate of LIBOR + 112.5 basis points) and the LIBOR floor from 0.5% to 0.0%. The amendment also extended the maturity by one year to September 30, 2026.

9. Accounts Receivable Sales Agreement

The Company has an accounts receivable sales agreement (the "A/R Sales Agreement") to sell short-term receivables from certain customer trade accounts to an unaffiliated financial institution on a revolving basis. The A/R Sales Agreement has a 3 year term, which the Company intends to renew.

As part of the A/R Sales Agreement, the Company continuously sells designated pools of receivables as they are originated by it and certain U.S. subsidiaries to a separate bankruptcy-remote special purpose entity ("SPE"). The assets of the SPE would be first available to satisfy the creditor claims of the unaffiliated financial institution. The Company controls and therefore consolidates the SPE in its condensed consolidated financial statements.

The SPE transferred ownership and control of certain receivables that met certain qualifying conditions to the unaffiliated financial institution in exchange for cash. The Company accounts for transactions with the unaffiliated financial institution as sales of financial assets, with the associated receivables derecognized from the Company's condensed consolidated balance sheet. The remaining receivables held by the SPE were pledged to secure the

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collectability of the sold receivables. The amount of receivables pledged as collateral as of September 30, 2021 and December 31, 2020 is approximately $983,000 and $771,000, respectively.

The Company continues to be involved with the receivables transferred by the SPE to the unaffiliated financial institution by providing collection services. As cash is collected on sold receivables, the SPE continuously transfers ownership and control of new qualifying receivables to the unaffiliated financial institution so that the total principal amount outstanding of receivables sold is approximately $800,000 at any point in time (which is the maximum amount allowed under the agreement). The future amount of receivables outstanding as sold could decrease, based on the level of activity and other factors. Total principal amount outstanding of receivables sold is approximately $800,000 as of September 30, 2021 and December 31, 2020, respectively.

The following table summarizes the activity under the A/R Sales Agreement for the following periods:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Receivables sold to the financial institution and derecognized	$ 1,884,023	$ 1,279,420	$ 5,700,895	$ 2,181,746
Cash collected on sold receivables	$ 1,884,028	$ 1,279,430	$ 5,700,896	$ 1,681,732

Upon entry into the A/R Sales Agreement, the Company received an initial benefit from cash from operations of approximately $800,000 in the year ended December 31, 2020. Continuous cash activity related to the A/R Sales Agreement is reflected in cash from operating activities in the condensed consolidated statement of cash flows. The SPE incurs fees due to the unaffiliated financial institution related to the accounts receivable sales transactions. Those fees, which are immaterial, are recorded within other non-operating (income) expense in the condensed consolidated statements of income (loss). The SPE has a recourse obligation to repurchase from the unaffiliated financial institution any previously sold receivables that are not collected due to the occurrence of certain events, including credit quality deterioration and customer sales returns. The reserve recognized for this recourse obligation as of September 30, 2021 and December 31, 2020 is not material. The servicing liability related to the Company's collection services also is not material, given the high quality of the customers underlying the receivables and the anticipated short collection period.

10. Fair Value of Financial Instruments

Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Fair value is a market-based measurement that is determined based on assumptions that market participants would use in pricing an asset or liability. Additionally, ASC 820, *Fair Value Measurements*, defines levels within a hierarchy based upon observable and non-observable inputs.

- Level 1. Observable inputs such as quoted prices in active markets;
- Level 2. Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions

As of September 30, 2021 the fair value of the Company's senior unsecured notes was approximately $2,524,914, which are designated as Level 2 in the fair value hierarchy. Our valuation technique is based primarily on prices and other relevant information generated by observable transactions involving identical or comparable assets or liabilities.

Derivative instruments are recognized in the consolidated balance sheets at fair value and are designated as Level 2 in the fair value hierarchy. They are valued using inputs other than quoted prices, such as foreign exchange rates and yield curves. Refer to the derivatives and hedging footnote for further information.

Fair value measurements of non-financial assets and non-financial liabilities are primarily used in the impairment analyses of goodwill, other intangible assets, and long-lived assets. These involve fair value measurements on a nonrecurring basis using Level 3 inputs as defined in the fair value hierarchy. The carrying amounts reflected in the condensed consolidated balance sheets for cash and cash equivalents, trade accounts receivable, trade accounts payable, and borrowings under the line of credit approximate their respective fair values based on the short-term nature of these instruments.

11. Derivatives and Hedging

The Company is exposed to various risks arising from business operations and market conditions, including fluctuations in interest rates and certain foreign currencies. When deemed appropriate, the Company uses derivative and non-derivative instruments as risk management tools to mitigate the potential impact of interest rate and foreign exchange rate risks. The objective of using these tools is to reduce fluctuations in the Company's earnings and cash flows associated with changes in these rates. Derivative financial instruments are not used for trading or other speculative purposes. The Company has not historically incurred, and does not expect to incur in the future, any losses as a result of counterparty default related to derivative instruments.

The Company formally documents relationships between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking various hedge transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the designated derivative and non-derivative instruments that are used in hedging transactions are highly effective in offsetting changes in the cash flows of the hedged items. When a designated instrument is determined not to be highly effective as a hedge or the underlying hedged transaction is no longer probable, hedge accounting is discontinued prospectively.

Cash Flow Hedges

In 2020, the Company terminated its interest rate swaps and settled the outstanding balances through cash payments totaling $41,000. The remaining amount in AOCL is being amortized to interest expense on a straight-line basis over the remaining life of the previously hedged instrument.

Net Investment Hedges

The Company has designated certain derivative instruments and a portion of its foreign currency denominated debt, a non-derivative financial instrument, as hedges of the foreign currency exchange rate exposure of the Company's Euro-denominated net investment in a European subsidiary. The Company applies the spot method to assess the hedge effectiveness of the derivative instruments and this assessment for each instrument excludes the initial value related to the difference at contract inception between the foreign exchange spot rate and the forward rate (i.e., the forward points). The initial value of this excluded component is recognized as a reduction to interest expense in a systematic and rational manner over the term of the derivative instrument. All other changes in value for the net investment hedges are included in AOCL within foreign currency translation and would only be reclassified to earnings if the European subsidiary were liquidated, or otherwise disposed.

The following table summarizes the location and carrying amounts of the derivative instruments and the foreign currency denominated debt, a non-derivative financial instrument, that are designated and qualify as part of hedging relationships:

		September 30, 2021		December 31, 2020	
Instrument	Balance Sheet Location	Notional	Balance	Notional	Balance
Net investment hedges:					
Forward contracts	Prepaid expenses and other current assets	$ 925,810	$ 59,397	$ 800,000	$ 7,668
Forward contracts	Other current liabilities	$ 235,180	$ 6,306	$ 360,990	$ 19,442
Foreign currency debt	Long-term debt	€ 700,000	$ 811,790	€ 700,000	$ 861,070

The tables below presents gains and losses related to designated cash flow hedges and net investment hedges:

	Gain (Loss) Recognized in AOCL Before Reclassifications		Gain Recognized in Interest Expense For Excluded Components	
	2021	2020	2021	2020
Three Months Ended September 30,				
Cash flow hedges:				
Interest rate contracts	$ —	$ (277)	$ —	$ —
Net investment hedges:				
Forward contracts	20,958	(49,660)	6,574	6,574
Foreign currency debt	21,000	(35,140)	—	—
Total	$ 41,958	$ (85,077)	$ 6,574	$ 6,574

	Gain (Loss) Recognized in AOCL Before Reclassifications		Gain Recognized in Interest Expense For Excluded Components	
	2021	2020	2021	2020
Nine Months Ended September 30,				
Cash flow hedges:				
Interest rate contracts	$ —	$ (29,107)	$ —	$ —
Net investment hedges:				
Forward contracts	45,143	(33,959)	19,722	20,572
Foreign currency debt	49,280	(38,080)	—	—
Total	$ 94,423	$ (101,146)	$ 19,722	$ 20,572

12. Commitments and Contingencies

Legal Matters

As more fully discussed in the Company's notes to the consolidated financial statements in its 2020 Annual Report on Form 10-K, a jury awarded damages in 2017 against the Company in a litigated automotive product liability dispute. On February 19, 2020, the Washington Court of Appeals issued an order entirely reversing the jury's finding on damages and ordering a new trial on damages. The plaintiffs subsequently appealed this order to the Washington Supreme Court. On July 7, 2020, the Washington Supreme Court indicated that it would consider a further appeal on this matter, and oral arguments occurred on November 10, 2020. On July 8, 2021, the Washington Supreme Court overturned the order of the Washington Court of Appeals and reinstated the trial court's damage award of $77,100 against the Company. The Company recorded an adjustment to increase selling, general and other expenses by approximately $77,421, inclusive of statutory interest and insurance coverage, in the condensed consolidated statements of income (loss) for the nine months ended September 30, 2021. The damage award and statutory interest was fully paid as of September 30, 2021.

Environmental Liabilities

Item 103 of SEC Regulation S-K requires disclosure of certain environmental matters when a governmental authority is a party to the proceedings and such proceedings involve potential monetary sanctions that the Company reasonably believes will exceed an applied threshold not to exceed $1,000. Applying this threshold, there are no environmental matters to disclose for this period.

13. Acquisitions, Divestitures and Discontinued Operations

Acquisitions

The Company acquired several businesses for approximately $142,669 and $77,393, net of cash acquired, during the nine months ended September 30, 2021 and September 30, 2020, respectively. The measurement period is still open for certain businesses acquired in prior periods, but there have been no significant measurement period adjustments during the three and nine months ended September 30, 2021.

Divestitures

The Company received cash proceeds from divestitures of businesses totaling $16,687 and $382,737 for the nine months ended September 30, 2021 and September 30, 2020, respectively.

Discontinued Operations

Business Products Group

During 2020, the Company completed the divestiture of its Business Products Group as part of its long-term strategic initiative to streamline its operations and optimize its portfolio so that it can drive shareholder value by focusing on its global Automotive and Industrial Parts Groups. This divestiture represented a single plan to exit the Business Products Group segment and was considered a strategic shift that had a major effect on the Company's operations and financial results. Therefore, the results of operations, financial position and cash flows for the Business Products Group are reported as discontinued operations for all prior periods presented.

The Company retains an investment in S.P. Richard's ("SPR"), a business that previously belonged to the Business Products Group, with a carrying value of $69,700, which is included within other assets on the condensed consolidated balance sheets, as of September 30, 2021. The Company maintains an allowance equal to the current expected credit loss based on a consideration of historical experience, current market conditions and reasonable and supportable forecasts related to this investment and other related assets of $17,000.

The Company also remains involved with SPR for a limited period of time through various lease, sublease, freight distribution and transition service agreements. The Company has concluded that SPR is a variable interest entity, but the Company is not the primary beneficiary and therefore the entity is not consolidated. Among other things, the Company does not have any voting rights and does not have the power to direct the activities that most significantly affect SPR's economic performance. For a limited period of time as SPR completes its transition away from the Company's shared services platform, the Company continues to pay certain payables on SPR's behalf and at SPR's direction with full reimbursement from SPR under the terms of a transition services agreement.

The Company's results of operations for discontinued operations were:

	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2020
Net sales	$ —	$ 846,944
Cost of goods sold	—	632,007
Gross profit	—	214,937
Operating expenses	—	179,461
Loss on disposal	3,165	223,483
Loss before income taxes	(3,165)	(188,007)
Income tax expense	2,222	4,062
Net loss from discontinued operations	$ (5,387)	$ (192,069)

14. Income Taxes

The Company's effective income tax rate was 23.5% for the three months ended September 30, 2021, compared to 21.8% for the same three month period in 2020. The effective income tax rate was 24.8% for the nine months ended September 30, 2021, compared to 105.4% for the same period in 2020.

For the three months ended September 30, 2021, the rate increase is primarily due to income mix shifts and statute related adjustments. For the nine months ended September 30, 2021, the rate decrease is primarily due to the non-deductible goodwill impairment charge that occurred in 2020. In addition, during the second quarter of 2021, the United Kingdom enacted legislation raising its corporate tax rate from 19% to 25% effective April 2023. Accordingly, the Company remeasured its deferred tax assets and liabilities as of June 30, 2021.

15. Earnings Per Share

As more fully discussed in the share-based compensation footnote of the Company's notes to the consolidated financial statements in its 2020 Annual Report on Form 10-K, the Company maintains various long-term incentive plans, which provide for the granting of stock options, stock appreciation rights (“SARs”), restricted stock, restricted stock units ("RSUs"), performance awards, dividend equivalents and other share-based awards. Certain outstanding options to purchase shares of common stock are not included in the diluted earnings per share calculation. These options are excluded because their inclusion would have been anti-dilutive.

The following table summarizes anti-dilutive shares outstanding:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Anti-dilutive shares outstanding	—	473	158	2,214

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and accompanying notes contained herein and with the audited consolidated financial statements, accompanying notes, related information and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2020. The results of operations for the three and nine months ended September 30, 2021 are not necessarily indicative of the year ended December 31, 2021.

Forward-Looking Statements

Some statements in this report, as well as in other materials we file with the Securities and Exchange Commission ("SEC"), release to the public, or make available on our website, constitute forward-looking statements that are subject to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All statements in the future tense and all statements accompanied by words such as "expect," "likely," "outlook," "forecast," "preliminary," "would," "could," "should," "position," "will," "project," "intend," "plan," "on track," "anticipate," "to come," "may," "possible," "assume," or similar expressions are intended to identify such forward-looking statements. These forward-looking statements include our expected ability to operate and protect our workforce during the COVID-19 pandemic, our strategies for growing our automotive and industrial businesses, the execution and effect of our cost savings initiatives, our efforts and initiatives to help us emerge from the pandemic well-positioned to execute our strategy, our ongoing efforts to maintain compliance and flexibility under our debt covenants, our liquidity position and actions to maximize cash flow to continue to operate during these highly uncertain times and plans for future cost savings. Senior officers may also make verbal statements to analysts, investors, the media and others that are forward-looking.

We caution you that all forward-looking statements involve risks and uncertainties, and while we believe that our expectations for the future are reasonable in view of currently available information, you are cautioned not to place undue reliance on our forward-looking statements. Actual results or events may differ materially from those indicated as a result of various important factors. Such factors may include, among other things, the extent and duration of the disruption to our business operations caused by the global health crisis associated with the COVID-19 pandemic, including the effects on the financial health of our business partners and customers, on supply chains and our suppliers, on vehicle miles driven as well as other metrics that affect our business, and on access to capital and liquidity provided by the financial and capital markets; our ability to maintain compliance with our debt covenants; our ability to successfully integrate acquired businesses into our operations and to realize the anticipated synergies and benefits; our ability to successfully implement our business initiatives in our two business segments; slowing demand for our products; the ability to maintain favorable supplier arrangements and relationships; disruptions in global supply chains and in our suppliers' operations, including as a result of the impact of COVID-19 on our suppliers and our supply chain; changes in national and international legislation or government regulations or policies, including changes to import tariffs, environmental and social policy, infrastructure programs and privacy legislation, and their impact to us and our suppliers and customers; changes in general economic conditions, including unemployment, inflation (including the impact of tariffs) or deflation and the United Kingdom's ("U.K.") exit from the European Union and the unpredictability of the impact following such exit; changes in tax policies; volatile exchange rates; volatility in oil prices; significant cost increases, such as rising fuel and freight expenses; our ability to successfully attract and retain employees in the current labor market; uncertain credit markets and other macroeconomic conditions; competitive product, service and pricing pressures; failure or weakness in our disclosure controls and procedures and internal controls over financial reporting, including as a result of the work from home environment; the uncertainties and costs of litigation; disruptions caused by a failure or breach of our information systems, as well as other risks and uncertainties discussed in our 2020 Annual Report on Form 10-K (all of which risks may be amplified by the COVID-19 pandemic) and from time to time in our subsequent filings with the SEC.

Forward-looking statements speak only as of the date they are made, and we undertake no duty to update any forward-looking statements except as required by law. You are advised, however, to review any further disclosures we make on related subjects in our subsequent Forms 10-K, 10-Q, 8-K and other reports filed with the SEC.

Overview

Genuine Parts Company is a service organization engaged in the global distribution of automotive and industrial replacement parts. We have a long tradition of growth dating back to 1928, the year we were founded in Atlanta, Georgia. We conduct business in North America, Europe and Australasia from a network of more than 10,000 locations.

The Company's Automotive Parts Group operated in the U.S., Canada, Mexico, France, the U.K., Ireland, Germany, Poland, the Netherlands, Belgium, Australia and New Zealand as of September 30, 2021, and accounted for 66% of total revenue for the nine months ended September 30, 2021. Our Industrial Parts Group operated in the U.S., Canada, Mexico, Australia, New Zealand, Indonesia and Singapore. The Industrial Parts Group accounted for 34% of the Company's total revenue for the nine months ended September 30, 2021.

At Genuine Parts Company, our mission is to be a world-class service organization and the employer of choice, supplier of choice, valued customer, good corporate citizen and investment of choice. Our strategic financial objectives are intended to align with our mission and drive value for all our stakeholders. Our strategic financial objectives include: (1) top line revenue growth; (2) improved operating margin; (3) a strong balance sheet and cash flows; and (4) effective capital allocation.

COVID-19 Pandemic

During the nine months ended September 30, 2021, our business and results of operations continued to improve relative to the same period of 2020. In particular, as widespread vaccine distribution continued, we have seen economic recovery in many of the markets where we operate and a significant uptick in consumer mobility. However, all regions in which we operate continue to experience periodic surges in infection rates. As a result, our business segments continue to face many uncertainties and our operations remain vulnerable to continuing negative effects caused by the pandemic. However, we are encouraged to see the impact of the pandemic subsiding as evidenced by the improving industrial economy, increase in miles driven and overall consumer activity.

As of September 30, 2021, all our operations are open for business. Our supply chain partners have been very supportive and accommodating, despite strains on the supply chain caused by labor shortages, inventory shortages, delays in order fulfillment and increased backlogs. This has allowed us to continue to provide quality customer service. We remain in constant communication with our employees regarding changing conditions and protocol. Based on the length and severity of the pandemic, we may experience continued volatility in customer demand and supply chain disruption. We will continue to evaluate the nature and extent of these potential impacts to our business, consolidated results of operations, segment results, liquidity and capital resources.

For further information regarding the impact of COVID-19 on our business, please see “Results of Operations,” and Item 1A, “Risk Factors,” in this report, which are incorporated herein by reference.

Key Business Metrics

We consider comparable sales to be a key business metric because management has evaluated its results of operations using this metric and we believe that this key indicator provides additional perspective and insights when analyzing the operating performance of our business from period to period and trends in its historical operating results. This metric should not be considered superior to, as a substitute for or as an alternative to, and should be considered in conjunction with, the GAAP financial measures presented in this report.

Comparable Sales

Comparable sales refer to period-over-period comparisons of our net sales excluding the impact of acquisitions, foreign currency and other. We consider this metric useful to investors because it provides greater transparency into management’s view and assessment of our core ongoing operations. This is a metric that is widely used by analysts, investors and competitors in our industry, although our calculation of the metric may not be comparable to similar measures disclosed by other companies, because not all companies and analysts calculate this metric in the same manner.

Results of Operations

Overview

As a result of the COVID-19 vaccine distribution and its positive impact on consumer mobility and demand, we are encouraged by the increase in consumer activity during the three and nine months ended September 30, 2021 as our key markets continue to reopen. In addition, we continue to realize the benefits of our cost savings initiatives to more effectively leverage our cost structure in both our Automotive and Industrial Parts Groups. Both our segments reported improved sales during the three and nine months ended September 30, 2021 when compared to the same prior year periods. The Automotive Parts Group benefited from the broad economic recovery, an increase in customer mobility and miles driven, as well as favorable weather trends. The Industrial Parts Group benefited from the strengthening industrial economy, as evidenced by economic indicators such as the Manufacturing Industrial Production and the Purchasing Managers Index, among others. Additionally, the Industrial Parts Group executed on key operational initiatives, including improved omni-channel capabilities and the expansion of our services and solutions business.

Sales

Sales for the three months ended September 30, 2021 were $4.8 billion, a 10.3% increase as compared to $4.4 billion in the same period of the prior year. The increase in sales is attributable to a 7.6% increase in comparable sales, a 1.8% benefit from acquisitions and a net favorable impact of foreign currency and other of 0.9%. Sales for the nine months ended September 30, 2021 were $14.1 billion, a 14.5% increase as compared to $12.3 billion in the same period of the prior year. The increase in sales is due to a 10.0% comparable sales increase, a 3.2% net favorable impact of foreign currency and other and a 1.3% benefit from acquisitions. The increases in comparable sales is driven primarily by the increased consumer activity as our key markets continue to reopen when compared to the three and nine months ended September 30, 2020. Sales were positively impacted by price inflation of approximately 3% and 2% for the three and nine months ended September 30, 2021, respectively.

Sales for the Automotive Parts Group increased 8.2% for the three months ended September 30, 2021, as compared to the same period in the prior year. This group's revenue increase for the three months ended September 30, 2021 consisted of an approximate 4.8% increase in comparable sales, a 2.4% benefit from acquisitions and a 1.0% net favorable impact of foreign currency and other. This group's 16.4% revenue increase for the nine months ended September 30, 2021 consisted of an approximate 10.7% increase in comparable sales, a 3.9% net favorable impact from foreign currency and other and a 1.8% benefit from acquisitions.

Sales for the Industrial Parts Group increased 14.5% for the three months ended September 30, 2021, as compared to the same period in 2020. The increase in this group's revenue reflects an approximate 13.4% increase in comparable sales, a 0.8% favorable foreign currency impact and a 0.3% benefit from acquisitions. This group's 11.0% sales increase for the nine months ended September 30, 2021 reflects an 8.9% increase in comparable sales, a 1.5% favorable impact from foreign currency and a 0.6% benefit from acquisitions.

Cost of Goods Sold and Operating Expenses

Cost of goods sold for the three months ended September 30, 2021 was $3.1 billion, a 9.4% increase from $2.8 billion for the same period in 2020. As a percentage of net sales, cost of goods sold was 64.5% for the three months ended September 30, 2021, as compared to 65.0% in the same three month period of 2020. Cost of goods sold for the nine months ended September 30, 2021 was $9.1 billion, a 13.0% increase from $8.1 billion for the same period in 2020. As a percentage of net sales, cost of goods sold was 64.9% for the nine months ended September 30, 2021, as compared to 65.8% in the same period of 2020. The increase in cost of goods sold for the three and nine months ended September 30, 2021 primarily relates to the overall increase in sales volume due to the increased consumer activity as compared to the same three and nine month periods of the prior year.

Gross profit as a percentage of net sales may fluctuate based on, among other things, (i) changes in merchandise costs and related supplier volume incentives or pricing, (ii) variations in product and customer mix, (iii) price changes in response to competitive pressures, (iv) physical inventory and LIFO adjustments, (v) changes in foreign currency exchange rates, (vi) changes in inflation or deflation, and (vii) the impact of tariffs. Gross margin improved to 35.5% for the three months ended September 30, 2021 compared to 35.0% in the same period of 2020. Gross margin for the nine months ended September 30, 2021 improved to 35.1% from 34.2% for the same nine month period of 2020. The gross margin improvements primarily reflect the impact of higher levels of supplier incentives on stronger sales and strategic category management initiatives including pricing and global sourcing strategies. We have reported improved year over year gross margin for 16 consecutive quarters.

Total operating expenses increased to $1.4 billion for the three months ended September 30, 2021 as compared to $1.2 billion for the same three month period in 2020. As a percentage of net sales, operating expenses increased to 29.4% as compared to 28.1% in the respective periods. This increase as a percentage of net sales is primarily due to the benefit of temporary COVID-19 related savings initiatives in 2020 and a $61.1 million loss on a software disposal in 2021. For the nine months ended September 30, 2021, operating expenses totaled $4.1 billion as compared to $4.0 billion for the same nine month period in 2020. As a percentage of net sales, operating expenses improved to 29.3% as compared to 32.8% for the respective periods primarily driven by the non-cash goodwill impairment charge that occurred in 2020.

Our operating expenses are substantially comprised of compensation and benefit-related costs for personnel. Other major expense categories include transportation and delivery costs driven by higher sales, facility occupancy costs, technology and digital costs, insurance costs, legal and professional services, and travel and advertising.

Segment Profit

The Automotive Parts Group’s segment profit increased 5.6% in the three months ended September 30, 2021 as compared to the same period of 2020, and its segment profit margin was 8.8% as compared to 9.0% in the same period of the previous year. Segment profit margin declined primarily due to the benefit of temporary COVID-related savings initiatives in 2020. These items were partially offset by improved leverage from stronger sales, gross margin expansion and incremental cost control initiatives in 2021. For the nine months ended September 30, 2021, the Automotive Parts Group's segment profit increased approximately 28.7% and the segment profit margin improved to 8.6% as compared to 7.8% in the same nine month period of 2020. This improvement in segment profit margin is primarily due to sales gains as a result of the increased consumer activity as our key markets continue to reopen, gross margin improvements, and the leveraging of expenses on higher sales and ongoing cost control initiatives.

The Industrial Parts Group's segment profit increased 31.9% in the three months ended September 30, 2021 as compared to the same three month period of 2020, and the segment profit margin for this group improved to 10.3% compared to 8.9% for the same period of the previous year. Segment profit for the Industrial Parts Group improved 26.7% in the nine months ended September 30, 2021 as compared to the same nine month period of 2020, and the segment profit margin for this group improved to 9.4% compared to 8.2% for the same period of the previous year. The improved segment profit margins for both periods reflect the positive impact of higher sales volumes, gross margin gains and efficiencies in the operating structure of the Industrial Parts Group. Additionally, the Industrial Parts Group benefited from the strengthening industrial economy, which is evident in indicators such as the Purchasing Managers Index and Industrial Production Index.

Income Taxes

The Company's effective income tax rate was 23.5% for the three months ended September 30, 2021, compared to 21.8% for the same three month period in 2020. The effective income tax rate was 24.8% for the nine months ended September 30, 2021, compared to 105.4% for the same period in 2020.

For the three months ended September 30, 2021, the rate increase is primarily due to income mix shifts and statute related adjustments. For the nine months ended September 30, 2021, the rate decrease is primarily due to the non-deductible goodwill impairment charge that occurred in 2020, as described below. In addition, during the second quarter of 2021, the United Kingdom enacted legislation raising its corporate tax rate from 19% to 25% effective April 2023. Accordingly, the Company remeasured its deferred tax assets and liabilities as of June 30, 2021.

Net Income (Loss) from Continuing Operations

For the three months ended September 30, 2021, the Company recorded net income from continuing operations of $228.6 million, a decrease of 1.9% as compared to net income from continuing operations of $232.9 million in the same three month period of the prior year. On a per share diluted basis, net income was $1.59, a decrease of 1.2% as compared to net income per diluted share of $1.61 for the same three month period of 2020. This decrease is primarily related to a loss on a software disposal of $61.1 million during the three months ended September 30, 2021.

For the nine months ended September 30, 2021, the Company recorded net income from continuing operations of $642.8 million as compared to net loss from continuing operations of $8.2 million in the same nine month period of the prior year. On a per share diluted basis, net income from continuing operations was $4.44 as compared to net loss per diluted share of $0.06 in the same nine month period of 2020. The increase in income for the nine month period was primarily driven by the goodwill impairment charge of $506.7 million that occurred during the second quarter of 2020. Additionally, we saw higher sales volume as a result of increased consumer activity as our key markets continue to reopen during the nine months ended September 30, 2021 .

Further impacting net income from continuing operations during the three and nine months ended September 30, 2021, the Company incurred $61.1 million and $138.5 million of adjustments, respectively. These adjustments include the aforementioned loss related to a software disposal of $61.1 million and $77.4 million related to damages

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reinstated by the Washington Supreme Court order on July 8, 2021 in connection with a 2017 automotive product liability claim. Refer to the property, plant and equipment and commitments and contingencies footnotes to the condensed consolidated financial statements for more information regarding these adjustments. The Company believes these represent costs that do not arise in the ordinary course of the Company's business and therefore impact comparability with prior periods.

During the three and nine months ended September 30, 2020, the Company incurred $11.3 million and $565.0 million of adjustments, respectively. These adjustments include a goodwill impairment charge of $506.7 million related to our European reporting unit and also represents restructuring costs, realized currency losses, insurance proceeds related to the SPR Fire and transaction and other costs and income. Transaction and other costs primarily include incremental costs associated with certain divestitures and COVID-19.

For the three months ended September 30, 2021, the Company's adjusted net income from continuing operations was $270.5 million, an increase of 14.2% as compared to adjusted net income from continuing operations of $236.8 million in the same three month period of the prior year. On a per share basis, adjusted net income from continuing operations was $1.88 for the three months ended September 30, 2021, an increase of 15.3% as compared to $1.63 for the same period of 2020. For the nine months ended September 30, 2021, adjusted net income from continuing operations was $740.8 million, an increase of 36.2% as compared to $544.1 million for the same period of 2020. On a per share diluted basis, adjusted net income from continuing operations was $5.12 for the nine months ended September 30, 2021, an increase of 36.2% as compared to $3.76 for the same period of the prior year. The increased adjusted net income from continuing operations for the three and nine months ended September 30, 2021 reflects the benefits of improved sales volume related to increased consumer activity as our key markets continue to reopen, gross margin improvements, improved expense leverage on sales growth and our ongoing cost control initiatives. Both adjusted net income from continuing operations and adjusted diluted net income from continuing operations per common share are non-GAAP measures (see table below for reconciliations to the most directly comparable GAAP measures).

The following table sets forth a reconciliation of net income (loss) from continuing operations and diluted net income (loss) from continuing operations per common share to adjusted net income from continuing operations and adjusted diluted net income from continuing operations per common share to account for the impact of these adjustments. The Company believes that the presentation of adjusted net income from continuing operations and adjusted diluted net income from continuing operations per common share, which are not calculated in accordance with GAAP, when considered together with the corresponding GAAP financial measures and the reconciliations to those measures, provide meaningful supplemental information to both management and investors that is indicative of the Company's core operations. The Company considers these metrics useful to investors because they provide greater transparency into management’s view and assessment of the Company’s ongoing operating performance by removing items management believes are not representative of our continuing operations and may distort our longer-term operating trends. We believe these measures are useful and enhance the comparability of our results from period to period and with our competitors, as well as show ongoing results from operations distinct from items that are infrequent or not associated with the Company’s core operations. The Company does not, nor does it suggest investors should, consider such non-GAAP financial measures, as superior to, in isolation from, or as a substitute for, GAAP financial information.

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
GAAP net income (loss) from continuing operations	$ 228,585	$ 232,918	$ 642,791	$ (8,237)
Adjustments:				
Loss on software disposal (1)	61,063	—	61,063	—
Product liability damages award (2)	—	—	77,421	—
Goodwill impairment charge (3)	—	—	—	506,721
Restructuring costs (4)	—	10,968	—	39,009
Realized currency loss (5)	—	—	—	11,356
Gain on insurance proceeds related to SPR Fire (6)	—	—	—	(13,448)
Transaction and other costs (7)	—	288	—	21,392
Total adjustments	61,063	11,256	138,484	565,030
Tax impact of adjustments	(19,167)	(7,423)	(40,489)	(12,733)
Adjusted net income from continuing operations	$ 270,481	$ 236,751	$ 740,786	$ 544,060

The table below represents amounts per common share assuming dilution:

(in thousands, except per share data)	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
GAAP net income (loss) from continuing operations	$ 1.59	$ 1.61	$ 4.44	$ (0.06)
Adjustments:				
Loss on software disposal (1)	0.42	—	0.42	—
Product liability damages award (2)	—	—	0.54	—
Goodwill impairment charge (3)	—	—	—	3.51
Restructuring costs (4)	—	0.07	—	0.26
Realized currency loss (5)	—	—	—	0.08
Gain on insurance proceeds related to SPR Fire (6)	—	—	—	(0.09)
Transaction and other costs (7)	—	—	—	0.15
Total adjustments	0.42	0.07	0.96	3.91
Tax impact of adjustments	(0.13)	(0.05)	(0.28)	(0.09)
Adjusted diluted net income from continuing operations per common share	$ 1.88	$ 1.63	$ 5.12	$ 3.76
Weighted average common shares outstanding – assuming dilution	143,589	145,035	144,622	144,528

The table below clarifies where the items that have been adjusted above to improve comparability of the financial information from period to period are presented in the condensed consolidated statements of income (loss).

(in thousands)	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Line item:				
Cost of goods sold	$ —	$ 604	$ —	$ 13,495
Selling, administrative and other expenses	61,063	—	138,484	8,213
Goodwill impairment charge	—	—	—	506,721
Restructuring costs	—	10,968	—	39,009
Non-operating (income) expenses: Other	—	(316)	—	(2,408)
Total adjustments	$ 61,063	$ 11,256	$ 138,484	$ 565,030

(1) Adjustment reflects a loss on an internally developed software project that was disposed of due to a change in management strategy related to advances in alternative technologies. Refer to the property, plant and equipment footnote to the condensed consolidated financial statements for more information.

(2) Adjustment reflects damages reinstated by the Washington Supreme Court order on July 8, 2021 in connection with a 2017 automotive product liability claim. Refer to the commitments and contingencies footnote to the condensed consolidated financial statements for more information.

(3) Adjustment reflects the 2020 goodwill impairment charge related to the Company's European reporting unit.

(4) Adjustment reflects restructuring costs related to the execution of the 2019 Cost Savings Plan. The costs are primarily associated with severance and other employee costs, including a voluntary retirement program, and facility and closure costs related to the consolidation of operations.

(5) Adjustment reflects realized currency losses related to divestitures.

(6) Adjustment reflects insurance recoveries in excess of losses incurred on inventory, property, plant and equipment and other fire-related costs related to the S.P. Richards Headquarters and Distribution Center.

(7) Adjustment reflects $8.5 million of incremental costs associated with COVID-19 for the nine months ended September 30, 2020 and costs associated with certain divestitures. COVID-19 related costs include incremental costs incurred relating to fees to cancel marketing events and increased cleaning and sanitization materials, among other things.

Financial Condition

The Company's cash balance of $919.1 million at September 30, 2021 decreased $71.1 million, or 7.2%, from December 31, 2020. For the nine months ended September 30, 2021, the Company had net cash provided by operating activities of $1,008.2 million, net cash used in investing activities of $239.9 million and net cash used in financing activities of $818.7 million. The cash provided by operating activities of $1,008.2 million reflects strong earnings and effective working capital management. This amount decreased $419.0 million from $1,427.2 million for the nine months ended September 30, 2020 primarily driven by the $500 million benefit to operating cash flow in 2020 as a result of the Company entering into the A/R Sales Agreement to sell receivables. The investing activities consisted primarily of $142.6 million in acquisitions and other investing activities and $138.2 million in capital expenditures, slightly offset by $40.9 million in proceeds from divestitures and the sale of property, plant and equipment. The financing activities consisted primarily of $349.3 million for dividends paid to the Company's shareholders, $283.9 million paid for share repurchases and $160.8 million net payments on debt.

Accounts receivable increased $331.3 million, or 21.3%, from December 31, 2020 primarily due to higher sales volumes. Inventory increased $242.1 million, or 6.9%, due to increased economic activity and related product demand. Accounts payable increased $691.0 million, or 16.7%, from December 31, 2020 due to increased purchasing related to sales volume and extended payment terms with certain suppliers. Total debt of $2.4 billion at September 30, 2021 decreased $0.2 billion, or 9.1%, from December 31, 2020.

We continue to negotiate extended payment terms with our suppliers. Our current payment terms with the majority of our suppliers range from 30 to 360 days. Several global financial institutions offer voluntary supply chain finance ("SCF") programs which enable our suppliers, at their sole discretion, to sell their receivables from the Company to these financial institutions on a non-recourse basis at a rate that takes advantage of our credit rating and may be beneficial to them. The SCF program is primarily available to suppliers of goods and services included in cost of goods sold in our condensed consolidated statements of income (loss). The Company and our suppliers agree on commercial terms for the goods and services we procure, including prices, quantities and payment terms, regardless of whether the supplier elects to participate in the SCF program. The suppliers sell goods or services, as applicable, to the Company and they issue the associated invoices to the Company based on the agreed-upon contractual terms. Then, if they are participating in the SCF program, our suppliers, at their sole discretion, determine which invoices, if any, they want to sell to the financial institutions. In turn, we direct payment to the financial institutions, rather than the suppliers, for the invoices sold to the financial institutions. No guarantees are provided by the Company or any of our subsidiaries on third-party performance under the SCF program; however, the Company guarantees the payment by our subsidiaries to the financial institutions participating in the SCF program for the applicable invoices. We have no economic interest in a supplier's decision to participate in the SCF program, and we have no direct financial relationship with the financial institutions, as it relates to the SCF program. Accordingly, amounts due to our suppliers that elected to participate in the SCF program are included in the line item accounts payable in our condensed consolidated balance sheets. All activity related to amounts due to suppliers that elected to participate in the SCF program is reflected in cash flows from operating activities in our condensed consolidated statements of cash flows. As of September 30, 2021 and December 31, 2020, the outstanding payment obligations to the financial institutions are $2.6 billion and $1.8 billion, respectively. The amount settled through the SCF program was $2.3 billion and $1.9 billion for the nine months ended September 30, 2021 and September 30, 2020, respectively.

Liquidity and Capital Resources

We ended the quarter with $2.4 billion of total liquidity (comprising $1.5 billion availability on the Unsecured Revolving Credit Facility, defined below, and $0.9 billion of cash and cash equivalents). From time to time, we may enter into other credit facilities or financing arrangements to provide additional liquidity and to manage against foreign currency risk. We currently believe that the existing lines of credit and cash generated from operations will be sufficient to fund anticipated operations for the foreseeable future.

On September 30, 2021, we entered into the first amendment to the Syndicated Facility Agreement (the "Unsecured Revolving Credit Facility"), dated as of October 30, 2020. The interest rates were amended to reduce the applicable rate by 12.5 basis points (resulting in a rate of LIBOR + 112.5 basis points) and the LIBOR floor from 0.5% to 0.0%. The amendment also extended the maturity by one year to September 30, 2026.

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We have a strong cash position and solid financial strength to pursue strategic growth opportunities through disciplined, strategic capital deployment. Our key priorities include the reinvestment in our businesses through capital expenditures, mergers and acquisitions, the dividend and share repurchases. We have plans for additional investments in our businesses to drive growth, improve efficiencies and productivity, and drive shareholder value.

On February 16, 2021, we announced a 3% increase in the regular quarterly cash dividend for 2021. The Board of Directors increased the cash dividend payable to an annual rate of $3.26 per share compared with the previous dividend of $3.16 per share. GPC has paid a cash dividend every year since going public in 1948, and 2021 marks the 65th consecutive year of increased dividends paid to shareholders.

We expect to be able to continue to borrow funds at reasonable rates over the long term. At September 30, 2021, the Company's total average cost of debt was 2.34%, and the Company remained in compliance with all covenants connected with its borrowings. Such covenants include, among others, a financial covenant to maintain a certain leverage ratio of consolidated debt to consolidated adjusted EBITDA under our credit facility.

Any failure to comply with our debt covenants or restrictions could result in a default under our financing arrangements or could require us to obtain waivers from our lenders for failure to comply with these restrictions. The occurrence of a default that remains uncured or the inability to secure a necessary consent or waiver could create cross defaults under other debt arrangements and have a material adverse effect on our business, financial condition, results of operations and cash flows.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

For quantitative and qualitative disclosures about market risk, refer to “Quantitative and Qualitative Disclosures About Market Risk” in Item 7A of Part II of our 2020 Annual Report on Form 10-K. Our exposure to market risk has not changed materially since December 31, 2020.

Item 4. Controls and Procedures

As of the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of the Company’s management, including the Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), of the effectiveness of the Company’s disclosure controls and procedures. Based on that evaluation, the Company’s CEO and CFO concluded that the Company’s disclosure controls and procedures were effective as of the end of the period covered by this report to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or furnishes under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and that such information is accumulated and communicated to the Company’s management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Changes in internal control over financial reporting

There have been no changes in the Company’s internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 of the SEC that occurred during the Company’s last quarter ended September 30, 2021 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are involved in various claims and legal actions that arise in the ordinary course of business. Although the results of litigation and claims cannot be predicted with certainty, we do not believe that the ultimate resolution of these actions will have a material adverse effect on our financial position, results of operations, liquidity and capital resources. Except as set forth herein, there have been no significant developments to the information presented in our 2020 Annual Report on Form 10-K with respect to litigation or commitments and contingencies. Refer to the commitments and contingencies footnote to the condensed consolidated financial statements for more information, which information is incorporated by reference herein.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our 2020 Annual Report on Form 10-K, which could materially affect our business, financial condition or future results. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information about the Company's purchases of shares of the Company's common stock during the three months ended September 30, 2021:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
July 1, 2021 through July 31, 2021	213,064	$128.09	209,275	12,834,436
August 1, 2021 through August 31, 2021	355,503	$124.53	352,904	12,481,532
September 1, 2021 through September 30, 2021	240,124	$120.78	238,257	12,243,275
Totals	808,691	$124.35	800,436	12,243,275

(1) Includes shares surrendered by employees to the Company to satisfy tax withholding obligations in connection with the vesting of shares of restricted stock, the exercise of stock options and/or tax withholding obligations.

(2) On August 21, 2017, the Board of Directors announced that it had authorized the repurchase of 15.0 million shares. Under this program, shares may be repurchased in privately negotiated and/or open market transactions, including under plans complying with Rule 10b5-1 under the Exchange Act. The authorization for the repurchase continues until all such shares have been repurchased or the repurchase program is terminated by action of the Board of Directors. The program may be suspended at any time and does not have an expiration date. Approximately 12.2 million shares authorized remain available to be repurchased by the Company. There were no other repurchase programs announced as of September 30, 2021.

Item 6. Exhibits

(a) The following exhibits are filed or furnished as part of this report:

Exhibit 3.1	Amended and Restated Articles of Incorporation of the Company, dated April 23, 2007 (incorporated herein by reference from Exhibit 3.1 to the Company's Current Report on Form 8-K dated April 23, 2007)
Exhibit 3.2	By-Laws of the Company, as amended and restated November 19, 2018 (incorporated herein by reference from Exhibit 3.2 to the Company's Current Report on Form 8-K dated November 19, 2018)
Exhibit 31.1	Certification pursuant to SEC Rule 13a-14(a) signed by the Chief Executive Officer – filed herewith
Exhibit 31.2	Certification pursuant to SEC Rule 13a-14(a) signed by the Chief Financial Officer – filed herewith
Exhibit 32	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by the Chief Executive Officer and Chief Financial Officer – furnished herewith
Exhibit 10.1	First Amendment, dated as of September 30, 2021, to Genuine Parts Company Syndicated Facility Agreement dated October 30, 2020 among Genuine Parts Company, UAP, Inc., and Certain Designated Subsidiaries as Borrowers, JPMorgan Chase Bank, N.A., as Administrative Agent, Domestic Swing Line Lender and L/C Issuer, JPMorgan Chase Bank, N.A., acting through its Toronto Branch, as Canadian Swing Line Lender and the other Lenders and L/C Issuers party thereto.
Exhibit 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.
Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
Exhibit 101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
Exhibit 104	The cover page from this Quarterly Report on Form 10-Q for the period ended September 30, 2021 formatted in Inline XBRL

* Indicates management contracts and compensatory plans and arrangements.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	Genuine Parts Company (Registrant)
Date: October 21, 2021	/s/ Carol B. Yancey
	Carol B. Yancey Executive Vice President and Chief Financial Officer (Duly Authorized Officer and Principal Financial Officer)
Date: October 21, 2021	/s/ Napoleon B. Rutledge Jr.
	Napoleon B. Rutledge Jr. Senior Vice President and Chief Accounting Officer (Duly Authorized Officer and Principal Accounting Officer)

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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

KAMAN

Commission File No. 001-35419
KAMAN CORPORATION
(Exact name of registrant as specified in its charter)

Connecticut (State or other jurisdiction of incorporation or organization)	06-0613548 (I.R.S. Employer Identification No.)
1332 Blue Hills Avenue, Bloomfield, Connecticut (Address of principal executive offices)	06002 (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.

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Kaman Corporation
Index to Form 10-K

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
Sales			
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	100.0 %	100.0 %	100.0 %

AVAILABILITY OF RAW MATERIALS

While we believe we have sufficient sources for the materials, components, services and supplies used in our manufacturing activities, we are highly dependent on the availability of essential materials, parts and subassemblies from our suppliers and subcontractors. The most important raw materials required for our 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:

In thousands	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
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	$ 700,923	$ 409,333	$ 631,236	$ 806,870

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.

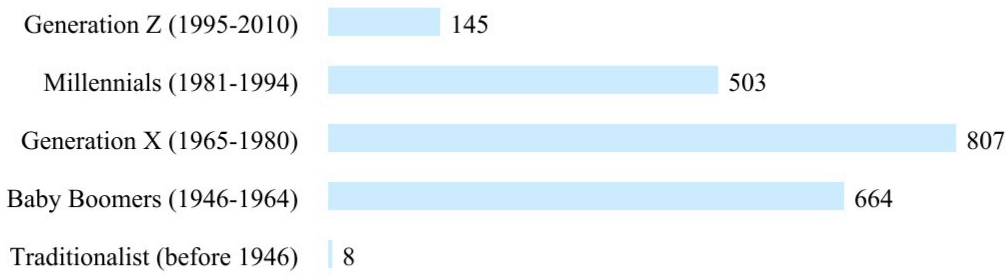
HUMAN CAPITAL

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:



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	2,281,790

(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

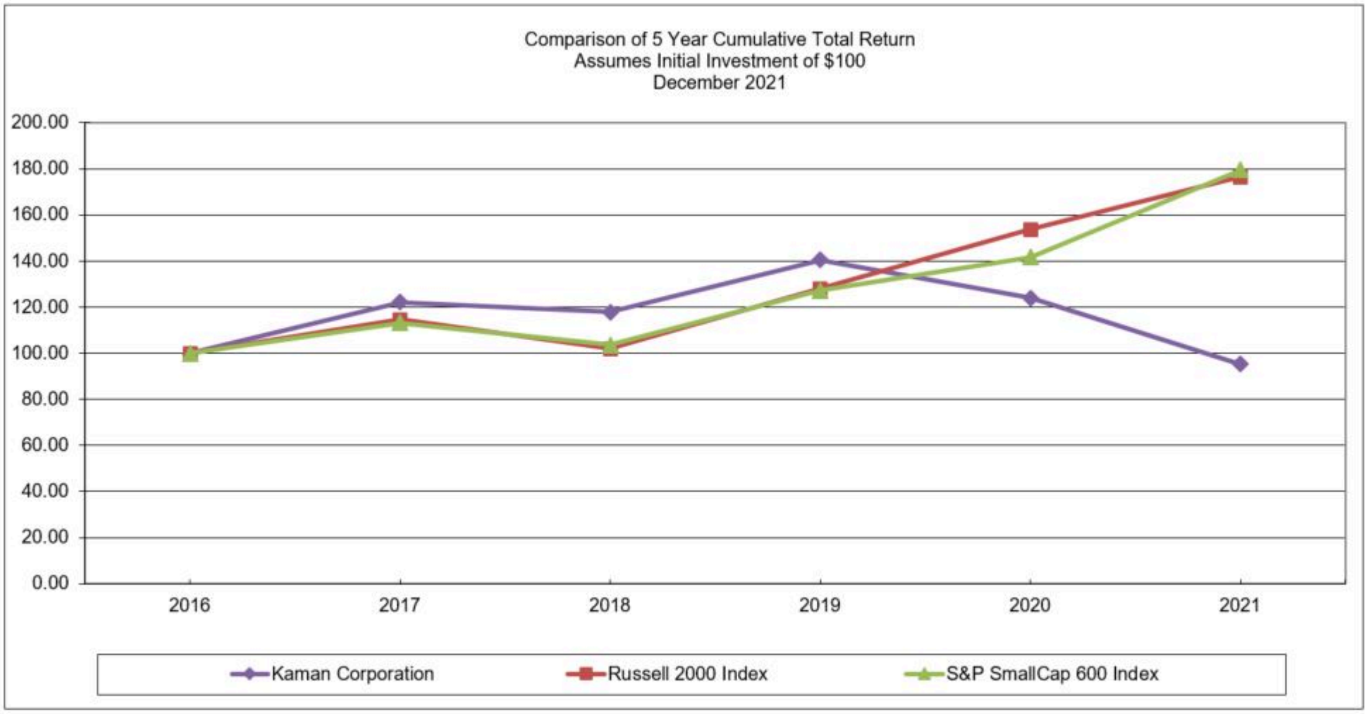
The following table provides information about purchases of Common Stock by the Company during the three months ended December 31, 2021:

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	1,668		—	

(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

	2021	2020	2019
In thousands			
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
In thousands			
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
In thousands			
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

In thousands	2021	2020	2019
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

In thousands	2021	2020	2019
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

In thousands	2021	2020	2019
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

In thousands	2021	2020	2019
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

In thousands	2021	2020	2019
Restructuring and severance costs	$ 6,154	$ 8,359	$ 1,558

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

In thousands	2021	2020	2019
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	$ 6,154	$ 8,359	$ 1,558

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

In thousands	2021	2020	2019
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

	2021	2020	2019
In thousands			
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

	2021	2020	2019
In thousands			
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

	2021	2020	2019
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

	2021	2020	2019
In thousands			
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:

	2021	2020	2019
In thousands			
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.

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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
In thousands			
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:

	2021	2020	2019
In thousands			
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.

777 / 767

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:

(in thousands)	2021	2020	2019	21 vs. 20	20 vs. 19
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	$ 31,168	$ (1,314)	$ 20,041	$ 32,482	$ (21,355)

(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
Dilutive Shares associated with:					
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:

In thousands	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	$ 707,289	$ 762,969	$ 729,559

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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.

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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

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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	546,543	597,974
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	$ 1,198,482	$ 1,306,393
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	120,935	228,412
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	796,329	746,438
Total liabilities and shareholders' equity	$ 1,198,482	$ 1,306,393

See accompanying notes to consolidated financial statements.

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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)	$ 43,676	$ (69,742)	$ 209,829
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	$ 1.57	$ (2.52)	$ 7.51
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	$ 1.57	$ (2.52)	$ 7.47
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.

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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)	$ 63,112	$ (49,670)	$ 216,928

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	43,676	(70,434)	56,446
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	48,698	16,469	42,488
Net cash used in operating activities of discontinued operations	—	—	(50,288)
Net cash provided by (used in) operating activities	48,698	16,469	(7,800)

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	(21,112)	(318,722)	628,316
Net cash used in investing activities of discontinued operations	—	—	(9,838)
Net cash (used in) provided by investing activities	(21,112)	(318,722)	618,478
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	(22,233)	(33,535)	(152,713)
Net cash provided by financing activities of discontinued operations	—	—	7,967
Net cash used in financing activities	(22,233)	(33,535)	(144,746)
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)	$ 140,800	$ 136,089	$ 471,540

See accompanying notes to consolidated financial statements.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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*.

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		16,842
UK cumulative foreign currency translation adjustment balance		22,835
Transaction costs		442
Loss on the sale of the UK Composites business	$	36,519

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.

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
In thousands			
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	$ —	$ 692	$ 153,383

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.

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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	$	662,544
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	$	171,292
Gain on sale of Distribution before income taxes	$	168,682

[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.

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		317,546
Less cash received		(12,885)
Net consideration	$	304,661

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.

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**
In thousands		
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.

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
In thousands			
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]	$ 708,993	$ 784,459	$ 761,608
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)	$ 49,496	$ (84,311)	$ 53,411

[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.

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	$ 317,683	$ 256,329	$ 134,981	$ 708,993

	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	$ 315,063	$ 302,509	$ 166,887	$ 784,459

	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	$ 270,335	$ 307,312	$ 183,961	$ 761,608

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	45 %	36 %	19 %	100 %

	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	40 %	39 %	21 %	100 %

	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	35 %	41 %	24 %	100 %

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
In thousands			
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	$ 16,072	$ 14,755	$ 11,896

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
In thousands			
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	$ 1,198,482	$ 1,306,393	$ 1,418,943
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	$ 17,530	$ 17,783	$ 22,447
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	$ 36,654	$ 43,899	$ 25,854

[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
In thousands			
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	$ 708,993	$ 784,459	$ 761,608

4. SEGMENT AND GEOGRAPHIC INFORMATION (CONTINUED)

Geographic Information - continued

Geographic distribution of long-lived assets is as follows:

	At December 31,	
	2021	2020
In thousands		
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]	$ 636,222	$ 668,610

[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
In thousands			
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	$ 6,154	$ 8,359	$ 1,558

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*.

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
In thousands		
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	$ 73,524	$ 153,806

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:

In thousands	
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	$ (1,547)

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.

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,	
In thousands	**2021**	**2020**
Contract changes, negotiated settlements and claims for unanticipated contract costs	$ 900	$ 900
Total	$ 900	$ 900

7. CONTRACT ASSETS, CONTRACT COSTS AND CONTRACT LIABILITIES

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

In thousands	December 31, 2021	December 31, 2020	$ Change	% Change
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,	
In thousands	**2021**	**2020**
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.

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**
In thousands				
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.

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**
In thousands		
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	$ 193,100	$ 185,072

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.

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
In thousands		
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	449,710	439,836
Less accumulated depreciation	(251,888)	(228,984)
Property, plant and equipment, net	$ 197,822	$ 210,852

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.

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
In thousands				
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	$ 199,306	$ 41,375	$ —	$ 240,681
Accumulated impairment at end of period	$ —	$ —	$ (66,559)	$ (66,559)

	2020			
	Engineered Products	Precision Products	Structures	Total
In thousands				
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	$ 205,869	$ 41,375	$ —	$ 247,244
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.

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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.

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

Other Intangible Assets

Other intangible assets consisted of:

		At December 31, 2021		At December 31, 2020	
	Amortization Period	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
In thousands					
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		$ 194,510	$ (56,436)	$ 197,846	$ (47,648)

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:

In thousands	
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.

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:

In thousands	2021	2020
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	$ 5,958	$ 6,049

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:

In thousands	
2022	$ 318
2023	184
2024	387
2025	—
2026	132
Thereafter	3,760
Total	$ 4,781

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*.

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14. DEBT

Long-Term Debt

The Company has long-term debt as follows:

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

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:

In thousands	
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.

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.

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
In thousands		
Principal amount of liability	$ 199,500	$ 199,500
Unamortized discount	7,624	10,581
Carrying value of liability	$ 191,876	$ 188,919
Equity component	$ 20,408	$ 20,408

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.

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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
In thousands			
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	$ 9,441	$ 9,344	$ 9,256

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
In thousands		
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.

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.

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:

In thousands	2021	2020
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	$ 8,772	$ (717)
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	$ (120,157)	$ (130,104)
Total accumulated other comprehensive income (loss)	$ (111,385)	$ (130,821)

[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).

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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
In thousands			
Current:			
Federal	$ (5,613)	$ 1,693	$ (19,432)
State	1,061	(3,143)	1,996
Foreign	266	168	585
	(4,286)	(1,282)	(16,851)
Deferred:			
Federal	17,533	(5,650)	719
State	2,526	899	277
Foreign	1,059	(1,697)	(4)
	21,118	(6,448)	992
Income tax expense (benefit)	$ 16,832	$ (7,730)	$ (15,859)

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
In thousands			
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)	$ 16,832	$ (7,730)	$ (15,859)

(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.

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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**
In thousands		
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	48,399	81,186
Deferred tax liabilities:		
Property, plant and equipment	(11,680)	(5,379)
Intangibles	(21,282)	(32,398)
Other items	(205)	(765)
Total deferred tax liabilities	(33,167)	(38,542)
Net deferred tax assets before valuation allowance	15,232	42,644
Valuation allowance	(6,022)	(10,216)
Net deferred tax assets after valuation allowance	$ 9,210	$ 32,428

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.

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:

In thousands	2021	2020	2019
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]	$ 3,592	$ 3,612	$ 3,214

[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.

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**
In thousands				
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	$ 785,795	$ 836,531	$ 5,017	$ 7,669
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	$ 764,009	$ 766,921	$ —	$ —
Funded status at end of year	$ (21,786)	$ (69,610)	$ (5,017)	$ (7,669)
Accumulated benefit obligation	$ 785,795	$ 836,531	$ 5,017	$ 7,669

[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**
In thousands				
Current liabilities [1]	$ —	$ —	$ (526)	$ (2,771)
Noncurrent liabilities	(21,786)	(69,610)	(4,491)	(4,898)
Total	$ (21,786)	$ (69,610)	$ (5,017)	$ (7,669)

[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**
In thousands				
Unrecognized loss	$ 159,015	$ 171,571	$ 730	$ 1,069
Amount included in accumulated other comprehensive income	$ 159,015	$ 171,571	$ 730	$ 1,069

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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**
In thousands						
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	$ (25,267)	$ (12,125)	$ 4,222	$ 339	$ 1,109	$ 482
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	$ (12,557)	$ (5,512)	$ (11,965)	$ (339)	$ (241)	$ 475
Total recognized in net periodic benefit cost and other comprehensive (income) loss	$ (37,824)	$ (17,637)	$ (7,743)	$ —	$ 868	$ 957

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**
In thousands				
Contributions	$ 10,000	$ 10,000	$ 2,652	$ 534

	Qualified Pension Plan	**SERP**
In thousands		
Expected contributions during 2022	$ —	$ 526

17. PENSION PLANS (CONTINUED)

Obligations and Funded Status - continued

Expected future benefit payments are as follows:

	Qualified Pension Plan	SERP
In thousands		
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:

	At December 31,			
	Qualified Pension Plan		SERP	
	2021	**2020**	**2021**	**2020**
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:

	For the twelve months ended December 31,			
	Qualified Pension Plan		SERP	
	2021	**2020**	**2021**	**2020**
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%.

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.

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:

In thousands	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
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	$ 762,186	$ 112,089	$ 233,075	$ —	$ 417,022
Accrued income/expense	1,823	(33)	1,856	—	—
Total	$ 764,009	$ 112,056	$ 234,931	$ —	$ 417,022

In thousands	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
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	$ 765,182	$ 187,663	$ 215,231	$ —	$ 362,288
Accrued income/expense	1,739	17	1,722	—	—
Total	$ 766,921	$ 187,680	$ 216,953	$ —	$ 362,288

[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.

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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	At December 31, 2020
In thousands		
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	$ 39,837	$ 47,636

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.

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.

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.

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:

	Classification	December 31, 2021	December 31, 2020
In thousands			
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		$ 14,841	$ 17,498

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:

	Classification	December 31, 2021	December 31, 2020
In thousands			
Liabilities			
Current			
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
Noncurrent			
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		$ 15,968	$ 19,844

20. LEASES (CONTINUED)

Future rental payments for continuing operations consisted of the following:

		December 31, 2021
In thousands		
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,			
	2021		2020	
In thousands				
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

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
In thousands		
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	$ (8,461)	$ (7,285)

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:

	December 31, 2021
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 %

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
In thousands, except per share amounts			
Earnings (loss) from continuing operations	$ 43,676	$ (70,434)	$ 56,446
Total earnings from discontinued operations	—	692	153,383
Net earnings (loss)	$ 43,676	$ (69,742)	$ 209,829
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	$ 1.57	$ (2.52)	$ 7.51
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	27,891	27,723	28,092
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	$ 1.57	$ (2.52)	$ 7.47

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.

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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.

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 75^{th} percentile of the designated indices. Awards are paid out at 100% at the 50^{th} percentile. Awards for performance between the 25^{th} and 75^{th} 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	746,240	$ 55.14

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.

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	135,351	$ 53.53

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	70,163	$ 70.17

[1] The PSUs granted in 2021 assumed a 100% achievement level.

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:

	2021
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

		Page Number in Form 10-K
(a)(1)	**FINANCIAL STATEMENTS.**	
	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.	59
(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)

		Additions			
DESCRIPTION	Balance Beginning of Period	Charged to Costs and Expenses	Others (A)	Deductions (B)	Balance End of Period
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.

		Additions (Reductions)		
DESCRIPTION	Balance Beginning of Period	Current Year Provision (Benefit)	Others	Balance End of Period
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

		Page Number in Form 10-K
(a)(3)	**EXHIBITS.**	
	An index to the exhibits filed or incorporated by reference immediately precedes such exhibits.	127

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.

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Signature	Title:	Date:
/s/ Ian K. Walsh Ian K. Walsh	Chairman, President, Chief Executive Officer and Director (Principal Executive Officer)	February 24, 2022
/s/ James G. Coogan James G. Coogan	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	February 24, 2022
/s/ Rebecca F. Stath Rebecca F. Stath	Vice President and Controller (Principal Accounting Officer)	February 24, 2022
/s/ Ian K. Walsh 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

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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	Form of Restricted Share Agreement under the Amended and Restated Kaman Corporation 2013 Management Incentive Plan, 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	Form of Performance Stock Unit Award Agreement under the Amended and Restated Kaman Corporation 2013 Management Incentive Plan, 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	List of Subsidiaries	Filed Herewith
Exhibit 23	Consent of PricewaterhouseCoopers LLP, the Company's current independent registered public accounting firm.	Filed Herewith
Exhibit 24	Power of attorney under which this report was signed on behalf of certain directors.	Filed Herewith

Exhibit 31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14 under the Securities and Exchange Act of 1934.	Filed Herewith
Exhibit 31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14 under the Securities and Exchange Act of 1934.	Filed Herewith
Exhibit 32.1	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.	Filed Herewith
Exhibit 32.2	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.	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

KAMAN

NEWS RELEASE
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KAMAN REPORTS 2021 FIRST QUARTER RESULTS

First Quarter Highlights:

- **Net sales from continuing operations of $171.6 million, down 17.2% over prior year period**
- **Gross profit from continuing operations of $52.9 million; Gross margin of 30.8%**
- **Earnings from continuing operations of $8.0 million, up $8.4 million over the prior year period**
- **Diluted earnings per share from continuing operations of $0.29**
- **Adjusted EBITDA from continuing operations* of $17.1 million decreased from the first quarter of 2020 but flat with the fourth quarter of 2020 on lower sales**
- **Net cash used in operating activities of $2.4 million; Adjusted Free Cash Flow* of $18.0 million**

BLOOMFIELD, Conn. (May 4, 2021*)* - Kaman Corp. (NYSE:KAMN) today reported financial results for the first fiscal quarter ended April 2, 2021.

Table 1. Summary of Financial Results (unaudited)
In thousands except per share amounts

	For the Three Months Ended		
	April 2, 2021	**April 3, 2020**	**Change**
Net sales from continuing operations	$ 171,616	$ 207,322	$ (35,706)
Operating income from continuing operations:			
Operating income (loss) from continuing operations	$ 5,613	$ (4,422)	$ 10,035
% of sales	*3.3 %*	*(2.1)%*	*5.4 %*
Adjustments	$ 2,291	$ 21,117	$ (18,826)
Adjusted operating income from continuing operations*	$ 7,904	$ 16,695	$ (8,791)
% of sales	*4.6 %*	*8.1 %*	*(3.5)%*
Adjusted EBITDA from continuing operations*:			
Earnings (loss) from continuing operations	$ 7,984	$ (407)	$ 8,391
Adjustments	9,129	26,611	(17,482)
Adjusted EBITDA from continuing operations*	$ 17,113	$ 26,204	$ (9,091)
% of sales	*10.0 %*	*12.6 %*	*(2.6)%*
Earnings per share from continuing operations:			
Diluted earnings per share from continuing operations	$ 0.29	$ (0.01)	$ 0.30
Adjustments	—	0.49	(0.49)
Adjusted diluted earnings per share from continuing operations*	$ 0.29	$ 0.48	$ (0.19)

Ian K. Walsh, Chairman, President and Chief Executive Officer, commented, “We begin the year with a solid quarter and confidence in our end-market recovery seeing significant sequential improvements in our Medical and Industrial end markets with strong order rates for these products. Sales for our Defense and Commercial, Business and General Aviation products declined both year-over-year and sequentially due to lower JPF volume and the impact of COVID-19, respectively. Looking to the remainder of the year, our JPF program remains on track and we anticipate a significant ramp up in sales for our Commercial, Business and General Aviation products in the second half of the year and are encouraged by increased air traffic and vaccination rates in the United States."

"Our cost control efforts carried forward into the first quarter where we achieved Adjusted EBITDA* margin of 10.0%. This result demonstrates our ability to maintain profitability despite the year-over-year and sequential sales declines we experienced. We remain focused on implementing our operational excellence model that is designed to improve EBITDA Margin, Free Cash Flow, and Return on Invested Capital and we are starting to see positive results."

"New product development remains an important part of our future growth and we have made significant progress on a number of these initiatives, including the opening of our first production cell for highly engineered products utilizing our proprietary Titanium Diffusion Hardening process and the successful test flight for our new unmanned K-MAX TITAN ™ system. This test flight is a significant milestone in enabling us to meet the future unmanned logistics requirements of our commercial and defense customers. As we look to the remainder of the year, we anticipate sequential organic growth and continued progress on our new product development efforts and our strategic acquisitions priorities."

Management's Commentary on First Quarter Results:

Net sales for the quarter decreased 17.2% when compared to the first quarter of 2020 and 7.4% sequentially. Organic sales*, which excludes sales from our former U.K. composite operations, decreased 14.5% from the first quarter of 2020 and decreased 5.6% from the fourth quarter of 2020. Sales declines were due to lower sales volume of our Defense products and our Commercial, Business and General Aviation products, partially offset by increased sales for our Medical and Industrial products.

Sales for our Defense products decreased 20.2% when compared to the first quarter of 2020 and 10.7% when compared to the fourth quarter of 2020. The sequential decrease was due in large part to lower volume for our Joint Programmable Fuze program offset by a modest increase in our other defense offerings. During the quarter we delivered 8,090 fuzes and we continue to expect to deliver 30,000 to 35,000 Joint Programmable Fuzes in the year.

Sales for our Commercial, Business and General Aviation products decreased 24.2% from the first quarter of 2020 and 14.8% from the fourth quarter of 2020. This sequential decrease was due to a 19.9% decrease in sales for our commercial aviation products and a 12.7% decrease in general and business aviation products. As we look to the remainder of the year we expect sales for these products to improve with a more significant increase in sales in the second half of the year.

Sales for our Medical products were relatively flat with the first quarter of 2020 and increased 22.8% when compared to the fourth quarter of 2020. This is our third straight quarter with improved sales for these product offerings and we saw very strong order intake in the first quarter for our medical miniature bearings, seals, springs, and contacts. Finally, our Industrial products also saw strong order activity in the quarter and delivered a 9.5% increase in sales over the first quarter of 2020 and 5.8% increase in sales over the fourth quarter of last year.

Commenting on the quarter, Chief Financial Officer, Robert D. Starr, stated, "First quarter diluted earnings per share was $0.29 on a GAAP and adjusted* basis. This result was led by solid gross margin in excess of 30% and, despite a sequential sales decline, selling, general, and administration expense as a percentage of sales remained flat with the fourth quarter of 2020 as we continued to focus on our cost control efforts. During the quarter, Net cash used in operating activities from continuing operations was $2.4 million and included a $25.1 million payment for the acquired retention plans at Bal Seal. Adjusted Free Cash Flow* for the period was $18.0 million and benefited

from improved collections in the quarter. We are maintaining our previous full year outlook as we continue to anticipate a strong recovery in our Commercial Business and General Aviation products in the second half of the year."

2021 Outlook

(in millions)	2020	2021 Outlook	
	Actual	Low End	High End
Sales			
Sales from continuing operations	$ 784.5	$ 725.0	$ 745.0
Sales of Disposed Business[1]	21.5	—	—
Organic Sales	$ 763.0	$ 725.0	$ 745.0
Adjusted EBITDA*			
Earnings from continuing operations	$ (70.4)	$ 43.5	$ 52.5
Adjustments	173.3	41.5	44.0
Adjusted EBITDA* from continuing operations	$ 102.9	$ 85.0	$ 96.5
Adjusted EBITDA margin from continuing operations*	*13.1 %*	*11.7 %*	*13.0 %*
Adjusted Diluted Earnings Per Share*			
Diluted Earnings Per Share	$ (2.54)	$ 1.55	$ 1.87
Adjustments	4.65	—	—
Adjusted Diluted Earnings Per Share	$ 2.11	$ 1.55	$ 1.87
Cash Flow			
Operating cash flow from continuing operations	$ 16.5	$ 25.0	$ 35.0
Bal Seal Acquisition Retention Payment	—	25.1	25.1
Cash used for the purchase of property, plant and equipment	(17.8)	(20.0)	(20.0)
Adjusted Free Cash Flow*	$ (1.3)	$ 30.1	$ 40.1
Discretionary Pension Contribution	$ 10.0	$ 10.0	$ 10.0

[1] In the first quarter of 2021 the Company sold its U.K Composites Business which did not qualify for reporting as a discontinued operation under GAAP. In 2021 we will record sales of $1.7 million for this business which was not contemplated as part of our outlook for the year.

[2] Operating cash flow from continuing operations include the $25.1 million payment to Bal Seal employees which represents purchase price paid to the former Bal Seal owners that was accounted for as compensation expense under ASC 805 in 2020.

Please see the MD&A section of the Company's Form 10-Q filed with the Securities and Exchange Commission concurrently with the issuance of this release for greater detail on our results and various company programs.

A conference call has been scheduled for tomorrow, May 5, 2021, at 8:30 AM ET. The call will be accessible by telephone within the U.S. at (844) 473-0975 and from outside the U.S. at (562) 350-0826 (using the Conference I.D.: 7396055) or via the Internet at www.kaman.com. Please go to the website at least fifteen minutes prior to the start of the call to register, download and install any necessary audio software. A replay will also be available two hours after the call and can be accessed at (855) 859-2056 or (404) 537-3406 using the Conference I.D.: 7396055.

About Kaman Corporation

Kaman Corporation, founded in 1945 by aviation pioneer Charles H. Kaman, and headquartered in Bloomfield, Connecticut, conducts business in the Aerospace, Defense, Industrial and Medical markets. Kaman produces and

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markets proprietary aircraft bearings and components; super precision, miniature ball bearings; proprietary spring energized seals, springs and contacts; complex metallic and composite aerostructures for commercial, military and general aviation fixed and rotary wing aircraft; safe and arming solutions for missile and bomb systems for the U.S. and allied militaries; subcontract helicopter work; restoration, modification and support of our SH-2G Super Seasprite maritime helicopters; manufacture and support of our K-MAX® manned and unmanned medium-to-heavy lift helicopters.

More information is available at www.kaman.com.

Non-GAAP Measures Disclosure

Management believes that the Non-GAAP financial measures (i.e. financial measures that are not computed in accordance with Generally Accepted Accounting Principles) identified by an asterisk (*) used in this release or in other disclosures provide important perspectives into the Company's ongoing business performance. The Company does 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 release 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 preceding 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 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. No other adjustments were made during the three-month fiscal periods ended April 2, 2021 and April 3, 2020, respectively. The following table illustrates the calculation of Organic Sales using the GAAP measure, "Net Sales".

Table 2. Organic Sales from continuing operations (in thousands) (unaudited)

	For the Three Months Ended	
	April 2, 2021	April 3, 2020
Net sales	$ 171,616	$ 207,322
Acquisition Sales	—	—
Sales of Disposed Business	1,704	8,486
Organic Sales	$ 169,912	$ 198,836
$ Change	(28,924)	
% Change	(14.5)%	

Adjusted Net Sales from continuing operations and Adjusted Operating Income from continuing operations - Adjusted Net Sales from continuing operations is defined as net sales from continuing operations, less items not indicative of normal sales, such as revenue recorded related to the settlement of claims. Adjusted Operating Income from continuing operations is defined as operating income from continuing operations, less items that are not indicative of the operating performance of the Company for the period presented. These items are included in the reconciliation below. Management uses Adjusted Net Sales from continuing operations and Adjusted Operating Income from continuing operations to evaluate performance period over period, to analyze underlying trends and to assess our performance relative to our competitors. We believe that this information is useful for investors and financial institutions seeking to analyze and compare companies on the basis of operating performance. The following table illustrates the calculation of Adjusted Operating Income from continuing operations to the Consolidated Financial Statements included in the Company's Form 10-Q filed with the Securities and Exchange Commission on May 4, 2021.

Table 3. Adjusted Net Sales and Adjusted Operating Income from Continuing Operations
(In thousands) (unaudited)

	For the Three Months Ended	
	April 2, 2021	**April 3, 2020**
CONSOLIDATED OPERATING INCOME:		
Net Sales from continuing operations	$ 171,616	$ 207,322
GAAP - Operating income (loss) from continuing operations	$ 5,613	$ (4,422)
% of GAAP net sales	*3.3 %*	*(2.1)%*
Adjustments		
Restructuring and severance costs	1,352	1,795
Costs associated with corporate development activities	—	1,787
Bal Seal acquisition costs	—	8,483
Cost of acquired Bal Seal retention plans	—	5,703
Inventory step-up associated with Bal Seal acquisition	—	1,177
Costs from transition services agreement	705	4,140
Reversal of employee tax-related matters in foreign operations	—	(1,211)
Reversal of environmental accrual at GRW	—	(264)
Loss (gain) on sale business	234	(493)
Total adjustments	$ 2,291	$ 21,117
Adjusted Operating Income	$ 7,904	$ 16,695
% of GAAP net sales	*4.6 %*	*8.1 %*

Adjusted EBITDA from continuing operations - Adjusted EBITDA from continuing operations is defined as earnings from continuing operations before interest, taxes, other expense (income), net, depreciation and amortization and certain items that are not indicative of the operating performance of the Company for the periods presented. Adjusted EBITDA from continuing operations differs from earnings from continuing operations, as calculated in accordance with GAAP, in that it excludes interest expense, net, income tax expense, depreciation and amortization, other expense (income), net, non-service pension and post retirement benefit expense (income), and certain items that are not indicative of the operating performance of the Company for the periods presented. We have made numerous investments in our business, such as acquisitions and capital expenditures, including facility improvements, new machinery and equipment, improvements to our information technology infrastructure and ERP systems, which we have adjusted for in Adjusted EBITDA from continuing operations. Adjusted EBITDA from continuing operations also does not give effect to cash used for debt service requirements and thus does not reflect funds available for distributions, reinvestments or other discretionary uses. Management believes Adjusted EBITDA from continuing operations provides an additional perspective on the operating results of the organization and its earnings capacity and helps improve the comparability of our results between periods because it provides a view of our operations that excludes items that management believes are not reflective of operating performance, such as items traditionally removed from net earnings in the calculation of EBITDA as well as Other expense (income), net and certain items that are not indicative of the operating performance of the Company for the period presented. Adjusted EBITDA from continuing operations is not presented as an alternative measure of operating performance, as determined in accordance with GAAP. No other adjustments were made during the three-month fiscal periods ended April 2, 2021 and April 3, 2020. The following table illustrates the calculation of Adjusted EBITDA from continuing operations using GAAP measures:

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Table 4. Adjusted EBITDA from continuing operations (in thousands) (unaudited)

	For the Three Months Ended	
	April 2, 2021	**April 3, 2020**
Adjusted EBITDA from continuing operations		
Consolidated Results		
Sales from continuing operations	$ 171,616	$ 207,322
Earnings (loss) from continuing operations, net of tax	7,984	(407)
Interest expense, net	4,251	3,247
Income tax expense (benefit)	207	(443)
Non-service pension and post retirement benefit income	(6,643)	(4,063)
Other expense, net	289	218
Depreciation and amortization	9,209	9,509
Other Adjustments:		
Restructuring and severance costs	1,352	1,795
Cost associated with corporate development activities	—	1,787
Bal Seal acquisition costs	—	8,483
Cost of acquired Bal Seal retention plans	—	5,703
Inventory step-up associated with Bal Seal acquisition	—	1,177
Costs from transition services agreement	705	4,140
Income from transition services agreement	(475)	(2,974)
Reversal of employee tax-related matters in foreign operations	—	(1,211)
Reversal of environmental accrual at GRW	—	(264)
Loss (gain) on sale of business	234	(493)
Adjustments	$ 9,129	$ 26,611
Adjusted EBITDA from continuing operations	$ 17,113	$ 26,204
Adjusted EBITDA margin	*10.0 %*	*12.6 %*

Adjusted Earnings from Continuing Operations and Adjusted Diluted Earnings Per Share from Continuing Operations - Adjusted Earnings from Continuing Operations and Adjusted Diluted Earnings per Share from Continuing Operations are defined as GAAP "Earnings from Continuing Operations" and "Diluted earnings per share from continuing operations", less items that are not indicative of the operating performance of the business for the periods presented. These items are included in the reconciliation below. Management uses Adjusted Earnings from Continuing Operations and Adjusted Diluted Earnings per Share from Continuing Operations to evaluate performance period over period, to analyze the underlying trends in our business and to assess its performance relative to its competitors. We believe that this information is useful for investors and financial institutions seeking to analyze and compare companies on the basis of operating performance.

The following table illustrates the calculation of Adjusted Earnings from Continuing Operations and Adjusted Diluted Earnings per Share from Continuing Operations using "Earnings from Continuing Operations" and "Diluted earnings per share from continuing operations" from the "Consolidated Statements of Operations" included in the Company's Form 10-Q filed with the Securities and Exchange Commission on May 4, 2021.

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Table 5. Adjusted Earnings from continuing operations and Adjusted Diluted Earnings per Share from continuing operations (In thousands except per share amounts) (unaudited)

	For the Three Months Ended	
	April 2, 2021	April 3, 2020
Adjustments to Earnings from Continuing Operations		
Restructuring and severance costs	$ 1,352	$ 1,795
Costs associated with corporate development activities	—	1,787
Bal Seal acquisition costs	—	8,483
Cost of acquired Bal Seal retention plans	—	5,703
Inventory step-up associated with Bal Seal acquisition	—	1,177
Costs from transition services agreement	705	4,140
Income from transition services agreement	(475)	(2,974)
Reversal of employee tax-related matters in foreign operations	—	(1,211)
Reversal of environmental accrual at GRW	—	(264)
Tax benefit on sale of UK operations	(1,512)	—
Loss (gain) on sale of business	234	(493)
Adjustments, pre tax	$ 304	$ 18,143
Tax Effect of Adjustments to Earnings from Continuing Operations		
Restructuring and severance costs	$ 273	$ 434
Costs associated with corporate development activities	—	432
Bal Seal acquisition costs	—	2,050
Cost of acquired Bal Seal retention plans	—	1,378
Inventory step-up associated with Bal Seal acquisition	—	284
Costs from transition services agreement	142	1,001
Income from transition services agreement	(96)	(719)
Employee tax-related matters in foreign operations	—	(293)
Reversal of environmental accrual at GRW	—	(64)
Tax benefit on sale of UK operations	—	—
Loss (gain) on sale of business	—	(119)
Tax effect of Adjustments	$ 319	$ 4,384
Adjustments to Earnings from Continuing Operations, net of tax		
GAAP Earnings (loss) from continuing operations, as reported	$ 7,984	$ (407)
Restructuring and severance costs	1,079	1,361
Costs associated with corporate development activities	—	1,355
Bal Seal acquisition costs	—	6,433
Cost of acquired Bal Seal retention plans	—	4,325
Inventory step-up associated with Bal Seal acquisition	—	893
Costs from transition services agreement	563	3,139
Income from transition services agreement	(379)	(2,255)
Employee tax-related matters in foreign operations	—	(918)
Reversal of environmental accrual at GRW	—	(200)
Tax benefit on sale of UK Operations	(1,512)	—
Loss (gain) on sale of business	234	(374)

Table 5. Adjusted Earnings from continuing operations and Adjusted Diluted Earnings per Share from continuing operations (In thousands except per share amounts) (unaudited)

	For the Three Months Ended	
	April 2, 2021	April 3, 2020
Adjusted Earnings from continuing operations	$ 7,969	$ 13,352
Calculation of Adjusted Diluted Earnings per Share from Continuing Operations		
GAAP diluted earnings (loss) per share from continuing operations	$ 0.29	$ (0.01)
Restructuring and severance costs	0.03	0.05
Costs associated with corporate development activities	—	0.05
Bal Seal acquisition costs	—	0.23
Cost of accrued Bal Seal retention plans	—	0.15
Inventory step-up associated with Bal Seal acquisition	—	0.03
Costs from transition services agreement	0.02	0.11
Income from transition services agreement	(0.01)	(0.08)
Employee tax-related matters in foreign operations	—	(0.03)
Reversal of environmental accrual at GRW	—	(0.01)
Tax benefit on sale of UK operations	(0.05)	—
Loss (gain) on sale of business	0.01	(0.01)
Adjustments to diluted earnings per share from continuing operations	$ —	$ 0.49
Adjusted Diluted Earnings per Share from continuing operations	$ 0.29	$ 0.48
Diluted weighted average shares outstanding	27,867	27,891

Adjusted Free Cash Flow from continuing operations - Adjusted Free Cash Flow from continuing operations is defined as GAAP "Net cash provided by (used in) operating activities from continuing operations" in a period less "Expenditures for property, plant & equipment" in the same period and any adjustments that are representative of the Company's cash generation or usage in the period. For 2021 we will adjust free cash flow to remove the cash payment made to Bal Seal employees under the retention plan established by the former owners of Bal Seal. Management believes Free Cash Flow from continuing operations and Adjusted 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 from continuing operations and Adjusted 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 from continuing operations and Adjusted Free Cash Flow internally to assess overall liquidity. The following table illustrates the calculation of Adjusted Free Cash Flow from continuing operations using "Net cash provided by (used in) operating activities from continuing operations", "Expenditures for property, plant & equipment" and "Cash paid for acquired retention plans", GAAP measures from the Condensed Consolidated Statements of Cash Flows included in this release.

Table 6. Adjusted Free Cash Flow from continuing operations (in thousands) (unaudited)

	For the Three Months Ended
	April 2, 2021
Net cash used in operating activities from continuing operations	$ (2,415)
Expenditures for property, plant & equipment	(4,678)
Cash paid for acquired retention plans [(1)]	25,108
Adjusted Free Cash Flow from continuing operations	$ 18,015

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[(1)] Operating cash flow from continuing operations will include the $25.1 million payment to Bal Seal employees which represents purchase price paid to the former Bal Seal owners accounted for as compensation under ASC 805

Debt to Capitalization Ratio - Debt to Capitalization Ratio is calculated by dividing debt by capitalization. Debt is defined as GAAP "Current portion of long-term debt" plus "Long-term debt, excluding current portion". Capitalization is defined as Debt plus GAAP "Total shareholders' equity". Management believes that Debt to Capitalization Ratio is a measurement of financial leverage and provides an insight into the financial structure of the Company and its financial strength. The following table illustrates the calculation of Debt to Capitalization Ratio using GAAP measures from the Condensed Consolidated Balance Sheets included in this release.

Table 7. Debt to Capitalization Ratio (in thousands) (unaudited)

	April 2, 2021	December 31, 2020
Long-term debt, excluding current portion	$ 186,378	$ 185,401
Debt	186,378	185,401
Total shareholders' equity	767,219	746,438
Capitalization	$ 953,597	$ 931,839
Debt to Capitalization Ratio	19.5 %	19.9 %

FORWARD-LOOKING STATEMENTS

This release 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) risks related to Kaman's performance of its obligations under the transition services agreement entered into in connection with the sale of our former Distribution business and UK Composites business and disruption of management time from ongoing business operations relating thereto; (ii) changes in domestic and foreign economic and competitive conditions in markets served by the Company, particularly the defense, commercial aviation and industrial production markets; (iii) 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, including the elimination of Overseas Contingency Operations funding, or automatic sequestration); (iv) the global economic impact of the COVID-19 pandemic; (v) changes in geopolitical conditions in countries where the Company does or intends to do business; (vi) 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; (vii) the timely receipt of any necessary export approvals and/or other licenses or authorizations from the USG; (viii) timely satisfaction or fulfillment of material contractual conditions precedents in customer purchase orders, contracts, or similar arrangements; (ix) the existence of standard government contract provisions permitting renegotiation of terms and termination for the convenience of the government; (x) the successful resolution of government inquiries or investigations relating to our businesses and programs; (xi) 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; (xii) potential difficulties associated with variable acceptance test results, given sensitive production materials and extreme test parameters; (xiii) 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; (xiv) 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

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our investments in the K-MAX® production line; (xv) the accuracy of current cost estimates associated with environmental remediation activities; (xvi) the profitable integration of acquired *businesses into the Company's operations; (xvii) the ability to recover from cyber-based or other security attacks, information technology failures or other disruptions, including the December 2020 Bal Seal incident; (xviii) changes in supplier sales or vendor incentive policies; (xix) the ability of our suppliers to satisfy their performance obligations; (xx) the effects of price increases or decreases; (xxi) 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; (xxii) future levels of indebtedness and capital expenditures; (xxiii) the continued availability of raw materials and other commodities in adequate supplies and the effect of increased costs for such items; (xxiv) the effects of currency exchange rates and foreign competition on future operations; (xxv) changes in laws and regulations, taxes, interest rates, inflation rates and general business conditions; (xxvi) future repurchases and/or issuances of common stock; (xxvii) the occurrence of unanticipated restructuring costs or the failure to realize anticipated savings or benefits from past or future expense reduction actions; (xxviii) the ability to recruit and retain skilled employees; and (xxix) other risks and uncertainties set forth herein and in our 2020 Form 10-K and our First Quarter Form 10-Q filed May 4, 2021.*

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

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KAMAN CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
(In thousands, except per share amounts) (unaudited)

	For the Three Months Ended	
	April 2, 2021	April 3, 2020
Net sales	$ 171,616	$ 207,322
Cost of sales	118,711	139,620
Gross profit	52,905	67,702
Selling, general and administrative expenses	44,991	60,989
Costs from transition services agreement	705	4,140
Cost of acquired retention plans	—	5,703
Restructuring and severance costs	1,352	1,795
Loss (gain) on sale of business	234	(493)
Net loss (gain) on sale of assets	10	(10)
Operating income (loss)	5,613	(4,422)
Interest expense, net	4,251	3,247
Non-service pension and post retirement benefit income	(6,643)	(4,063)
Income from transition services agreement	(475)	(2,974)
Other expense, net	289	218
Earnings (loss) from continuing operations before income taxes	8,191	(850)
Income tax expense (benefit)	207	(443)
Earnings (loss) from continuing operations	7,984	(407)
Earnings from discontinued operations before gain on disposal, net of tax	—	—
Gain on disposal of discontinued operations, net of tax	—	692
Total earnings from discontinued operations	—	692
Net earnings	$ 7,984	$ 285
Earnings per share:		
Basic earnings (loss) per share from continuing operations	$ 0.29	$ (0.01)
Basic earnings per share from discontinued operations	—	0.02
Basic earnings per share	$ 0.29	$ 0.01
Diluted earnings (loss) per share from continuing operations	$ 0.29	$ (0.01)
Diluted earnings per share from discontinued operations	—	0.02
Diluted earnings per share	$ 0.29	$ 0.01
Average shares outstanding:		
Basic	27,815	27,809
Diluted	27,867	27,891

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KAMAN CORPORATION AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(*In thousands, except share and per share amounts) (unaudited)*

	April 2, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 120,724	$ 104,377
Restricted cash	—	25,121
Accounts receivable, net	102,328	153,806
Contract assets	114,601	108,645
Contract costs, current portion	5,050	3,511
Inventories	197,303	185,072
Income tax refunds receivable	4,851	5,269
Other current assets	12,628	12,173
Total current assets	557,485	597,974
Property, plant and equipment, net of accumulated depreciation of $233,534 and $228,984, respectively	207,145	210,852
Operating right-of-use assets, net	12,048	12,880
Goodwill	243,688	247,244
Other intangible assets, net	146,626	150,198
Deferred income taxes	37,540	39,809
Contract costs, noncurrent portion	7,205	8,311
Other assets	39,000	39,125
Total assets	$ 1,250,737	$ 1,306,393
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable – trade	$ 45,887	$ 60,200
Accrued salaries and wages	40,306	70,552
Contract liabilities, current portion	32,622	39,073
Operating lease liabilities, current portion	4,057	4,305
Income taxes payable	1,203	19
Liabilities held for sale, current portion	—	18,086
Other current liabilities	35,722	36,177
Total current liabilities	159,797	228,412
Long-term debt, excluding current portion, net of debt issuance costs	186,378	185,401
Deferred income taxes	7,205	7,381
Underfunded pension	63,185	69,610
Contract liabilities, noncurrent portion	12,120	11,019
Operating lease liabilities, noncurrent portion	8,632	9,325
Liabilities held for sale, noncurrent portion	—	1,171
Other long-term liabilities	46,201	47,636
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, $1 par value, 200,000 shares authorized; none outstanding	—	—
Common stock, $1 par value, 50,000,000 shares authorized; voting; 30,370,157 and 30,278,668 shares issued, respectively	30,370	30,279
Additional paid-in capital	241,444	238,829
Retained earnings	730,913	728,764
Accumulated other comprehensive income (loss)	(114,466)	(130,821)
Less 2,564,358 and 2,555,785 shares of common stock, respectively, held in treasury, at cost	(121,042)	(120,613)
Total shareholders' equity	767,219	746,438
Total liabilities and shareholders' equity	$ 1,250,737	$ 1,306,393

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KAMAN CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(*In thousands) (unaudited)*

	For the Three Months Ended	
	April 2, 2021	April 3, 2020
Cash flows from operating activities:		
Net earnings	$ 7,984	$ 285
Less: Total earnings from discontinued operations	—	692
Earnings (loss) from continuing operations	$ 7,984	$ (407)
Adjustments to reconcile net earnings from continuing operations to net cash (used in) provided by operating activities of continuing operations:		
Depreciation and amortization	9,209	9,509
Amortization of debt issuance costs	424	492
Accretion of convertible notes discount	738	702
Provision for doubtful accounts	173	179
Loss (gain) on sale of business	234	(493)
Net loss (gain) on sale of assets	10	(10)
Net loss on derivative instruments	590	983
Stock compensation expense	1,743	1,633
Deferred income taxes	1,793	3,493
Changes in assets and liabilities, excluding effects of acquisitions/divestitures:		
Accounts receivable	50,254	(6,531)
Contract assets	(5,704)	(11,665)
Contract costs	(432)	(709)
Inventories	(13,655)	(25,206)
Income tax refunds receivable	418	(2,078)
Operating right of use assets	799	1,223
Other assets	1,042	(917)
Accounts payable - trade	(14,707)	(6,405)
Contract liabilities	(5,439)	1,743
Operating lease liabilities	(908)	(1,183)
Acquired retention plan payments	(25,108)	—
Other current liabilities	(6,796)	(8,079)
Income taxes payable	1,173	(1,038)
Pension liabilities	(5,452)	(12,887)
Other long-term liabilities	(798)	2,209
Net cash used in operating activities of continuing operations	(2,415)	(55,442)
Net cash used in operating activities of discontinued operations	—	—
Net cash used in operating activities	(2,415)	(55,442)
Cash flows from investing activities:		
Proceeds from sale of assets	54	11
Proceeds from sale of discontinued operations	—	5,223
Proceeds from sale of business, net of cash on hand	(3,428)	493
Expenditures for property, plant & equipment	(4,678)	(5,559)
Acquisition of businesses, net of cash acquired	—	(304,342)
Other, net	(48)	394
Net cash used in investing activities of continuing operations	(8,100)	(303,780)
Net cash used in investing activities of discontinued operations	—	—
Net cash used in investing activities	(8,100)	(303,780)
Cash flows from financing activities:		
Net borrowings under revolving credit agreements	—	201,100
Net change in bank overdraft	797	371
Proceeds from exercise of employee stock awards	880	1,455
Purchase of treasury shares	(344)	(14,072)

Dividends paid	(5,545)	(5,595)
Other, net	(472)	(381)
Net cash (used in) provided by financing activities of continuing operations	(4,684)	182,878
Net cash provided by financing activities of discontinued operations	—	—
Net cash (used in) provided by financing activities	(4,684)	182,878
Net decrease in cash and cash equivalents	(15,199)	(176,344)
Effect of exchange rate changes on cash and cash equivalents	(166)	262
Cash and cash equivalents and restricted cash at beginning of period	136,089	471,540
Cash and cash equivalents and restricted cash at end of period	$ 120,724	$ 295,458

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NEWS RELEASE

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KAMAN REPORTS 2021 SECOND QUARTER RESULTS

Second Quarter Highlights:

- **Kaman revises full year outlook for 2021**
- **Net sales from continuing operations of $182.4 million, up 2.5% over the prior year period; Organic sales up 5.4% over the prior year period**
- **Gross profit from continuing operations of $61.9 million; Gross margin of 34.0%**
- **Earnings from continuing operations of $11.9 million, up $12.0 million over the prior year period**
- **Diluted earnings per share from continuing operations of $0.42; Adjusted diluted earnings per share from continuing operations* of $0.56, up 56% from prior year period**
- **Adjusted EBITDA from continuing operations* of $26.9 million, or 14.8%, up 480 basis points from the first quarter of 2021 and 140 basis points from the second quarter of 2020**
- **Year-to-date net cash used in operating activities of $14.7 million; Adjusted Free Cash Flow* of $2.3 million, a $91.3 million improvement over the prior year period**
- **James G. Coogan appointed Senior Vice President and Chief Financial Officer**

BLOOMFIELD, Conn. (August 5, 2021*)* - Kaman Corp. (NYSE:KAMN) today reported financial results for the second fiscal quarter ended July 2, 2021.

Table 1. Summary of Financial Results (unaudited) **In thousands except per share amounts**	**For the Three Months Ended**		
	July 2, 2021	**July 3, 2020**	**Change**
Net sales from continuing operations	$ 182,394	$ 177,890	$ 4,504
Operating income from continuing operations:			
Operating income (loss) from continuing operations	$ 14,832	$ (2,770)	$ 17,602
% of sales	*8.1 %*	*(1.6)%*	*9.7 %*
Adjustments	$ 2,930	$ 16,382	$ (13,452)
Adjusted operating income from continuing operations*	$ 17,762	$ 13,612	$ 4,150
% of sales	*9.7 %*	*7.7 %*	*2.0 %*
Adjusted EBITDA from continuing operations*:			
Earnings (loss) from continuing operations	$ 11,856	$ (100)	$ 11,956
Adjustments	15,088	24,017	(8,929)
Adjusted EBITDA from continuing operations*	$ 26,944	$ 23,917	$ 3,027
% of sales	*14.8 %*	*13.4 %*	*1.4 %*
Earnings per share from continuing operations:			
Diluted earnings per share from continuing operations	$ 0.42	$ 0.00	$ 0.42
Adjustments	0.14	0.36	(0.22)
Adjusted diluted earnings per share from continuing operations*	$ 0.56	$ 0.36	$ 0.20

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Ian K. Walsh, Chairman, President and Chief Executive Officer, commented, “Our strong second quarter results speak to the broad diversity of our product offerings as we continue to see sequential improvements for our Medical and Industrial products and higher sales on our Defense products. Looking at the remainder of the year, we continue to see strong order rates for our Medical and Industrial products and we anticipate a meaningful recovery for our Commercial, Business and General Aviation products, providing us confidence in raising our full year outlook for Adjusted EBITDA* and Adjusted Diluted earnings per share*."

"We recorded GAAP diluted earnings per share of $0.42 in the quarter. When adjusted*, we earned diluted earnings per share of $0.56, a 55.6% increase over the adjusted diluted earnings per share* of $0.36 earned in the second quarter of 2020. Strong gross margin performance in the quarter, up 210 basis points to 34.0%, coupled with the 40 basis point improvement in S,G&A as a percentage of sales of 21.2% led to improved profitability for the period. This improvement demonstrates the power of our newly deployed Operations Excellence model."

"Investments in product development continue to be a primary focus for us as we look to drive future organic growth. In the quarter, we made significant progress on our new purpose built medium-lift autonomous aerial vehicle with several successful test flights and early testing of its external cargo capability. These test flights demonstrate our proof of concept and the ability of our aircraft to perform in real world conditions. As we look to the remainder of the year, we anticipate we will make further progress on this aircraft, as well as our other R&D initiatives, while continuing to build on our portfolio of highly engineered products through strategic acquisitions."

Management's Commentary on Second Quarter Results:

Net sales for the quarter increased 2.5% when compared to the second quarter of 2020 and 6.3% sequentially. Organic sales*, which excludes sales from our former U.K. composite operations, increased 5.4% from the second quarter of 2020 and increased 7.3% from the first quarter of 2021. These improvements were the result of increased sales on our Medical and Industrial products, partially offset by lower sales volume of our Commercial, Business and General Aviation products.

Higher sales volume of our miniature bearings contributed to recoveries in our Medical and Industrial end markets. Coupled with the increase in sales of our medical and analytical devices, our Medical products delivered a 54.8% increase in sales over the second quarter of 2020 and 11.1% over the first quarter of 2021. Sales for our Industrial products increased 28.2% when compared to the second quarter of 2020 and 15.3% sequentially. We continue to see high order intake for these product offerings and expect strong performance through the remainder of the year.

Sales of our Defense products and Commercial, Business and General Aviation products decreased 1.4% and 14.1%, respectively, on a GAAP basis from the prior year period. Prior year sales of our Defense and Commercial, Business and General Aviation products included $3.6 million and $1.2 million, respectively, of sales from our former U.K. composites operations.

Organic sales* for our Defense products increased 2.3% when compared to the second quarter of 2020 and 16.2% when compared to the first quarter of 2021. The sequential increase was due in large part to the mix of sales on our Joint Programmable Fuze program offset by a modest decrease in our other defense offerings. During the quarter we delivered 8,200 fuzes, bringing our total year-to-date deliveries to 16,290 units, and we continue to expect to deliver 30,000 to 35,000 Joint Programmable Fuzes for the full year.

Organic sales* for our Commercial, Business and General Aviation products decreased 11.8% from the second quarter of 2020 and 13.0% from the first quarter of 2021. This sequential decrease was due to a 13.1% decrease in sales for our commercial aviation products and the absence of a K-MAX® aircraft sale in the quarter, partially offset by a 10.9% increase in sales for other general and business aviation products. Based on lead times with our customers, we anticipated the second quarter being the low point in demand for 2021 and, thus, we expect a meaningful ramp in sales for these products in the second half of the year.

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Chief Financial Officer, James G. Coogan, commented, "In the quarter, we used $12.3 million of cash from operating activities which contributed to our Free Cash Flow* usage of $15.7 million. For the year-to-date period we have used $14.7 million in cash from operating activities; however, this included a $25.1 million payment for the acquired retention plans at Bal Seal. When adjusted for this payment, our Free Cash Flow* was $2.3 million in the first half of the year compared to a usage of $89.0 million in the first half of 2020, a significant improvement, as we benefited from improved collections on our JPF program and overall cash management across the company."

"Adjusted EBITDA margin from continuing operations* increased 480 basis points sequentially to 14.8% in the quarter demonstrating our commitment to our new Operations Excellence model while remaining agile in this dynamic environment."

"We are revising our full year outlook based on our strong performance in the first half of 2021 and the anticipated recovery in our Commercial, Business and General Aviation products in the second half of the year, while remaining mindful of the timing of the recovery in the commercial aerospace market. We are lowering our sales range to $715 million to $735 million, while increasing our expectations for Adjusted EBITDA* to $87.5 million to $97.5 million and Adjusted Diluted Earnings per share* to $1.70 to $1.95. These new ranges reflect lower expected sales on our lower margin structures programs and our continued focus on improved profitability. We continue to expect Adjusted Free Cash Flow of $30.1 million to $40.1 million for the full year."

2021 Outlook

(in millions)	2020	2021 Outlook	
	Actual	Low End	High End
Sales			
Sales from continuing operations	$ 784.5	$ 715.0	$ 735.0
Sales of Disposed Business[1]	21.5	—	—
Organic Sales*	$ 763.0	$ 715.0	$ 735.0
Adjusted EBITDA*			
Earnings from continuing operations	$ (70.4)	$ 41.8	$ 48.8
Adjustments	173.3	45.7	48.7
Adjusted EBITDA* from continuing operations	$ 102.9	$ 87.5	$ 97.5
Adjusted EBITDA margin from continuing operations*	*13.1 %*	*12.2 %*	*13.3 %*
Adjusted Diluted Earnings Per Share*			
Diluted Earnings Per Share	$ (2.54)	$ 1.50	$ 1.75
Adjustments	4.65	0.20	0.20
Adjusted Diluted Earnings Per Share*	$ 2.11	$ 1.70	$ 1.95
Cash Flow			
Operating cash flow from continuing operations	$ 16.5	$ 25.0	$ 35.0
Bal Seal Acquisition Retention Payment	—	25.1	25.1
Cash used for the purchase of property, plant and equipment	(17.8)	(20.0)	(20.0)
Adjusted Free Cash Flow*	$ (1.3)	$ 30.1	$ 40.1
Discretionary Pension Contribution	$ 10.0	$ 10.0	$ 10.0

(1) In the first quarter of 2021 the Company sold its U.K Composites Business which did not qualify for reporting as a discontinued operation under GAAP. In 2021 we will record sales of $1.7 million for this business which was not contemplated as part of our outlook for the year.
(2) Operating cash flow from continuing operations include the $25.1 million payment to Bal Seal employees which represents purchase price paid to the former Bal Seal owners that was accounted for as compensation expense under ASC 805 in 2020.

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Please see the MD&A section of the Company's Form 10-Q filed with the Securities and Exchange Commission concurrently with the issuance of this release for greater detail on our results and various company programs.

A conference call has been scheduled for tomorrow, August 6, 2021, at 8:30 AM ET. The call will be accessible by telephone within the U.S. at (844) 473-0975 and from outside the U.S. at (562) 350-0826 (using the Conference I.D.: 1672665) or via the Internet at www.kaman.com. Please go to the website at least fifteen minutes prior to the start of the call to register, download and install any necessary audio software. A replay will also be available two hours after the call and can be accessed at (855) 859-2056 or (404) 537-3406 using the Conference I.D.: 1672665.

About Kaman Corporation

Kaman Corporation, founded in 1945 by aviation pioneer Charles H. Kaman, and headquartered in Bloomfield, Connecticut, conducts business in the Aerospace, Defense, Industrial and Medical markets. Kaman produces and markets proprietary aircraft bearings and components; super precision, miniature ball bearings; proprietary spring energized seals, springs and contacts; complex metallic and composite aerostructures for commercial, military and general aviation fixed and rotary wing aircraft; safe and arming solutions for missile and bomb systems for the U.S. and allied militaries; subcontract helicopter work; restoration, modification and support of our SH-2G Super Seasprite maritime helicopters; manufacture and support of our K-MAX® manned and unmanned medium-to-heavy lift helicopters.

More information is available at www.kaman.com.

Non-GAAP Measures Disclosure

Management believes that the Non-GAAP financial measures (i.e. financial measures that are not computed in accordance with Generally Accepted Accounting Principles) identified by an asterisk (*) used in this release or in other disclosures provide important perspectives into the Company's ongoing business performance. The Company does 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 release 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 preceding 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 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. No other adjustments were made during the three-month and six-month fiscal periods ended July 2, 2021 and July 3, 2020, respectively. The following table illustrates the calculation of Organic Sales using the GAAP measure, "Net Sales".

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Table 2. Organic Sales from continuing operations (in thousands) (unaudited)

	For the Three Months Ended		For the Six Months Ended	
	July 2, 2021	**July 3, 2020**	**July 2, 2021**	**July 3, 2020**
Net sales	$ 182,394	$ 177,890	$ 354,010	$ 385,212
Acquisition Sales	—	—	—	—
Sales of Disposed Business	—	4,812	1,704	13,298
Organic Sales	$ 182,394	$ 173,078	$ 352,306	$ 371,914
$ Change	9,316		(19,608)	
% Change	5.4 %		(5.3)%	

Adjusted Net Sales from continuing operations and Adjusted Operating Income from continuing operations - Adjusted Net Sales from continuing operations is defined as net sales from continuing operations, less items not indicative of normal sales, such as revenue recorded related to the settlement of claims. Adjusted Operating Income from continuing operations is defined as operating income from continuing operations, less items that are not indicative of the operating performance of the Company for the period presented. These items are included in the reconciliation below. Management uses Adjusted Net Sales from continuing operations and Adjusted Operating Income from continuing operations to evaluate performance period over period, to analyze underlying trends and to assess our performance relative to our competitors. We believe that this information is useful for investors and financial institutions seeking to analyze and compare companies on the basis of operating performance. The following table illustrates the calculation of Adjusted Operating Income from continuing operations to the Consolidated Financial Statements included in the Company's Form 10-Q filed with the Securities and Exchange Commission on August 5, 2021.

Table 3. Adjusted Net Sales and Adjusted Operating Income from Continuing Operations
(In thousands) (unaudited)

	For the Three Months Ended		For the Six Months Ended	
	July 2, 2021	**July 3, 2020**	**July 2, 2021**	**July 3, 2020**
CONSOLIDATED OPERATING INCOME:				
Net Sales from continuing operations	$ 182,394	$ 177,890	$ 354,010	$ 385,212
GAAP - Operating income (loss) from continuing operations	$ 14,832	$ (2,770)	$ 20,445	$ (7,192)
% of GAAP net sales	*8.1 %*	*(1.6)%*	*5.8 %*	*(1.9)%*
Adjustments				
Restructuring and severance costs	1,516	4,484	2,868	6,279
Costs associated with corporate development activities	415	679	415	2,466
Bal Seal acquisition costs	—	(36)	—	8,447
Cost of acquired Bal Seal retention plans	—	5,704	—	11,407
Inventory step-up associated with Bal Seal acquisition	—	1,178	—	2,355
Costs from transition services agreement	999	4,373	1,704	8,513
Reversal of employee tax-related matters in foreign operations	—	—	—	(1,211)
Reversal of environmental accrual at GRW	—	—	—	(264)
Loss (gain) on sale business	—	—	234	(493)
Total adjustments	$ 2,930	$ 16,382	$ 5,221	$ 37,499
Adjusted Operating Income	$ 17,762	$ 13,612	$ 25,666	$ 30,307
% of GAAP net sales	*9.7 %*	*7.7 %*	*7.3 %*	*7.9 %*

Adjusted EBITDA from continuing operations - Adjusted EBITDA from continuing operations is defined as earnings from continuing operations before interest, taxes, other expense (income), net, depreciation and amortization and certain items that are not indicative of the operating performance of the Company for the periods presented. Adjusted EBITDA from continuing operations differs from earnings from continuing operations, as calculated in accordance with GAAP, in that it excludes interest expense, net, income tax expense, depreciation and amortization, other expense (income), net, non-service pension and post retirement benefit expense (income), and certain items that are not indicative of the operating performance of the Company for the periods presented. We have made numerous investments in our business, such as acquisitions and capital expenditures, including facility improvements, new machinery and equipment, improvements to our information technology infrastructure and ERP systems, which we have adjusted for in Adjusted EBITDA from continuing operations. Adjusted EBITDA from continuing operations also does not give effect to cash used for debt service requirements and thus does not reflect funds available for distributions, reinvestments or other discretionary uses. Management believes Adjusted EBITDA from continuing operations provides an additional perspective on the operating results of the organization and its earnings capacity and helps improve the comparability of our results between periods because it provides a view of our operations that excludes items that management believes are not reflective of operating performance, such as items traditionally removed from net earnings in the calculation of EBITDA as well as Other expense (income), net and certain items that are not indicative of the operating performance of the Company for the period presented. Adjusted EBITDA from continuing operations is not presented as an alternative measure of operating performance, as determined in accordance with GAAP. No other adjustments were made during the three-month and six-month fiscal periods ended July 2, 2021 and July 3, 2020. The following table illustrates the calculation of Adjusted EBITDA from continuing operations using GAAP measures:

Table 4. Adjusted EBITDA from continuing operations (in thousands) (unaudited)

	For the Three Months Ended		For the Six Months Ended	
	July 2, 2021	July 3, 2020	July 2, 2021	July 3, 2020
Adjusted EBITDA from continuing operations				
Consolidated Results				
Sales from continuing operations	$ 182,394	$ 177,890	$ 354,010	$ 385,212
Earnings (loss) from continuing operations, net of tax	11,856	(100)	19,840	(507)
Interest expense, net	4,335	5,808	8,586	9,055
Income tax expense (benefit)	5,502	(1,258)	5,709	(1,701)
Non-service pension and post retirement benefit income	(6,577)	(4,062)	(13,220)	(8,125)
Other expense, net	158	(108)	447	110
Depreciation and amortization	9,182	10,305	18,391	19,814
Other Adjustments:				
Restructuring and severance costs	1,516	4,484	2,868	6,279
Cost associated with corporate development activities	415	679	415	2,466
Bal Seal acquisition costs	—	(36)	—	8,447
Cost of acquired Bal Seal retention plans	—	5,704	—	11,407
Inventory step-up associated with Bal Seal acquisition	—	1,178	—	2,355
Costs from transition services agreement	999	4,373	1,704	8,513
Income from transition services agreement	(442)	(3,050)	(917)	(6,024)
Reversal of employee tax-related matters in foreign operations	—	—	—	(1,211)
Reversal of environmental accrual at GRW	—	—	—	(264)
Loss (gain) on sale of business	—	—	234	(493)
Adjustments	$ 15,088	$ 24,017	$ 24,217	$ 50,628
Adjusted EBITDA from continuing operations	$ 26,944	$ 23,917	$ 44,057	$ 50,121
Adjusted EBITDA margin	*14.8 %*	*13.4 %*	*12.4 %*	*13.0 %*

Adjusted Earnings from Continuing Operations and Adjusted Diluted Earnings Per Share from Continuing Operations - Adjusted Earnings from Continuing Operations and Adjusted Diluted Earnings per Share from Continuing Operations are defined as GAAP "Earnings from Continuing Operations" and "Diluted earnings per share from continuing operations", less items that are not indicative of the operating performance of the business for the periods presented. These items are included in the reconciliation below. Management uses Adjusted Earnings from Continuing Operations and Adjusted Diluted Earnings per Share from Continuing Operations to evaluate performance period over period, to analyze the underlying trends in our business and to assess its performance relative to its competitors. We believe that this information is useful for investors and financial institutions seeking to analyze and compare companies on the basis of operating performance.

The following table illustrates the calculation of Adjusted Earnings from Continuing Operations and Adjusted Diluted Earnings per Share from Continuing Operations using "Earnings from Continuing Operations" and "Diluted earnings per share from continuing operations" from the "Consolidated Statements of Operations" included in the Company's Form 10-Q filed with the Securities and Exchange Commission on August 5, 2021.

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Table 5. Adjusted Earnings from continuing operations and Adjusted Diluted Earnings per Share from continuing operations (In thousands except per share amounts) (unaudited)

	For the Three Months Ended		For the Six Months Ended	
	July 2, 2021	**July 3, 2020**	**July 2, 2021**	**July 3, 2020**
Adjustments to Earnings from Continuing Operations				
Restructuring and severance costs	$ 1,516	$ 4,484	$ 2,868	$ 6,279
Costs associated with corporate development activities	415	679	415	2,466
Bal Seal acquisition costs	—	(36)	—	8,447
Cost of acquired Bal Seal retention plans	—	5,704	—	11,407
Inventory step-up associated with Bal Seal acquisition	—	1,178	—	2,355
Costs from transition services agreement	999	4,373	1,704	8,513
Income from transition services agreement	(442)	(3,050)	(917)	(6,024)
Reversal of employee tax-related matters in foreign operations	—	—	—	(1,211)
Reversal of environmental accrual at GRW	—	—	—	(264)
Tax expense on sale of UK operations	1,799	—	287	—
Loss (gain) on sale of business	—	—	234	(493)
Adjustments, pre tax	$ 4,287	$ 13,332	$ 4,591	$ 31,475
Tax Effect of Adjustments to Earnings from Continuing Operations				
Restructuring and severance costs	$ 322	$ 1,143	$ 596	$ 1,601
Costs associated with corporate development activities	88	173	86	629
Bal Seal acquisition costs	—	(9)	—	2,154
Cost of acquired Bal Seal retention plans	—	1,455	—	2,909
Inventory step-up associated with Bal Seal acquisition	—	300	—	601
Costs from transition services agreement	212	1,115	354	2,171
Income from transition services agreement	(94)	(778)	(191)	(1,536)
Employee tax-related matters in foreign operations	—	—	—	(309)
Reversal of environmental accrual at GRW	—	—	—	(67)
Tax expense on sale of UK operations	—	—	—	—
Loss (gain) on sale of business	—	—	—	(126)
Tax effect of Adjustments	$ 528	$ 3,399	$ 845	$ 8,027
Adjustments to Earnings from Continuing Operations, net of tax				
GAAP Earnings (loss) from continuing operations, as reported	$ 11,856	$ (100)	$ 19,840	$ (507)
Restructuring and severance costs	1,194	3,341	2,272	4,678
Costs associated with corporate development activities	327	506	329	1,837
Bal Seal acquisition costs	—	(27)	—	6,293
Cost of acquired Bal Seal retention plans	—	4,249	—	8,498

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Table 5. Adjusted Earnings from continuing operations and Adjusted Diluted Earnings per Share from continuing operations (In thousands except per share amounts) (unaudited)

	For the Three Months Ended		For the Six Months Ended	
	July 2, 2021	July 3, 2020	July 2, 2021	July 3, 2020
Inventory step-up associated with Bal Seal acquisition	—	878	—	1,754
Costs from transition services agreement	787	3,258	1,350	6,342
Income from transition services agreement	(348)	(2,272)	(726)	(4,488)
Employee tax-related matters in foreign operations	—	—	—	(902)
Reversal of environmental accrual at GRW	—	—	—	(197)
Tax expense on sale of UK Operations	1,799	—	287	—
Loss (gain) on sale of business	—	—	234	(367)
Adjusted Earnings from continuing operations	$ 15,615	$ 9,833	$ 23,586	$ 22,941
Calculation of Adjusted Diluted Earnings per Share from Continuing Operations				
GAAP diluted earnings (loss) per share from continuing operations	$ 0.42	$ 0.00	$ 0.71	$ (0.02)
Restructuring and severance costs	0.04	0.12	0.08	0.17
Costs associated with corporate development activities	0.01	0.02	0.01	0.07
Bal Seal acquisition costs	—	—	—	0.23
Cost of accrued Bal Seal retention plans	—	0.15	—	0.30
Inventory step-up associated with Bal Seal acquisition	—	0.03	—	0.06
Costs from transition services agreement	0.03	0.12	0.05	0.23
Income from transition services agreement	(0.01)	(0.08)	(0.02)	(0.16)
Employee tax-related matters in foreign operations	—	—	—	(0.03)
Reversal of environmental accrual at GRW	—	—	—	(0.01)
Tax effect on sale of UK operations	0.07	—	0.01	—
Loss (gain) on sale of business	—	—	0.01	(0.01)
Adjustments to diluted earnings per share from continuing operations	$ 0.14	$ 0.36	$ 0.14	$ 0.85
Adjusted Diluted Earnings per Share from continuing operations	$ 0.56	$ 0.36	$ 0.85	$ 0.83
Diluted weighted average shares outstanding	27,913	27,659	27,890	27,734

Adjusted Free Cash Flow from continuing operations - Adjusted Free Cash Flow from continuing operations is defined as GAAP "Net cash provided by (used in) operating activities from continuing operations" in a period less "Expenditures for property, plant & equipment" in the same period and any adjustments that are representative of the Company's cash generation or usage in the period. For 2021 we will adjust free cash flow to remove the cash payment made to Bal Seal employees under the retention plan established by the former owners of Bal Seal. Management believes Free Cash Flow from continuing operations and Adjusted 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 from continuing operations and Adjusted 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 from continuing operations and Adjusted Free Cash Flow internally to assess overall liquidity. The following table illustrates the calculation of Adjusted Free Cash Flow from continuing operations using “Net cash provided by (used in) operating activities from continuing operations”, “Expenditures for property, plant & equipment” and “Cash paid for acquired retention plans”, GAAP measures from the Condensed Consolidated Statements of Cash Flows included in this release.

Table 6. Adjusted Free Cash Flow from continuing operations (in thousands) (unaudited)

	For the Six Months Ended July 2, 2021	For the Three Months Ended April 2, 2021	For the Three Months Ended July 2, 2021
Net cash used in operating activities from continuing operations	$ (14,723)	$ (2,415)	$ (12,308)
Expenditures for property, plant & equipment	(8,102)	(4,678)	(3,424)
Cash paid for acquired retention plans [1]	25,108	25,108	—
Adjusted Free Cash Flow from continuing operations	$ 2,283	$ 18,015	$ (15,732)

[1] Operating cash flow from continuing operations will include the $25.1 million payment to Bal Seal employees which represents purchase price paid to the former Bal Seal owners accounted for as compensation under ASC 805

Debt to Capitalization Ratio - Debt to Capitalization Ratio is calculated by dividing debt by capitalization. Debt is defined as GAAP “Current portion of long-term debt” plus “Long-term debt, excluding current portion”. Capitalization is defined as Debt plus GAAP “Total shareholders' equity”. Management believes that Debt to Capitalization Ratio is a measurement of financial leverage and provides an insight into the financial structure of the Company and its financial strength. The following table illustrates the calculation of Debt to Capitalization Ratio using GAAP measures from the Condensed Consolidated Balance Sheets included in this release.

Table 7. Debt to Capitalization Ratio (in thousands) (unaudited)

	July 2, 2021	December 31, 2020
Long-term debt, excluding current portion	$ 187,358	$ 185,401
Debt	187,358	185,401
Total shareholders' equity	779,212	746,438
Capitalization	$ 966,570	$ 931,839
Debt to Capitalization Ratio	19.4 %	19.9 %

FORWARD-LOOKING STATEMENTS

This release 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) risks related to Kaman's performance of its obligations under the transition services agreement entered into in connection with the sale of our former Distribution business and UK Composites business and disruption of management time from ongoing business operations relating thereto; (ii) changes in domestic and foreign economic and competitive conditions in markets served by the Company, particularly the defense, commercial aviation and industrial production markets; (iii) 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, including the elimination of Overseas Contingency Operations funding,*

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or automatic sequestration); (iv) the global economic impact of the COVID-19 pandemic; (v) changes in geopolitical conditions in countries where the Company does or intends to do business; (vi) 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; (vii) the timely receipt of any necessary export approvals and/or other licenses or authorizations from the USG; (viii) timely satisfaction or fulfillment of material contractual conditions precedents in customer purchase orders, contracts, or similar arrangements; (ix) the existence of standard government contract provisions permitting renegotiation of terms and termination for the convenience of the government; (x) the successful resolution of government inquiries or investigations relating to our businesses and programs; (xi) 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; (xii) potential difficulties associated with variable acceptance test results, given sensitive production materials and extreme test parameters; (xiii) 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; (xiv) the continued support of the existing K-MAX® helicopter fleet, including the 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; (xv) the accuracy of current cost estimates associated with environmental remediation activities; (xvi) the profitable integration of acquired businesses into the Company's operations; (xvii) the ability to recover from cyber-based or other security attacks, information technology failures or other disruptions, including the December 2020 Bal Seal incident; (xviii) changes in supplier sales or vendor incentive policies; (xix) the ability of our suppliers to satisfy their performance obligations; (xx) the effects of price increases or decreases; (xxi) 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; (xxii) future levels of indebtedness and capital expenditures; (xxiii) the continued availability of raw materials and other commodities in adequate supplies and the effect of increased costs for such items; (xxiv) the effects of currency exchange rates and foreign competition on future operations; (xxv) changes in laws and regulations, taxes, interest rates, inflation rates and general business conditions; (xxvi) future repurchases and/or issuances of common stock; (xxvii) the occurrence of unanticipated restructuring costs or the failure to realize anticipated savings or benefits from past or future expense reduction actions; (xxviii) the ability to recruit and retain skilled employees; and (xxix) other risks and uncertainties set forth herein and in our 2020 Form 10-K and our Second Quarter Form 10-Q filed August 5, 2021.

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

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KAMAN CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
(In thousands, except per share amounts) (unaudited)

	For the Three Months Ended		For the Six Months Ended	
	July 2, 2021	July 3, 2020	July 2, 2021	July 3, 2020
Net sales	$ 182,394	$ 177,890	$ 354,010	$ 385,212
Cost of sales	120,448	121,222	239,159	260,842
Gross profit	61,946	56,668	114,851	124,370
Selling, general and administrative expenses	38,719	38,396	76,847	91,724
Research and development costs	3,238	2,847	7,464	7,702
Intangible asset amortization expense	2,637	3,637	5,274	6,443
Costs from transition services agreement	999	4,373	1,704	8,513
Cost of acquired retention plans	—	5,704	—	11,407
Restructuring and severance costs	1,516	4,484	2,868	6,279
Loss (gain) on sale of business	—	—	234	(493)
Net loss (gain) on sale of assets	5	(3)	15	(13)
Operating income (loss)	14,832	(2,770)	20,445	(7,192)
Interest expense, net	4,335	5,808	8,586	9,055
Non-service pension and post retirement benefit income	(6,577)	(4,062)	(13,220)	(8,125)
Income from transition services agreement	(442)	(3,050)	(917)	(6,024)
Other expense (income), net	158	(108)	447	110
Earnings (loss) from continuing operations before income taxes	17,358	(1,358)	25,549	(2,208)
Income tax expense (benefit)	5,502	(1,258)	5,709	(1,701)
Earnings (loss) from continuing operations	11,856	(100)	19,840	(507)
Earnings from discontinued operations before gain on disposal, net of tax	—	—	—	—
Gain on disposal of discontinued operations, net of tax	—	—	—	692
Total earnings from discontinued operations	—	—	—	692
Net earnings (loss)	$ 11,856	$ (100)	$ 19,840	$ 185
Earnings per share:				
Basic earnings (loss) per share from continuing operations	$ 0.43	$ 0.00	$ 0.71	$ (0.02)
Basic earnings per share from discontinued operations	0.00	0.00	0.00	0.03
Basic earnings per share	$ 0.43	$ 0.00	$ 0.71	$ 0.01
Diluted earnings (loss) per share from continuing operations	$ 0.42	$ 0.00	$ 0.71	$ (0.02)
Diluted earnings per share from discontinued operations	0.00	0.00	0.00	0.03
Diluted earnings per share	$ 0.42	$ 0.00	$ 0.71	$ 0.01
Average shares outstanding:				
Basic	27,867	27,659	27,841	27,734
Diluted	27,913	27,659	27,890	27,734

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KAMAN CORPORATION AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(In thousands, except share and per share amounts) (unaudited)

	July 2, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 98,362	$ 104,377
Restricted cash	—	25,121
Accounts receivable, net	99,361	153,806
Contract assets	114,552	108,645
Contract costs, current portion	3,841	3,511
Inventories	196,133	185,072
Income tax refunds receivable	3,783	5,269
Other current assets	13,194	12,173
Total current assets	529,226	597,974
Property, plant and equipment, net of accumulated depreciation of $240,970 and $228,984, respectively	204,659	210,852
Operating right-of-use assets, net	12,075	12,880
Goodwill	244,480	247,244
Other intangible assets, net	144,204	150,198
Deferred income taxes	36,144	39,809
Contract costs, noncurrent portion	8,332	8,311
Other assets	37,545	39,125
Total assets	$ 1,216,665	$ 1,306,393
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable – trade	$ 36,543	$ 60,200
Accrued salaries and wages	37,782	70,552
Contract liabilities, current portion	17,268	39,073
Operating lease liabilities, current portion	4,005	4,305
Income taxes payable	1,555	19
Liabilities held for sale, current portion	—	18,086
Other current liabilities	35,183	36,177
Total current liabilities	132,336	228,412
Long-term debt, excluding current portion, net of debt issuance costs	187,358	185,401
Deferred income taxes	7,293	7,381
Underfunded pension	44,754	69,610
Contract liabilities, noncurrent portion	14,324	11,019
Operating lease liabilities, noncurrent portion	8,681	9,325
Liabilities held for sale, noncurrent portion	—	1,171
Other long-term liabilities	42,707	47,636
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, $1 par value, 200,000 shares authorized; none outstanding	—	—
Common stock, $1 par value, 50,000,000 shares authorized; voting; 30,400,125 and 30,278,668 shares issued, respectively	30,400	30,279
Additional paid-in capital	244,546	238,829
Retained earnings	737,203	728,764
Accumulated other comprehensive income (loss)	(111,848)	(130,821)
Less 2,567,430 and 2,555,785 shares of common stock, respectively, held in treasury, at cost	(121,089)	(120,613)
Total shareholders' equity	779,212	746,438
Total liabilities and shareholders' equity	$ 1,216,665	$ 1,306,393

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KAMAN CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(*In thousands) (unaudited)*

	For the Six Months Ended	
	July 2, 2021	July 3, 2020
Cash flows from operating activities:		
Net earnings	$ 19,840	$ 185
Less: Total earnings from discontinued operations	—	692
Earnings (loss) from continuing operations	$ 19,840	$ (507)
Adjustments to reconcile net earnings from continuing operations to net cash (used in) provided by operating activities of continuing operations:		
Depreciation and amortization	18,391	19,814
Amortization of debt issuance costs	882	907
Accretion of convertible notes discount	1,484	1,412
Provision for doubtful accounts	290	314
Loss (gain) on sale of business	234	(493)
Net loss (gain) on sale of assets	15	(13)
Net loss on derivative instruments	566	404
Stock compensation expense	4,225	3,590
Deferred income taxes	2,957	4,124
Changes in assets and liabilities, excluding effects of acquisitions/divestitures:		
Accounts receivable	53,232	(11,368)
Contract assets	(4,637)	(9,158)
Contract costs	(349)	(842)
Inventories	(12,205)	(38,029)
Income tax refunds receivable	1,485	(3,382)
Operating right of use assets	781	1,974
Other assets	1,319	135
Accounts payable - trade	(24,068)	(13,872)
Contract liabilities	(18,588)	(11,002)
Operating lease liabilities	(919)	(1,916)
Acquired retention plan payments	(25,108)	—
Other current liabilities	(9,470)	528
Income taxes payable	1,532	(2,658)
Pension liabilities	(22,837)	(15,775)
Other long-term liabilities	(3,775)	(3,587)
Net cash used in operating activities of continuing operations	(14,723)	(79,400)
Cash flows from investing activities:		
Proceeds from sale of discontinued operations	—	5,223
Proceeds from sale of business, net of cash on hand	(3,428)	493
Expenditures for property, plant & equipment	(8,102)	(9,592)
Acquisition of businesses, net of cash acquired	—	(304,661)
Other, net	(671)	(366)
Net cash used in investing activities of continuing operations	(12,201)	(308,903)
Cash flows from financing activities:		
Net borrowings under revolving credit agreements	—	201,100
Purchase of treasury shares	(390)	(14,168)
Dividends paid	(11,106)	(11,144)
Other, net	876	1,399
Net cash (used in) provided by financing activities of continuing operations	(10,620)	177,187
Net decrease in cash and cash equivalents	(37,544)	(211,116)
Effect of exchange rate changes on cash and cash equivalents	(183)	314
Cash and cash equivalents and restricted cash at beginning of period	136,089	471,540
Cash and cash equivalents and restricted cash at end of period	$ 98,362	$ 260,738

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NEWS RELEASE
February 24, 2022

KAMAN REPORTS 2021 RESULTS

Full Year 2021 Highlights:

- Achieved our earnings targets by leveraging our new operations excellence model
- Net sales: $709 million
- Gross margin: 33.4%
- Earnings from continuing operations: $43.7 million
- Adjusted EBITDA*: $95.5 million; Adjusted EBITDA margin*: 13.5%
- Diluted earnings per share from continuing operations: $1.57 per share, $1.93 per share adjusted*
- Cash flow from operating activities: $48.7 million
- Adjusted free cash flow*: $56.3 million

Fourth Quarter 2021 Highlights:

- Net sales: $175.1 million
- Earnings from continuing operations: $9.2 million
- Adjusted EBITDA: $23.6 million; Adjusted EBITDA margin: 13.5%
- Diluted earnings per share from continuing operations: $0.33 per share, $0.48 per share adjusted
- Cash flow from operating activities: $34.6 million
- Adjusted free cash flow of $28.4 million

Table 1. Summary of Financial Results (unaudited)

Thousands of U.S. dollars (except share data)	Three Months Ended			Twelve Months Ended	
	December 31, 2021	**October 1, 2021**	**December 31, 2020**	**December 31, 2021**	**December 31, 2020**
Net sales	$ 175,147	$ 179,836	$ 185,288	$ 708,993	$ 784,459
Earnings (loss) from continuing operations	9,169	14,667	(31,420)	43,676	(70,434)
Adjusted EBITDA*	23,591	27,816	17,266	95,464	102,932
Adjusted EBITDA margin*	13.5 %	15.5 %	9.3 %	13.5 %	13.1 %
Diluted earnings (loss) per share from continuing operations	$ 0.33	$ 0.53	$ (1.13)	$ 1.57	$ (2.54)
Adjusted diluted earnings per share from continuing operations*	0.48	0.60	0.41	1.93	2.11

*See the end of this release for an explanation of the Company's use of Adjusted EBITDA, Adjusted EBITDA margin, Adjusted free cash flow and Adjusted diluted earnings per share from continuing operations. See tables 6-12 for reconciliations to the most comparable GAAP measure.

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BLOOMFIELD, Conn. (February 24, 2022*)* - Kaman Corp. (NYSE:KAMN) today reported financial results for the fourth fiscal quarter and full year ended December 31, 2021.

"Kaman made significant progress in 2021 through the deployment of our new operations excellence model, which provides a sustainable foundation to achieve our financial targets. For the year, we achieved the targets for our adjusted metrics of EBITDA, EBITDA margin and earnings per share and delivered significantly more free cash flow. Gross margin increased more than 200 basis points to 33.4% driven by improved performance in several of our businesses, primarily in our seals, springs and contacts products. Additionally, our focus on reducing costs is providing long term benefits as evidenced by a decline in SG&A expenses," said Ian K. Walsh, Chairman, President and Chief Executive Officer.

"Beginning this quarter, we reported our results under a new segment structure. This reinforces Kaman's commitment to provide transparency of performance in support of our growth strategy and portfolio management. The three segments are Engineered Products, Precision Products and Structures. The new reporting segments align well with our product capabilities and our recently launched brand structure."

"During the fourth quarter we saw sequential improvement in sales to Boeing and Airbus, making it the second straight quarter of increased volumes. While we saw improved sales in the commercial, business and general aviation markets, results for the company declined, impacted by lower JPF sales in our Precision Products segment and lower demand for medical and industrial products in our Engineered Products segment. Demand in the medical and industrial markets declined slightly compared to the third quarter 2021, however, they remain elevated compared to 2020. Additionally, we continued to see strong cash generation in the fourth quarter leading to an Adjusted free cash flow of $28.4 million."

"We are committed to growing our business through innovation and have reached a number of milestones in 2021. In the first quarter, we began production of highly engineered products utilizing our proprietary Titanium Diffusion Hardening process. In the third quarter we unveiled our *KARGO UAV* unmanned aerial system, a purpose built autonomous medium lift logistics vehicle. In October 2021, we successfully completed the demonstration of two flight tests of FireBurst™ enhanced fuzing capability, a Kaman patented height of burst solution. These accomplishments support our strategic priority of achieving top quartile performance in the markets we serve," said Walsh.

Outlook

"Demand for Kaman's products should improve as end markets recover from the impact of the pandemic. The progress for Kaman will follow the acceleration of orders in the commercial, business and general aviation markets. In the latter part of 2022, we expect to see growth in our Engineered Products segment combined with improvement in our Structures segment resulting from our operations excellence efforts and a focus on adding new more profitable businesses. In our Precision Products segment, we will continue to manage prospective JPF direct commercial sales orders, which can be difficult to predict. For 2022 we expect the improvements in our other segments to mostly offset the decreased volumes for this program.

"We continue to see meaningful order increases across the commercial aerospace, defense as well as medical and industrial end markets, led by especially strong order intake for our bearings, springs, seals and contacts products. In addition, we entered into a follow-on multi-year contract with Sikorsky in December 2021 to continue the manufacture of the UH-60 Black Hawk cockpits. The strength in order activity gives us confidence that the backlog level we saw at the end of 2021 can be maintained, " Walsh said.

See Table 5 of this release for a full outlook summary for 2022.

KAMAN BUSINESS RESULTS DISCUSSION BY REPORTING SEGMENT

Kaman manages its portfolio through three segments: (1) Engineered Products; (2) Precision Products; and (3) Structures.

Engineered Products - Our 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.

Table 2. Engineered Products Results

Thousands of U.S. dollars	Three Months Ended			Twelve Months Ended	
	December 31, 2021	October 1, 2021	December 31, 2020	December 31, 2021	December 31, 2020
Net sales	$ 82,549	$ 84,399	$ 79,929	$ 317,683	$ 315,063
Operating income	12,784	15,563	8,735	43,097	33,561
Adjusted EBITDA	19,364	22,120	17,212	69,403	65,367
Adjusted EBITDA margin	23.5 %	26.2 %	21.5 %	21.8 %	20.7 %

Three months ended December 31, 2021 versus three months ended October 1, 2021 - Adjusted EBITDA decreased $2.8 million and margin decreased 2.7 percentage points versus the third quarter of 2021. Compared to the prior period, volume declined modestly for products serving the medical end market.

Three months ended December 31, 2021 versus three months ended December 31, 2020 - Adjusted EBITDA increased $2.2 million and margin increased 2.0 percentage points versus the fourth quarter of 2020. Results improved compared to the prior period driven by higher sales and gross margin for products serving the medical end market and lower salary and wage expense at certain foreign locations partially offset by lower gross profit on our defense bearings.

Full year ended December 31, 2021 versus full year ended December 31, 2020 - Adjusted EBITDA increased $4.0 million and margin increased 1.1 percentage points versus 2020. Compared to the prior period, sales and gross profit increased on seals, springs and contacts for medical implantables, medical devices and analytical instruments. This was partially offset by lower sales volume of commercial bearing products driven by impacts of COVID-19 on the commercial aerospace end market.

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* unmanned aerial system and the *KARGO UAV* unmanned aerial system, a purpose built autonomous medium lift logistics vehicle.

Table 3. Precision Products Results

Thousands of U.S. dollars	Three Months Ended			Twelve Months Ended	
	December 31, 2021	October 1, 2021	December 31, 2020	December 31, 2021	December 31, 2020
Net sales	$ 60,673	$ 63,584	$ 69,532	$ 256,329	$ 302,509
Operating income	8,662	14,283	14,221	55,366	74,033
Adjusted EBITDA	9,703	15,305	15,289	59,514	77,739
Adjusted EBITDA margin	16.0 %	24.1 %	22.0 %	23.2 %	25.7 %

Three months ended December 31, 2021 versus three months ended October 1, 2021 - Adjusted EBITDA decreased $5.6 million and margin decreased 8.1 percentage points versus the third quarter of 2021. Results declined compared to the prior period primarily due to lower gross profit associated with the K-MAX® program and higher R&D spend associated with new technologies, such as *KARGO UAV* unmanned aerial system.

Three months ended December 31, 2021 versus three months ended December 31, 2020 - Adjusted EBITDA decreased $5.6 million and margin decreased 6.0 percentage points versus the fourth quarter of 2020. Results declined compared to the prior period, driven by lower margin on K-MAX® aircraft sales and higher R&D spend primarily on *KARGO UAV* unmanned aerial system.

Full year ended December 31, 2021 versus full year ended December 31, 2020 - Adjusted EBITDA decreased $18.2 million and margin decreased 2.5 percentage points versus 2020. Compared to the prior period, JPF DCS sales and associated gross profit decreased and gross profit on legacy fuzing programs declined. This was partially offset by higher sales and gross profit on the JPF USG program and higher sales volume and gross profit on the SH-2G program with New Zealand.

Structures - Our 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.

Table 4. Structures Results

Thousands of U.S. dollars	**Three Months Ended**			**Twelve Months Ended**	
	December 31, 2021	**October 1, 2021**	**December 31, 2020**	**December 31, 2021**	**December 31, 2020**
Net sales	$ 31,925	$ 31,853	$ 35,827	$ 134,981	$ 166,887
Operating income (loss)	275	556	(6,534)	(340)	(8,858)
Adjusted EBITDA	1,164	1,413	(5,307)	3,122	(3,657)
Adjusted EBITDA margin	3.6 %	4.4 %	(14.8)%	2.3 %	(2.2)%

Three months ended December 31, 2021 versus three months ended October 1, 2021 - Adjusted EBITDA and margin were relatively unchanged compared to the third quarter of 2021. Results were impacted by lower gross profit due to changes in profit estimates for long term contracts offset by higher sales volumes on our AH-1Z program.

Three months ended December 31, 2021 versus three months ended December 31, 2020 - Adjusted EBITDA increased $6.5 million and margin increased 18.4 percentage points versus the fourth quarter of 2020. Compared to the prior period, results improved driven by the absence of losses from the former UK composites business and higher gross profit on certain metallic structure programs due to our continuous improvement efforts.

Full year ended December 31, 2021 versus full year ended December 31, 2020 - Adjusted EBITDA increased $6.8 million and margin increased 4.5 percentage points versus 2020. Compared to the prior period, results increased driven by the absence of losses from the former UK Composites business and higher sales and gross profit on the A-10 program. This was partially offset by lower gross profit on the Boeing Wing-to-Body Fairing program.

Please see the MD&A section of the Company's Form 10-K filed with the Securities and Exchange Commission concurrently with the issuance of this release for greater detail on our results and various company programs.

OUTLOOK

Table 5. Outlook

Millions of U.S. dollars (except share data)	2021	2022 Outlook	
	Actual	Low End	High End
Net Sales	$ 709.0	$ 720.0	$ 740.0
Adjusted EBITDA			
Earnings from continuing operations	$ 43.7	$ 49.3	$ 53.5
Interest expense, net	16.3	15.7	15.7
Income tax expense	16.8	13.1	14.2
Non-service pension and post retirement benefit income	(26.2)	(21.1)	(21.1)
Other income, net	(0.1)	(0.9)	(0.9)
Income from TSA	(0.9)	—	—
Depreciation and amortization	36.6	37.6	37.6
Other adjustments	9.3	—	—
Adjusted EBITDA	$ 95.5	$ 93.7	$ 99.0
Adjusted EBITDA margin	13.5 %	13.0 %	13.4 %
Adjusted Diluted Earnings Per Share			
Diluted earnings per share	$ 1.57	$ 1.75	$ 1.90
Adjustments	0.36	—	—
Adjusted diluted earnings per share	$ 1.93	$ 1.75	$ 1.90
Cash Flow			
Cash flow from operating activities[1]	$ 48.7	$ 65.0	$ 75.0
Bal Seal Acquisition Retention Payment	25.1	—	—
Expenditures for property, plant and equipment	(17.5)	(25.0)	(25.0)
Adjusted free cash flow	$ 56.3	$ 40.0	$ 50.0
Discretionary Pension Contribution	$ 10.0	$ —	$ —

[1] Cash flow from operating activities in 2021 includes the $25.1 million payment to Bal Seal employees which represents purchase price paid to the former Bal Seal owners that was accounted for as compensation expense under ASC 805 in 2020.

CONFERENCE CALL

A conference call has been scheduled for tomorrow, February 25, 2022, at 8:30 AM ET. The call will be accessible by telephone within the U.S. at (844) 473-0975 and from outside the U.S. at (562) 350-0826 (using the Conference I.D.: 3966827) or via the Internet at www.kaman.com. A replay will be available two hours after the call and can be accessed at (855) 859-2056 or (404) 537-3406 using the Conference I.D.: 3966827. In its discussion, management may reference certain non-GAAP financial measures related to company performance. A reconciliation of that information to the most directly comparable GAAP measures is provided in this release. In addition, a supplemental presentation relating to the fourth quarter 2021 results will be posted to the Company's website prior to the earnings call at www.kaman.com/investors/investor-presentations.

ABOUT KAMAN CORPORATION
Kaman Corporation, founded in 1945 by aviation pioneer Charles H. Kaman, and headquartered in Bloomfield, Connecticut, conducts business in the aerospace & defense, industrial and medical markets. Kaman produces and markets proprietary aircraft bearings and components; super precision, miniature ball bearings; proprietary spring energized seals, springs and contacts; complex metallic and composite aerostructures for commercial, military and general aviation fixed and rotary wing aircraft; safe and arming solutions for missile and bomb systems for the U.S. and allied militaries; subcontract helicopter work; restoration, modification and support of our SH-2G Super Seasprite maritime helicopters; manufacture and support of our heavy lift K-MAX® manned helicopter, the *K-MAX TITAN* unmanned helicopter and the *KARGO UAV* unmanned aerial system, a purpose built autonomous medium lift logistics vehicle. More information is available at www.kaman.com.

NON-GAAP MEASURES DISCLOSURE
Management believes that the Non-GAAP financial measures (i.e. financial measures that are not computed in accordance with Generally Accepted Accounting Principles) identified by an asterisk (*) used in this release or in other disclosures provide important perspectives into the Company's ongoing business performance. The Company does 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 release and other disclosures as follows:

Adjusted EBITDA - Adjusted EBITDA is defined as earnings from continuing operations before interest, taxes, other expense (income), net, depreciation and amortization and certain items that are not indicative of the operating performance of the Company for the periods presented. Adjusted EBITDA differs from earnings from continuing operations, as calculated in accordance with GAAP, in that it excludes interest expense, net, income tax expense, depreciation and amortization, other expense (income), net, non-service pension and post retirement benefit expense (income), and certain items that are not indicative of the operating performance of the Company for the periods presented. We have made numerous investments in our business, such as acquisitions and capital expenditures, including facility improvements, new machinery and equipment, improvements to our information technology infrastructure and ERP systems, which we have adjusted for in Adjusted EBITDA. Adjusted EBITDA also does not give effect to cash used for debt service requirements and thus does not reflect funds available for distributions, reinvestments or other discretionary uses. Management believes Adjusted EBITDA provides an additional perspective on the operating results of the organization and its earnings capacity and helps improve the comparability of our results between periods because it provides a view of our operations that excludes items that management believes are not reflective of operating performance, such as items traditionally removed from net earnings in the calculation of EBITDA as well as Other expense (income), net and certain items that are not indicative of the operating performance of the Company for the period presented. Adjusted EBITDA is not presented as an alternative measure of operating performance, as determined in accordance with GAAP. No other adjustments were made during the three-month fiscal periods ended December 31, 2021, October 1, 2021 and December 31, 2020 and twelve-month fiscal periods ended December 31, 2021 and December 31, 2020. The following tables illustrate the calculation of Adjusted EBITDA:

Table 6. Adjusted EBITDA (unaudited)

Thousands of U.S. dollars	Three Months Ended December 31, 2021				
	Consolidated	**Engineered Products**	**Precision Products**	**Structures**	**Corp/Elims****
Adjusted EBITDA					
Consolidated Results					
Sales from continuing operations	$ 175,147	$ 82,549	$ 60,673	$ 31,925	$ —
Earnings (loss) from continuing operations, net of tax	$ 9,169				
Interest expense, net	4,058				
Income tax expense (benefit)	6,676				
Non-service pension and post retirement benefit income	(6,397)				
Other income, net	(417)				
Operating income (loss)	$ 13,089	$ 12,784	$ 8,662	$ 275	$ (8,632)
Depreciation and amortization	9,180	6,580	1,041	889	670
Restructuring and severance costs	675	—	—	—	675
Cost associated with corporate development activities	647	—	—	—	647
Other Adjustments	$ 10,502	$ 6,580	$ 1,041	$ 889	$ 1,992
Adjusted EBITDA	$ 23,591	$ 19,364	$ 9,703	$ 1,164	$ (6,640)
Adjusted EBITDA margin	13.5 %	23.5 %	16.0 %	3.6 %	

**Corp/Elims Operating income (loss) represents the Corporate office expenses and $0.7 million of unallocated expenses that are shown on the Consolidated Statement of Earnings as their own line items.

Table 7. Adjusted EBITDA (unaudited)

Thousands of U.S. dollars	Three Months Ended October 1, 2021				
	Consolidated	**Engineered Products**	**Precision Products**	**Structures**	**Corp/Elims****
Adjusted EBITDA					
Consolidated Results					
Sales from continuing operations	$ 179,836	$ 84,399	$ 63,584	$ 31,853	$ —
Earnings (loss) from continuing operations, net of tax	$ 14,667				
Interest expense, net	3,646				
Income tax expense (benefit)	4,447				
Non-service pension and post retirement benefit income	(6,612)				
Other income, net	(172)				
Income from TSA	(14)				
Operating income (loss)	$ 15,962	$ 15,563	$ 14,283	$ 556	$ (14,440)
Depreciation and amortization	9,083	6,557	1,022	857	647
Restructuring and severance costs	2,611	—	—	—	2,611
Cost associated with corporate development activities	136	—	—	—	136
Costs from transition service agreement	24	—	—	—	24
Other Adjustments	$ 11,854	$ 6,557	$ 1,022	$ 857	$ 3,418
Adjusted EBITDA	$ 27,816	$ 22,120	$ 15,305	$ 1,413	$ (11,022)
Adjusted EBITDA margin	15.5 %	26.2 %	24.1 %	4.4 %	

**Corp/Elims Operating income (loss) represents the Corporate office expenses and $2.6 million of unallocated expenses that are shown on the Consolidated Statement of Earnings as their own line items.

Table 8. Adjusted EBITDA (unaudited)

Thousands of U.S. dollars	Three Months Ended December 31, 2020				
	Consolidated	**Engineered Products**	**Precision Products**	**Structures**	**Corp/Elims****
Adjusted EBITDA					
Consolidated Results					
Sales from continuing operations	$ 185,288	$ 79,929	$ 69,532	$ 35,827	$ —
Earnings (loss) from continuing operations, net of tax	$ (31,420)				
Interest expense, net	4,888				
Income tax expense (benefit)	(6,708)				
Non-service pension and post retirement benefit income	(4,062)				
Other income, net	(304)				
Income from TSA	(586)				
Operating income (loss)	$ (38,192)	$ 8,735	$ 14,221	$ (6,534)	$ (54,614)
Depreciation and amortization	11,695	8,477	1,068	1,227	923
Impairment on assets held for sale	36,285	—	—	—	36,285
Restructuring and severance costs	539	—	—	—	539
Cost associated with corporate development activities	207	—	—	—	207
Bal Seal acquisition costs	45	—	—	—	45
Cost of acquired Bal Seal retention plans	5,704	—	—	—	5,704
Costs from transition services agreement	983	—	—	—	983
Other Adjustments	$ 55,458	$ 8,477	$ 1,068	$ 1,227	$ 44,686
Adjusted EBITDA	$ 17,266	$ 17,212	$ 15,289	$ (5,307)	$ (9,928)
Adjusted EBITDA margin	9.3 %	21.5 %	22.0 %	(14.8)%	

**Corp/Elims Operating income (loss) represents the Corporate office expenses and $43.7 million of unallocated expenses that are shown on the Consolidated Statement of Earnings as their own line items.

Table 9. Adjusted EBITDA (unaudited)

Thousands of U.S. dollars	Twelve Months Ended December 31, 2021				
	Consolidated	**Engineered Products**	**Precision Products**	**Structures**	**Corp/Elims****
Adjusted EBITDA					
Consolidated Results					
Sales from continuing operations	$ 708,993	$ 317,683	$ 256,329	$ 134,981	$ —
Earnings (loss) from continuing operations, net of tax	43,676				
Interest expense, net	16,290				
Income tax expense (benefit)	16,832				
Non-service pension and post retirement benefit income	(26,229)				
Other income, net	(142)				
Income from TSA	(931)				
Operating income (loss)	$ 49,496	$ 43,097	$ 55,366	$ (340)	$ (48,627)
Depreciation and amortization	36,654	26,306	4,148	3,462	2,738
Restructuring and severance costs	6,154	—	—	—	6,154
Cost associated with corporate development activities	1,198	—	—	—	1,198
Costs from transition services agreement	1,728	—	—	—	1,728
Loss on sale of business	234	—	—	—	234
Other Adjustments	$ 45,968	$ 26,306	$ 4,148	$ 3,462	$ 12,052
Adjusted EBITDA	$ 95,464	$ 69,403	$ 59,514	$ 3,122	$ (36,575)
Adjusted EBITDA margin	13.5 %	21.8 %	23.2 %	2.3 %	

**Corp/Elims Operating income (loss) represents the Corporate office expenses and $8.1 million of unallocated expenses that are shown on the Consolidated Statement of Earnings as their own line items.

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Table 10. Adjusted EBITDA (unaudited)

Thousands of U.S. dollars	**Twelve Months Ended December 31, 2020**				
	Consolidated	**Engineered Products**	**Precision Products**	**Structures**	**Corp/Elims***
Adjusted EBITDA					
Consolidated Results					
Sales from continuing operations	$ 784,459	$ 315,063	$ 302,509	$ 166,887	$ —
Earnings (loss) from continuing operations, net of tax	$ (70,434)				
Interest expense, net	19,270				
Income tax expense (benefit)	(7,730)				
Non-service pension and post retirement benefit income	(16,250)				
Other income, net	(728)				
Income from TSA	(8,439)				
Operating income (loss)	$ (84,311)	$ 33,561	$ 74,033	$ (8,858)	$ (183,047)
Depreciation and amortization	43,899	31,574	3,706	5,201	3,418
Non-cash, non tax goodwill impairment charge	50,307	—	—	—	50,307
Impairment on assets held for sale	36,285	—	—	—	36,285
Restructuring and severance costs	8,359	—	—	—	8,359
Cost associated with corporate development activities	4,539	—	—	—	4,539
Bal Seal acquisition costs	8,506	—	—	—	8,506
Cost of acquired Bal Seal retention plans	22,814	—	—	—	22,814
Inventory step-up associated with Bal Seal acquisition	2,355	2,355	—	—	—
Costs from transition services agreement	12,515	—	—	—	12,515
Senior leadership transition	280	—	—	—	280
Reversal of employee tax-related matters in foreign operations	(1,859)	(1,859)	—	—	—
Reversal of environmental accrual at GRW	(264)	(264)	—	—	—
Gain on sale of business	(493)	—	—	—	(493)
Other Adjustments	$ 187,243	$ 31,806	$ 3,706	$ 5,201	$ 146,530
Adjusted EBITDA	$ 102,932	$ 65,367	$ 77,739	$ (3,657)	$ (36,517)
Adjusted EBITDA margin	13.1 %	20.7 %	25.7 %	(2.2)%	

**Corp/Elims Operating income (Loss) represents the Corporate office expenses and $130.0 million of unallocated expenses that are shown on the Consolidated Statement of Earnings as their own line items.

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Adjusted Earnings from Continuing Operations and Adjusted Diluted Earnings Per Share - Adjusted earnings from continuing operations and adjusted diluted earnings per share are defined as GAAP "Earnings from continuing operations" and "Diluted earnings per share from continuing operations", less items that are not indicative of the operating performance of the business for the periods presented. These items are included in the reconciliation below. Management uses adjusted earnings from continuing operations and adjusted diluted earnings per share to evaluate performance period over period, to analyze the underlying trends in our business and to assess its performance relative to its competitors. We believe that this information is useful for investors and financial institutions seeking to analyze and compare companies on the basis of operating performance.

The following table illustrates the calculation of adjusted earnings from continuing operations and adjusted diluted earnings per share:

Table 11. Adjusted Earnings from Continuing Operations and Adjusted Diluted Earnings per Share (unaudited)
Thousands of U.S. dollars (except share data)

	Three Months Ended December 31, 2021			Three Months Ended December 31, 2020		
	Pre-Tax	Tax-Effected	Diluted EPS	Pre-Tax	Tax-Effected	Diluted EPS
Earnings (loss) from continuing operations	$ 15,845	$ 9,169	$ 0.33	$ (38,128)	$ (31,420)	$ (1.13)
Adjustments:						
Impairments on assets held for sale	—	—	—	36,285	36,285	1.31
Restructuring and severance costs	675	530	0.02	539	416	0.01
Costs associated with corporate development activities	647	508	0.02	207	160	0.01
Bal Seal acquisition costs	—	—	—	45	35	—
Cost of acquired Bal Seal retention plans	—	—	—	5,704	5,704	0.21
Costs from transition services agreement	—	—	—	983	758	0.02
Income from transition services agreement	—	—	—	(586)	(452)	(0.02)
Tax-related items	3,131	3,131	0.11	—	—	—
Adjustments	$ 4,453	$ 4,169	$ 0.15	$ 43,177	$ 42,906	$ 1.54
Adjusted earnings from continuing operations	$ 20,298	$ 13,338	$ 0.48	$ 5,049	$ 11,486	$ 0.41
Diluted weighted average shares outstanding			27,898			27,735

	Three Months Ended October 1, 2021		
	Pre-Tax	Tax-Effected	Diluted EPS
Earnings (loss) from continuing operations	$ 19,114	$ 14,667	$ 0.53
Adjustments:			
Restructuring and severance costs	2,611	2,003	0.07
Costs associated with corporate development activities	136	104	—
Costs from transition services agreement	24	18	—
Income from transition services agreement	(14)	(11)	—
Adjustments	$ 2,757	$ 2,114	$ 0.07
Adjusted earnings from continuing operations	$ 21,871	$ 16,781	$ 0.60
Diluted weighted average shares outstanding			27,888

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Table 11 (cont). Adjusted Earnings from Continuing Operations and Adjusted Diluted Earnings per Share (unaudited)
Thousands of U.S. dollars (except share data)

	Twelve Months Ended December 31, 2021			Twelve Months Ended December 31, 2020		
	Pre-Tax	**Tax-Effected**	**Diluted EPS**	**Pre-Tax**	**Tax-Effected**	**Diluted EPS**
Earnings (loss) from continuing operations	$ 60,508	$ 43,676	$ 1.57	(78,164)	$ (70,434)	$ (2.54)
Adjustments:						
Noncash, non tax goodwill impairment charge	—	—	—	50,307	50,307	1.82
Impairment on assets held for sale	—	—	—	36,285	36,285	1.31
Restructuring and severance costs	6,154	4,810	0.17	8,359	6,448	0.23
Costs associated with corporate development activities	1,198	941	0.04	4,539	3,501	0.13
Bal Seal acquisition costs		—	—	8,506	6,602	0.24
Cost of acquired Bal Seal retention plans	—	—	—	22,814	22,814	0.82
Inventory step-up associated with Bal Seal acquisition	—	—	—	2,355	1,828	0.06
Costs from transition services agreement	1,728	1,370	0.05	12,515	9,654	0.34
Income from transition services agreement	(931)	(739)	(0.03)	(8,439)	(6,510)	(0.23)
Senior leadership transition	—	—	—	280	216	0.01
Employee tax-related matters in foreign operations	—	—	—	(1,859)	(1,692)	(0.06)
Reversal of environmental accrual at GRW	—	—	—	(264)	(187)	(0.01)
Loss (gain) on sale of business	234	234	0.01	(493)	(370)	(0.01)
Tax-related items	3,131	3,131	0.11	—	—	—
Tax effect on sale of UK operations	287	287	0.01	—	—	—
Adjustments	$ 11,801	$ 10,034	$ 0.36	$ 134,905	$ 128,896	$ 4.65
Adjusted earnings from continuing operations	$ 72,309	$ 53,710	$ 1.93	$ 56,741	$ 58,462	$ 2.11
Diluted weighted average shares outstanding			27,891			27,723

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Adjusted Free Cash Flow - Adjusted free cash flow is defined as GAAP "Net cash provided by (used in) operating activities from continuing operations" in a period less "Expenditures for property, plant & equipment" in the same period and any adjustments that are representative of the Company's cash generation or usage in the period. For 2021 we adjusted free cash flow to remove the cash payment made to Bal Seal employees under the retention plan established by the former owners of Bal Seal. Management believes free cash flow from continuing operations and adjusted 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 and adjusted 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 and Adjusted free cash flow internally to assess overall liquidity. The following table illustrates the calculation of adjusted free cash flow.

Table 12. Adjusted Free Cash Flow (unaudited)

Thousands of U.S. dollars	Twelve Months Ended	Nine Months Ended	Three Months Ended
	December 31, 2021	October 1, 2021	December 31, 2021
Net cash provided by operating activities from continuing operations	$ 48,698	$ 14,123	$ 34,575
Expenditures for property, plant & equipment	(17,530)	(11,364)	(6,166)
Cash paid for acquired retention plans [1]	25,108	25,108	—
Adjusted free cash flow	$ 56,276	$ 27,867	$ 28,409

[1] Operating cash flow from continuing operations includes the $25.1 million payment to Bal Seal employees from the first quarter of 2021, which represents purchase price paid to the former Bal Seal owners accounted for as compensation under ASC 805.

FORWARD-LOOKING STATEMENTS

This release 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

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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 and in our 2021 Form 10-K.

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

Contact:
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Investor Relations
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kary.bare@kaman.com

Document

KAMAN CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
(Thousands of U.S. dollars, except share data) (unaudited)

	Three Months Ended		Twelve Months Ended	
	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
Net sales	$ 175,147	$ 185,288	$ 708,993	$ 784,459
Cost of sales	116,445	130,951	472,375	538,877
Gross profit	58,702	54,337	236,618	245,582
Selling, general and administrative expenses	36,292	40,997	152,474	169,485
Goodwill impairment	—	—	—	50,307
Impairment on assets held for sale	—	36,285	—	36,285
Research and development costs	6,068	3,419	16,072	14,755
Intangible asset amortization expense	2,570	4,397	10,468	15,666
Costs from transition services agreement	—	983	1,728	12,515
Cost of acquired retention plans	—	5,704	—	22,814
Restructuring and severance costs	675	539	6,154	8,359
Loss (gain) on sale of business	—	—	234	(493)
Net loss (gain) on sale of assets	8	205	(8)	200
Operating income (loss)	13,089	(38,192)	49,496	(84,311)
Interest expense, net	4,058	4,888	16,290	19,270
Non-service pension and post retirement benefit income	(6,397)	(4,062)	(26,229)	(16,250)
Income from transition services agreement	—	(586)	(931)	(8,439)
Other income, net	(417)	(304)	(142)	(728)
Earnings (loss) from continuing operations before income taxes	15,845	(38,128)	60,508	(78,164)
Income tax expense (benefit)	6,676	(6,708)	16,832	(7,730)
Earnings (loss) from continuing operations	9,169	(31,420)	43,676	(70,434)
Earnings from discontinued operations before gain on disposal, net of tax	—	—	—	—
Gain on disposal of discontinued operations, net of tax	—	—	—	692
Total earnings from discontinued operations	—	—	—	692
Net earnings (loss)	$ 9,169	$ (31,420)	$ 43,676	$ (69,742)
Earnings per share:				
Basic earnings (loss) per share from continuing operations	$ 0.33	$ (1.13)	$ 1.57	$ (2.54)
Basic earnings per share from discontinued operations	0.00	0.00	0.00	0.02
Basic earnings (loss) per share	$ 0.33	$ (1.13)	$ 1.57	$ (2.52)
Diluted earnings (loss) per share from continuing operations	$ 0.33	$ (1.13)	$ 1.57	$ (2.54)
Diluted earnings per share from discontinued operations	0.00	0.00	0.00	0.02
Diluted earnings (loss) per share	$ 0.33	$ (1.13)	$ 1.57	$ (2.52)
Average shares outstanding:				
Basic	27,896	27,735	27,865	27,723
Diluted	27,898	27,735	27,891	27,723

KAMAN CORPORATION AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(Thousands of U.S. dollars, except share data) (unaudited)

	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	546,543	597,974
Property, plant and equipment, net of accumulated depreciation of $251,888 and $228,984, respectively	197,822	210,852
Operating right-of-use assets, 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	$ 1,198,482	$ 1,306,393
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	120,935	228,412
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		
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	796,329	746,438
Total liabilities and shareholders' equity	$ 1,198,482	$ 1,306,393

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KAMAN CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(Thousands of U.S. dollars) (unaudited)

	Twelve Months Ended	
	December 31, 2021	December 31, 2020
Cash flows from operating activities:		
Net earnings (loss)	$ 43,676	$ (69,742)
Less: Total earnings from discontinued operations	—	692
Earnings (loss) from continuing operations	43,676	(70,434)
Adjustments to reconcile net earnings from continuing operations to net cash provided by (used in) operating activities of continuing operations:		
Depreciation and amortization	36,654	43,899
Amortization of debt issuance costs	1,836	1,746
Accretion of convertible notes discount	2,957	2,860
Provision for doubtful accounts	575	1,381
Impairment on assets held for sale	—	36,285
Loss (gain) on sale of business	234	(493)
Net (gain) loss on sale of assets	(8)	200
Goodwill impairment	—	50,307
Net loss (gain) on derivative instruments	1,025	(466)
Stock compensation expense	6,687	4,979
Deferred income taxes	20,998	(6,055)
Changes in assets and liabilities, excluding effects of acquisitions/divestitures:		
Accounts receivable	78,367	7,042
Contract assets	(3,482)	12,629
Contract costs	725	294
Inventories	(10,357)	(18,485)
Income tax refunds receivable	(8,565)	2,763
Operating right of use assets	1,798	1,513
Other assets	3,450	2,490
Accounts payable - trade	(18,398)	(9,227)
Contract liabilities	(30,708)	(29,555)
Operating lease liabilities	(1,918)	(1,560)
Acquired retention plan payments	(25,108)	—
Other current liabilities	(8,880)	16,955
Income taxes payable	295	(4,885)
Pension liabilities	(37,580)	(21,550)
Other long-term liabilities	(5,575)	(6,164)
Net cash provided by operating activities of continuing operations	48,698	16,469
Cash flows from investing activities:		
Proceeds from sale of discontinued operations	—	5,223
Proceeds from sale of business, net of cash on hand	(3,428)	493
Expenditures for property, plant & equipment	(17,530)	(17,783)
Acquisition of businesses, net of cash acquired	—	(304,661)
Other, net	(154)	(1,994)
Net cash used in investing activities of continuing operations	(21,112)	(318,722)
Cash flows from financing activities:		
Proceeds from exercise of employee stock awards	2,705	4,296
Purchase of treasury shares	(618)	(14,210)
Dividends paid	(22,241)	(22,210)
Other, net	(2,079)	(1,411)
Net cash (used in) provided by financing activities of continuing operations	(22,233)	(33,535)
Net decrease in cash and cash equivalents	5,353	(335,788)
Effect of exchange rate changes on cash and cash equivalents	(642)	337
Cash and cash equivalents and restricted cash at beginning of period	136,089	471,540
Cash and cash equivalents and restricted cash at end of period	$ 140,800	$ 136,089

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

FORM 10-Q

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

For the quarterly period ended April 2, 2021

Or

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

For the transition period from _____ to ______

Commission File Number: 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)

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

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock ($1 par value)	KAMN	New York Stock Exchange LLC

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 check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§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, smaller reporting company, or an emerging growth company. See the 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 is a shell company (as defined in Rule 12b-2 of the Exchange Act).

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Yes ☐ No ☒

At April 30, 2021, there were 27,810,056 shares of Common Stock outstanding.

PART I

Item 1. Financial Statements
CONDENSED CONSOLIDATED BALANCE SHEETS
KAMAN CORPORATION AND SUBSIDIARIES
(In thousands, except share and per share amounts) (Unaudited)

	April 2, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 120,724	$ 104,377
Restricted cash	—	25,121
Accounts receivable, net	102,328	153,806
Contract assets	114,601	108,645
Contract costs, current portion	5,050	3,511
Inventories	197,303	185,072
Income tax refunds receivable	4,851	5,269
Other current assets	12,628	12,173
Total current assets	557,485	597,974
Property, plant and equipment, net of accumulated depreciation of $233,534 and $228,984, respectively	207,145	210,852
Operating right-of-use assets, net	12,048	12,880
Goodwill	243,688	247,244
Other intangible assets, net	146,626	150,198
Deferred income taxes	37,540	39,809
Contract costs, noncurrent portion	7,205	8,311
Other assets	39,000	39,125
Total assets	$ 1,250,737	$ 1,306,393
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable – trade	$ 45,887	$ 60,200
Accrued salaries and wages	40,306	70,552
Contract liabilities, current portion	32,622	39,073
Operating lease liabilities, current portion	4,057	4,305
Income taxes payable	1,203	19
Liabilities held for sale, current portion	—	18,086
Other current liabilities	35,722	36,177
Total current liabilities	159,797	228,412
Long-term debt, excluding current portion, net of debt issuance costs	186,378	185,401
Deferred income taxes	7,205	7,381
Underfunded pension	63,185	69,610
Contract liabilities, noncurrent portion	12,120	11,019
Operating lease liabilities, noncurrent portion	8,632	9,325
Liabilities held for sale, noncurrent portion	—	1,171
Other long-term liabilities	46,201	47,636
Commitments and contingencies (Note 14)		
Shareholders' equity:		
Preferred stock, $1 par value, 200,000 shares authorized; none outstanding	—	—
Common stock, $1 par value, 50,000,000 shares authorized; voting; 30,370,157 and 30,278,668 shares issued, respectively	30,370	30,279
Additional paid-in capital	241,444	238,829
Retained earnings	730,913	728,764
Accumulated other comprehensive income (loss)	(114,466)	(130,821)
Less 2,564,358 and 2,555,785 shares of common stock, respectively, held in treasury, at cost	(121,042)	(120,613)
Total shareholders' equity	767,219	746,438
Total liabilities and shareholders' equity	$ 1,250,737	$ 1,306,393

See accompanying notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
KAMAN CORPORATION AND SUBSIDIARIES
(In thousands, except per share amounts) (Unaudited)

	For the Three Months Ended	
	April 2, 2021	April 3, 2020
Net sales	$ 171,616	$ 207,322
Cost of sales	118,711	139,620
Gross profit	52,905	67,702
Selling, general and administrative expenses	44,991	60,989
Costs from transition services agreement	705	4,140
Cost of acquired retention plans	—	5,703
Restructuring and severance costs	1,352	1,795
Loss (gain) on sale of business	234	(493)
Net loss (gain) on sale of assets	10	(10)
Operating income (loss)	5,613	(4,422)
Interest expense, net	4,251	3,247
Non-service pension and post retirement benefit income	(6,643)	(4,063)
Income from transition services agreement	(475)	(2,974)
Other expense, net	289	218
Earnings (loss) from continuing operations before income taxes	8,191	(850)
Income tax expense (benefit)	207	(443)
Earnings (loss) from continuing operations	7,984	(407)
Earnings from discontinued operations before gain on disposal, net of tax	—	—
Gain on disposal of discontinued operations, net of tax	—	692
Total earnings from discontinued operations	—	692
Net earnings	$ 7,984	$ 285
Earnings per share:		
Basic earnings (loss) per share from continuing operations	$ 0.29	$ (0.01)
Basic earnings per share from discontinued operations	0.00	0.02
Basic earnings per share	$ 0.29	$ 0.01
Diluted earnings (loss) per share from continuing operations	$ 0.29	$ (0.01)
Diluted earnings per share from discontinued operations	0.00	0.02
Diluted earnings per share	$ 0.29	$ 0.01
Average shares outstanding:		
Basic	27,815	27,809
Diluted	27,867	27,891

See accompanying notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
KAMAN CORPORATION AND SUBSIDIARIES
(In thousands) (Unaudited)

	For the Three Months Ended	
	April 2, 2021	April 3, 2020
Net earnings	$ 7,984	$ 285
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments and other	15,513	(10,826)
Change in pension and post-retirement benefit plan liabilities, net of tax expense of $250 and $330, respectively	842	1,107
Other comprehensive income (loss)	16,355	(9,719)
Comprehensive income (loss)	$ 24,339	$ (9,434)

See accompanying notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
KAMAN CORPORATION AND SUBSIDIARIES
(In thousands) (Unaudited)

	For the Three Months Ended	
	April 2, 2021	April 3, 2020
Cash flows from operating activities:		
Net earnings	$ 7,984	$ 285
Less: Total earnings from discontinued operations	—	692
Earnings (loss) from continuing operations	$ 7,984	$ (407)
Adjustments to reconcile net earnings from continuing operations to net cash (used in) provided by operating activities of continuing operations:		
Depreciation and amortization	9,209	9,509
Amortization of debt issuance costs	424	492
Accretion of convertible notes discount	738	702
Provision for doubtful accounts	173	179
Loss (gain) on sale of business	234	(493)
Net loss (gain) on sale of assets	10	(10)
Net loss on derivative instruments	590	983
Stock compensation expense	1,743	1,633
Deferred income taxes	1,793	3,493
Changes in assets and liabilities, excluding effects of acquisitions/divestitures:		
Accounts receivable	50,254	(6,531)
Contract assets	(5,704)	(11,665)
Contract costs	(432)	(709)
Inventories	(13,655)	(25,206)
Income tax refunds receivable	418	(2,078)
Operating right of use assets	799	1,223
Other assets	1,042	(917)
Accounts payable - trade	(14,707)	(6,405)
Contract liabilities	(5,439)	1,743
Operating lease liabilities	(908)	(1,183)
Acquired retention plan payments	(25,108)	—
Other current liabilities	(6,796)	(8,079)
Income taxes payable	1,173	(1,038)
Pension liabilities	(5,452)	(12,887)
Other long-term liabilities	(798)	2,209
Net cash used in operating activities of continuing operations	(2,415)	(55,442)
Net cash used in operating activities of discontinued operations	—	—
Net cash used in operating activities	(2,415)	(55,442)
Cash flows from investing activities:		
Proceeds from sale of assets	54	11
Proceeds from sale of discontinued operations	—	5,223
Proceeds from sale of business, net of cash on hand	(3,428)	493
Expenditures for property, plant & equipment	(4,678)	(5,559)
Acquisition of businesses, net of cash acquired	—	(304,342)
Other, net	(48)	394
Net cash used in investing activities of continuing operations	(8,100)	(303,780)
Net cash used in investing activities of discontinued operations	—	—
Net cash used in investing activities	(8,100)	(303,780)
Cash flows from financing activities:		
Net borrowings under revolving credit agreements	—	201,100
Net change in bank overdraft	797	371
Proceeds from exercise of employee stock awards	880	1,455
Purchase of treasury shares	(344)	(14,072)
Dividends paid	(5,545)	(5,595)
Other, net	(472)	(381)
Net cash (used in) provided by financing activities of continuing operations	(4,684)	182,878
Net cash provided by financing activities of discontinued operations	—	—

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Net cash (used in) provided by financing activities	(4,684)	182,878
Net decrease in cash and cash equivalents	(15,199)	(176,344)
Effect of exchange rate changes on cash and cash equivalents	(166)	262
Cash and cash equivalents and restricted cash at beginning of period (See Note 3)	136,089	471,540
Cash and cash equivalents and restricted cash at end of period	$ 120,724	$ 295,458

See accompanying notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the three-month fiscal periods ended April 2, 2021 and April 3, 2020
(Unaudited)

1. BASIS OF PRESENTATION

During the third quarter of 2019, Kaman Corporation ("the Company") completed the sale of its Distribution business for total cash consideration of approximately $700.0 million, excluding certain working capital adjustments which were finalized in the first quarter of 2020 and transaction costs. The finalization of the gain on the sale of the Distribution business was recorded to gain on disposal of discontinued operations, net of tax on the Company's Condensed Consolidated Statements of Operations in the three-month fiscal period ended April 3, 2020. See Note 3, *Disposals*, to the Condensed Consolidated Financial Statements for further information.

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 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, the assets of the UK Composites business were written off and the remaining loss related to the anticipated sale of the disposal group was accrued for in liabilities held for sale, current portion on the Company's Consolidated Balance Sheets. 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. On February 2, 2021, the Company sold its UK Composites business. See Note 3, *Discontinued Operations and Liabilities Held for Sale*, in the Company's Annual Report on Form 10-K for the year ended December 31, 2020 ("2020 Form 10-K") for additional information.

In the opinion of management, the condensed consolidated financial information reflects all adjustments necessary for a fair statement of the Company's financial position, results of operations and cash flows for the interim periods presented, but do not include all disclosures required by accounting principles generally accepted in the United States of America ("GAAP"). All such adjustments are of a normal recurring nature, unless otherwise disclosed in this report. Certain amounts in prior year financial statements and notes thereto have been reclassified to conform to current year presentation. The statements should be read in conjunction with the consolidated financial statements and notes included in the Company's 2020 Form 10-K.

The Company has a calendar year-end; however, its first three fiscal quarters follow a 13-week convention, with each quarter ending on a Friday. The first quarters for 2021 and 2020 ended on April 2, 2021, and April 3, 2020, respectively.

2. 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 is 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 reduction to retained earnings of $0.3 million.

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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three-month fiscal periods ended April 2, 2021 and April 3, 2020
(Unaudited)

2. RECENT ACCOUNTING STANDARDS (CONTINUED)

Recent Accounting Standards Yet to be Adopted

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. 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.

3. 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. 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 Accounting Standards Codification ("ASC") 205-20*, Presentation of Financial Statements - Discontinued Operations*, for discontinued operations as it does not reflect a significant 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 at December 31, 2020. 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 such, the assets of the UK Composites business were written off and 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.

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		
Proceeds received from the sale of the UK Composites business	$	3,600
Assets, including cash on hand		23,460
Liabilities		6,618
Net book value of business		16,842
UK cumulative foreign currency translation adjustment balance		22,835
Transaction costs		442
Loss on the sale of the UK Composites business	$	36,519

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three-month fiscal periods ended April 2, 2021 and April 3, 2020
(Unaudited)

3. DISPOSALS (CONTINUED)

UK Composites Business - continued

Of this amount, a loss of $36.3 million was recorded in the year ended December 31, 2020 and a loss of $0.2 million was recorded in the three-month fiscal period ended April 2, 2021.

Cash and cash equivalents and restricted cash at the beginning of the period on the Company's Condensed Consolidated Statement of Cash Flows for the three-month fiscal period April 2, 2021 includes $6.6 million of cash that was included in the UK Composites business disposal group. Given the assets of the disposal group were recognized net of the impairment recorded in the year ended December 31, 2020, such amounts were not reflected on the Company's Condensed 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 approximately $700.0 million, excluding certain working capital adjustments which were finalized in the first quarter of 2020. 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 business 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 ("IT"), 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 has the right to terminate individual services at any point over the renewal term and began to terminate certain services in 2020. Substantially all services were completed as of the end of the first quarter of 2021; however, the TSA is expected to be fully completed by the third quarter of 2021. Since the sale of the Distribution business, costs associated with the TSA were $17.9 million through April 2, 2021. The Company incurred $0.7 million and $4.1 million in costs associated with the TSA in the three-month fiscal periods ended April 2, 2021 and April 3, 2020, respectively. These amounts were included in costs from transition services agreement on the Company's Condensed Consolidated Statements of Operations. Since the sale of the Distribution business, the Company earned $12.6 million in income associated with the TSA through April 2, 2021. The Company earned $0.5 million and $3.0 million in income associated with the TSA in the three-month fiscal periods ended April 2, 2021 and April 3, 2020, respectively. These amounts were included in income from transition services on the Company's Condensed Consolidated Statements of Operations.

Since the sale of the Distribution business, cash outflows from the Company to its former Distribution business totaled $8.1 million through April 2, 2021, which primarily related to Distribution employee and employee-related costs incurred prior to the sale. There were no cash flows from the Company to its former Distribution business in the three-month fiscal period ended April 2, 2021. Cash outflows from the Company to its former Distribution business after the sale totaled $0.3 million for the three-month fiscal period ended April 3, 2020. Since the sale of the Distribution business, cash inflows from the Company's former Distribution business to the Company totaled $17.4 million through April 2, 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 received in the three-month fiscal periods ended April 2, 2021 and April 3, 2020 totaled $0.5 million and $7.9 million, respectively.

In the three-month fiscal period ended April 3, 2020, the Company recorded a pretax gain on disposal of discontinued operations as a result of the final settlement of the working capital adjustment, partially offset by transaction costs. The pretax gain of $0.9 million was subject to income tax expense of $0.2 million, resulting in a gain on disposal of discontinued operations, net of tax of $0.7 million in the three-month fiscal period ended April 3, 2020 which was included in the Company's Condensed Consolidated Statement of Operations. As the gain on the sale of the Distribution business was finalized in 2020, no activity aside from the TSA activity and cash flows discussed above impacted the Company's Condensed Consolidated Financial Statements in the three-month fiscal period ended April 2, 2021.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three-month fiscal periods ended April 2, 2021 and April 3, 2020
(Unaudited)

4. 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.

Upon closing, the Company funded $24.7 million associated with employee retention plans at Bal Seal. 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 for the three-month fiscal period ended April 2, 2021.

5. REVENUE

Disaggregation of Revenue

The following table disaggregates total revenue by major product sales by end market.

	For the Three Months Ended	
	April 2, 2021	**April 3, 2020**
In thousands		
Defense	$ 43,611	$ 48,757
Safe and Arm Devices	41,586	58,000
Commercial, Business, & General Aviation	47,958	63,257
Medical	20,583	20,976
Industrial & Other	17,878	16,332
Total revenue	$ 171,616	$ 207,322

COVID-19

The impact of the novel coronavirus (“COVID-19”) and the precautionary measures instituted by governments and businesses to mitigate the spread, including limiting non-essential gatherings of people, ceasing all non-essential travel, ordering certain businesses and government agencies to cease non-essential operations at physical locations and issuing “shelter-in-place” orders, have contributed to a general slowdown in the global economy and significant volatility in financial markets. The Company has implemented strategies to limit the risk to its operations with a continued focus on the health of its employees and the satisfaction of its customers’ requirements. Despite all of these efforts to mitigate the risks associated with COVID-19, the effects of the pandemic have adversely impacted our commercial end markets, more specifically Commercial, Business, and General Aviation customers. The Company saw recoveries in the medical and industrial end markets during the first quarter of 2021 and management expects improved performance through the remainder of 2021. As of the date of this filing, the Company's defense and safe and arm device end markets have not been impacted by COVID-19. The extent and duration of time to which COVID-19 may adversely impact the Company depends on future developments, which are highly uncertain and unpredictable at this time.

The following table disaggregates total revenue by product types.

	For the Three Months Ended	
	April 2, 2021	**April 3, 2020**
Original Equipment Manufacturer	63 %	61 %
Aftermarket	13 %	11 %
Safe and Arm Devices	24 %	28 %
Total revenue	100 %	100 %

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three-month fiscal periods ended April 2, 2021 and April 3, 2020
(Unaudited)

5. REVENUE (CONTINUED)

Disaggregation of Revenue - continued

The following table illustrates the approximate percentage of revenue recognized for performance obligations satisfied over time versus the amount of revenue recognized for performance obligations satisfied at a point in time:

	For the Three Months Ended	
	April 2, 2021	April 3, 2020
Over time	35 %	32 %
Point-in-time	65 %	68 %
Total revenue	100 %	100 %

For contracts in which revenue is recognized 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.

Net changes in revenue associated with cost growth on the Company's over time contracts were as follows:

	For the Three Months Ended	
In thousands	April 2, 2021	April 3, 2020
Net change in revenue due to change in profit estimates	$ 2,865	$ (1,115)

The net increase in revenue in the three-month fiscal period ended April 2, 2021 was primarily related to favorable cost performance on the joint programmable fuze ("JPF") contract with the U.S. Government ("USG"), partially offset by cost growth on certain structures programs and legacy fuzing contracts. The net reduction in revenue in the three-month fiscal period ended April 3, 2020 was primarily related to cost growth on a structures program and certain legacy fuzing contracts.

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. Backlog at April 2, 2021 and December 31, 2020, and the portion of backlog the Company expects to recognize revenue on over the next twelve months is as follows:

In thousands	April 2, 2021[1]	December 31, 2020
Backlog	$ 562,407	$ 631,236

[1] The Company expects to recognize revenue on approximately 72% of backlog as of April 2, 2021 over the next twelve months.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three-month fiscal periods ended April 2, 2021 and April 3, 2020
(Unaudited)

6. RESTRUCTURING AND SEVERANCE COSTS

The Company continues to evaluate its cost structure with the objective of a lean organizational structure that provides a scalable infrastructure which facilitates future growth opportunities. In the three-month fiscal period ended April 2, 2021, the Company incurred $1.4 million in severance costs associated with these cost reduction efforts, which were included in restructuring and severance costs on the Company's Condensed Consolidated Statements of Operations.

Following the sale of the Company's former Distribution business, the Company announced it would undertake a comprehensive review of its general and administrative functions in order to improve operational efficiency and to align the Company's costs with its revenues. The objective of the initiative is to ensure that the Company has a lean organizational structure that provides a scalable infrastructure that facilitates future growth opportunities. The Company identified information technology functions to be outsourced, workforce reductions and other reductions in certain general and administrative expenses which were completed in 2020 to support the cost savings initiative discussed above. In accordance with ASC 712-10, *Compensation - Nonretirement Postemployment Benefits*, the Company recorded $1.3 million in severance costs associated with these workforce reductions in the three-month fiscal period ended April 3, 2020, which were included in restructuring and severance costs on the Company's Condensed Consolidated Statements of Operations.

In addition to the severance associated with the cost savings initiative discussed above, the Company incurred $0.5 million in severance costs as it integrated the acquisition of Bal Seal in the three-month fiscal period ended April 3, 2020.

7. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net consisted of the following:

In thousands	April 2, 2021	December 31, 2020
Trade receivables	$ 22,353	$ 19,945
U.S. Government contracts:		
Billed	18,106	18,854
Cost and accrued profit - not billed	905	1,080
Commercial and other government contracts		
Billed	58,428	111,794
Cost and accrued profit - not billed	4,141	4,141
Less allowance for doubtful accounts	(1,605)	(2,008)
Accounts receivable, net	$ 102,328	$ 153,806

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 three-month fiscal period ended April 2, 2021:

In thousands	
Balance at December 31, 2020	$ (2,008)
Provision	(173)
Amounts written off	301
Recoveries	273
Changes in foreign currency exchange rates	2
Balance at April 2, 2021	$ (1,605)

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three-month fiscal periods ended April 2, 2021 and April 3, 2020
(Unaudited)

7. ACCOUNTS RECEIVABLE, NET (CONTINUED)

COVID-19

The Company anticipates that the disruptions and delays resulting from the spread of COVID-19 and the measures instituted by the governments and businesses to mitigate its spread could 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.

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

In thousands	April 2, 2021	December 31, 2020
Contract changes, negotiated settlements and claims for unanticipated contract costs	$ 900	$ 900

8. CONTRACT ASSETS, CONTRACT COSTS AND CONTRACT LIABILITIES

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

In thousands	April 2, 2021	December 31, 2020	$ Change	% Change
Contract assets	$ 114,601	$ 108,645	$ 5,956	5.5 %
Contract costs, current portion	$ 5,050	$ 3,511	$ 1,539	43.8 %
Contract costs, noncurrent portion	$ 7,205	$ 8,311	$ (1,106)	(13.3)%
Contract liabilities, current portion	$ 32,622	$ 39,073	$ (6,451)	(16.5)%
Contract liabilities, noncurrent portion	$ 12,120	$ 11,019	$ 1,101	10.0 %

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 during the three-month fiscal period ended April 2, 2021. This increase was primarily related to work performed and not yet billed on the A-10 program and certain fuzing programs, partially offset by amounts billed on the JPF program with the USG. There were no significant impairment losses related to the Company's contract assets during the three-month fiscal periods ended April 2, 2021 and April 3, 2020.

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

In thousands	April 2, 2021	December 31, 2020
Contract changes, negotiated settlements and claims for unanticipated contract costs	$ 3,184	$ 3,178

Contract Costs

At April 2, 2021, costs to fulfill a contract and costs to obtain a contract were $10.3 million and $2.0 million, respectively. 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 Condensed Consolidated Balance Sheets at April 2, 2021 and December 31, 2020.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three-month fiscal periods ended April 2, 2021 and April 3, 2020
(Unaudited)

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

Contract Costs - continued

The increase in contract costs, current portion was primarily attributable to the addition of costs to fulfill the K-MAX® program and the reclassification of a portion of costs to fulfill the K-MAX® program and certain structures programs from contract costs, noncurrent portion, partially offset by the amortization of contract costs. For the three-month fiscal periods ended April 2, 2021 and April 3, 2020, amortization of contract costs was $1.9 million and $2.5 million, respectively.

The decrease in contract costs, noncurrent portion was primarily attributable to the the reclassification of a portion of costs to fulfill the K-MAX® program and 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 direct commercial sales ("DCS") contract, K-MAX® spares and support and the SH-2G program for New Zealand, partially offset by advances received for K-MAX® spares and support and the SH-2G program for New Zealand. Revenue recognized related to contract liabilities, current portion was $9.4 million and $14.7 million in the three-month fiscal periods ended April 2, 2021 and April 3, 2020, respectively.

The increase in contract liabilities, noncurrent portion was due to advances received for a JPF DCS contract. For the three-month fiscal periods ended April 2, 2021 and April 3, 2020, the Company did not recognize revenue against contract liabilities, noncurrent portion.

9. FAIR VALUE MEASUREMENTS

Fair value is defined as the exchange price that would be received for an asset or 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 the Company 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 in 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 presents the carrying value and fair value of financial instruments that are not carried at fair value:

	April 2, 2021		December 31, 2020	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
In thousands				
Debt [1]	$ 189,657	$ 216,525	$ 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 April 2, 2021 and December 31, 2020 included $93.5 million and $51.5 million of Level 1 money market funds, respectively.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three-month fiscal periods ended April 2, 2021 and April 3, 2020
(Unaudited)

9. FAIR VALUE MEASUREMENTS (CONTINUED)

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 its counterparties' credit risks. Based on these inputs, the derivative instruments are classified within Level 2 of the valuation hierarchy. At April 2, 2021 and December 31, 2020, the derivative instruments were included in other current assets and other current liabilities on the Company's Condensed Consolidated Balance Sheets. Based on the Company's continued ability to trade and enter into forward contracts and interest rate swaps, the Company considers the markets for its fair value instruments to be active.

The Company evaluated the credit risk associated with the counterparties to these derivative instruments and determined that as of April 2, 2021, such credit risks had not had an adverse impact on the fair value of these instruments.

10. 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 Condensed 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 use derivative instruments for speculative purposes.

Forward Exchange Contracts

The Company holds 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 these contracts are 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. These contracts were not material to the Company's Condensed Consolidated Balance Sheets as of April 2, 2021 and December 31, 2020. The activity related to these contracts was not material to the Company's Condensed Consolidated Financial Statements for the three-month fiscal periods ended April 2, 2021 and April 3, 2020.

11. INVENTORIES

Inventories consisted of the following:

In thousands	April 2, 2021	December 31, 2020
Raw materials	$ 19,363	$ 19,502
Contracts and other work in process (including certain general stock materials)	141,866	129,241
Finished goods	36,074	36,329
Inventories	$ 197,303	$ 185,072

Inventories include amounts associated with matters such as contract changes, negotiated settlements and claims for unanticipated contract costs. These amounts were as follows:

In thousands	April 2, 2021	December 31, 2020
Contract changes, negotiated settlements and claims for unanticipated contract costs	$ 500	$ 500

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three-month fiscal periods ended April 2, 2021 and April 3, 2020
(Unaudited)

11. INVENTORIES (CONTINUED)

At April 2, 2021 and December 31, 2020, $61.4 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 Condensed Consolidated Balance Sheets. Management believes that approximately $24.5 million of the K-MAX® inventory will be sold after April 2, 2022, based upon the anticipation of additional aircraft manufacturing and the requirements to support the fleet for the foreseeable future.

At April 2, 2021 and December 31, 2020, $6.1 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 Condensed Consolidated Balance Sheets. Management believes that approximately $5.1 million of the SH-2G(I) inventory will be sold after April 2, 2022. This balance represents spares requirements and inventory to be used on SH-2G programs.

12. GOODWILL AND OTHER INTANGIBLE ASSETS, NET

Goodwill

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

In thousands	
Gross balance at December 31, 2020	$ 313,803
Accumulated impairment	(66,559)
Net balance at December 31, 2020	247,244
Additions	—
Impairments	—
Foreign currency translation	(3,556)
Ending balance at April 2, 2021	$ 243,688

Other Intangibles

Other intangible assets consisted of:

		At April 2, 2021		At December 31, 2020	
In thousands	Amortization Period	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Customer lists / relationships	6-38 years	$ 127,974	$ (31,205)	$ 128,882	$ (30,094)
Developed technologies	7-20 years	45,458	(10,581)	45,798	(9,665)
Trademarks / trade names	15-40 years	17,152	(2,242)	17,353	(2,149)
Non-compete agreements and other	1-15 years	4,681	(4,668)	5,290	(5,276)
Patents	17 years	523	(466)	523	(464)
Total		$ 195,788	$ (49,162)	$ 197,846	$ (47,648)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three-month fiscal periods ended April 2, 2021 and April 3, 2020
(Unaudited)

13. PENSION PLANS

Components of net pension cost for the Qualified Pension Plan and Supplemental Employees' Retirement Plan ("SERP") were as follows:

	For the Three Months Ended			
	Qualified Pension Plan		SERP	
In thousands	April 2, 2021	April 3, 2020	April 2, 2021	April 3, 2020
Service cost	$ 1,300	$ 1,309	$ —	$ —
Interest cost on projected benefit obligation	3,525	5,255	15	41
Expected return on plan assets	(11,275)	(10,796)	—	—
Amortization of net loss	1,075	1,201	17	236
Net pension (income) cost	$ (5,375)	$ (3,031)	$ 32	$ 277

The Company contributed $10.0 million to the qualified pension plan subsequent to the end of the first quarter, and $0.1 million to the SERP through the end of the first quarter of 2021. No further contributions are expected to be made to the qualified pension plan during 2021. The Company plans to contribute an additional $2.6 million to the SERP in 2021. For the 2020 plan year, the Company contributed $10.0 million to the qualified pension plan and $0.5 million to the SERP.

14. COMMITMENTS AND CONTINGENCIES

Pension Freeze

Effective December 31, 2015, the Company's qualified pension plan was frozen with respect to future benefit accruals. Under USG Cost Accounting Standard ("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 its 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 maintained its accrual at $0.3 million as of April 2, 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.

New Hartford Property

In connection with the sale of the Company's Music segment in 2007, the Company assumed responsibility for meeting certain requirements of the Connecticut Transfer Act (the "Transfer Act") that applied to the 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 process, 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 remediation has been nearly completed and the Company continues to monitor the results of the remediation. The total amount paid to date in connection with these environmental remediation activities is $1.7 million. At April 2, 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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three-month fiscal periods ended April 2, 2021 and April 3, 2020
(Unaudited)

14. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Bloomfield Property

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 Connecticut Department of Environmental Protection. 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 $14.5 million. At April 2, 2021, the Company had $2.4 million accrued for these environmental remediation activities. A portion ($0.6 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.

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 April 2, 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 performance obligations within this contract. At April 2, 2021, $12.1 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 the estimate of the contract transition price, including any potential penalties or contract costs associated with the plan to fulfill the offset requirements.

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 completed pricing negotiations on 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.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three-month fiscal periods ended April 2, 2021 and April 3, 2020
(Unaudited)

15. 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 period. The computation of diluted earnings per share reflects the common stock equivalency of dilutive options granted to employees under the Company's stock incentive plan, shares issuable on redemption of its convertible notes and shares issuable upon redemption of outstanding warrants.

	For the Three Months Ended	
	April 2, 2021	April 3, 2020
In thousands, except per share amounts		
Earnings (loss) from continuing operations	$ 7,984	$ (407)
Total earnings from discontinued operations	—	692
Net earnings (loss)	$ 7,984	$ 285
Basic:		
Weighted average number of shares outstanding	27,815	27,809
Earnings (loss) per share from continuing operations	$ 0.29	$ (0.01)
Earnings per share from discontinued operations	0.00	0.02
Basic earnings (loss) per share	$ 0.29	$ 0.01
Diluted:		
Weighted average number of shares outstanding	27,815	27,809
Weighted average shares issuable on exercise of dilutive stock options	52	82
Total	27,867	27,891
Earnings (loss) per share from continuing operations	$ 0.29	$ (0.01)
Earnings per share from discontinued operations	0.00	0.02
Diluted earnings (loss) per share	$ 0.29	$ 0.01

Equity awards

For the three-month fiscal periods ended April 2, 2021 and April 3, 2020, respectively, 440,959 and 443,379 shares issuable under equity awards granted to employees were excluded from the calculation of diluted earnings per share as they were anti-dilutive based on the average stock price during the periods.

2024 Convertible Notes

For the three-month fiscal periods ended April 2, 2021 and April 3, 2020, shares issuable under the Convertible Notes due 2024 were excluded from the diluted earnings per share calculation because the conversion price was more than the average market price of the Company's stock during the periods.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three-month fiscal periods ended April 2, 2021 and April 3, 2020
(Unaudited)

16. SHARE-BASED ARRANGEMENTS

The Company accounts for stock options, restricted stock awards ("RSAs"), restricted stock units and performance stock units ("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 Named Executive Officers ("NEOs") will 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 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%.

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 the three-month fiscal periods ended April 2, 2021 and April 3, 2020 was $1.7 million and $1.6 million, respectively. These amounts were included in selling, general and administrative expenses on the Company's Condensed Consolidated Statements of Operations.

Stock option activity was as follows:

	For the Three Months Ended April 2, 2021	
	Options	**Weighted - average exercise price**
Options outstanding at beginning of period	772,625	$ 54.87
Granted	4,990	$ 55.85
Exercised	(11,095)	$ 38.74
Forfeited or expired	—	$ —
Options outstanding at April 2, 2021	766,520	$ 55.11

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:

	For the Three Months Ended	
	April 2, 2021	**April 3, 2020**
Expected option term (years)	4.9	4.9
Expected volatility	35.7 %	20.2 %
Risk-free interest rate	0.5 %	1.4 %
Expected dividend yield	1.6 %	1.3 %
Per share fair value of options granted	$14.89	$10.74

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three-month fiscal periods ended April 2, 2021 and April 3, 2020
(Unaudited)

16. SHARE-BASED ARRANGEMENTS (CONTINUED)

Restricted stock award and restricted stock unit activity were as follows:

	For the Three Months Ended April 2, 2021	
	Restricted Stock	Weighted-average grant date fair value
Restricted Stock outstanding at beginning of period	109,514	$ 53.66
Granted	66,975	$ 55.88
Vested	(26,151)	$ 57.56
Forfeited or expired	—	$ —
Restricted Stock outstanding at April 2, 2021	150,338	$ 53.97

Performance stock unit activity was as follows:

	For the Three Months Ended April 2, 2021	
	Performance Stock	Weighted-average grant date fair value
Performance Stock outstanding at beginning of period	—	$ —
Granted(1)	82,460	$ 70.17
Vested	—	$ —
Forfeited or expired	—	$ —
Performance Stock outstanding at April 2, 2021	82,460	$ 70.17

(1) The PSUs granted in the first quarter of 2021 assumed a 100% achievement level.

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:

	For the Three Months Ended April 2, 2021
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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three-month fiscal periods ended April 2, 2021 and April 3, 2020
(Unaudited)

17. SHAREHOLDERS' EQUITY AND ACCUMULATED OTHER COMPREHENSIVE INCOME

Changes in shareholders' equity for the three-month fiscal periods ended April 2, 2021, and April 3, 2020, were as follows:

	For the Three Months Ended	
In thousands	April 2, 2021	April 3, 2020
Beginning balance	$ 746,438	$ 823,202
Comprehensive income (loss)	24,339	(9,434)
Dividends declared (per share of common stock, $0.20 and $0.20, respectively)	(5,562)	(5,555)
Employee stock plans and related tax benefit	880	1,455
Purchase of treasury shares	(344)	(14,072)
Share-based compensation expense	1,743	1,633
Impact of change in tax accounting standard	(275)	—
Ending balance	$ 767,219	$ 797,229

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

	For the Three Months Ended	
In thousands	April 2, 2021	April 3, 2020
Foreign currency translation and other:		
Beginning balance	$ (717)	$ (16,351)
Net loss on foreign currency translation	(7,322)	(10,826)
Reclassification to net income[(1)]	22,835	—
Other comprehensive income (loss), net of tax	15,513	(10,826)
Ending balance	$ 14,796	$ (27,177)
Pension and other post-retirement benefits[(2)]:		
Beginning balance	$ (130,104)	$ (134,542)
Amortization of net loss, net of tax expense of $250 and $330, respectively	842	1,107
Other comprehensive income, net of tax	842	1,107
Ending balance	$ (129,262)	$ (133,435)
Total accumulated other comprehensive loss	$ (114,466)	$ (160,612)

[(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 3, *Disposals*, for additional information).
[(2)] These accumulated other comprehensive income components are included in the computation of net periodic pension cost. (See Note 13, *Pension Plans* for additional information.)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three-month fiscal periods ended April 2, 2021 and April 3, 2020
(Unaudited)

18. INCOME TAXES

	For the Three Months Ended	
	April 2, 2021	April 3, 2020
Effective Income Tax Rate from continuing operations	2.5 %	52.1 %

The effective income tax rate represents the combined federal, state and foreign tax effects attributable to pretax earnings from continuing operations for the period. The decrease in the effective tax rate from continuing operations for the three-month fiscal period ended April 2, 2021, compared to the corresponding rate in the prior year was primarily caused by a discrete benefit received in the current period related to the sale of the Company's UK Composites business and the positive earnings in the current period versus a loss in the prior period.

A valuation allowance for deferred tax assets, including those associated with net operating loss carryforwards, is recognized when it is more likely than not that some or all of the benefit from the deferred tax asset will not be realized. To assess that likelihood, the Company uses estimates and judgment regarding future taxable income, and considers the tax consequences in the jurisdiction where such taxable income is generated, to determine whether a valuation allowance is required. Such evidence can include current financial position, results of operations, both actual and forecasted, the reversal of deferred tax liabilities, and tax planning strategies, as well as the current and forecasted business economics.

The Company has assessed both positive and negative evidence to estimate whether sufficient future taxable income will be generated to utilize the $35.1 million of deferred tax assets recorded as of April 2, 2021. Through the end of the first quarter of 2021, the Company believes it is more likely than not that only $30.3 million of these deferred tax assets will be realized and, as such, has recorded a valuation allowance of $4.8 million. Going forward, management will continue to assess the available positive and negative evidence to determine whether it is likely sufficient future taxable income will be generated to permit the use of these deferred tax assets. The amount of the deferred tax asset considered realizable could be adjusted if estimates of future taxable income are reduced or increased, or if additional weight is given to subjective evidence such as future expected growth because objective negative evidence in the form of cumulative losses is no longer present.

19. 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 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Discussion and Analysis of Financial Condition and Results of Operations is intended to provide readers of our condensed consolidated financial statements with the perspectives of management. It presents, in narrative and tabular form, information regarding our financial condition, results of operations, liquidity and certain other factors that may affect our future results, and is designed to enable the readers of this report to obtain an understanding of our businesses, strategies, current trends and future prospects. It should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2020 ("2020 Form 10-K") and the Condensed Consolidated Financial Statements included in Item 1 of this Form 10-Q.

OVERVIEW OF BUSINESS

Kaman Corporation (the "Company" or "Kaman") currently conducts business in the aerospace and defense, industrial and medical markets. Kaman produces and markets proprietary aircraft bearings and components; super precision, miniature ball bearings, proprietary spring energized seals, springs and contacts; complex metallic and composite aerostructures for commercial, military and general aviation fixed and rotary wing aircraft; and safe and arming solutions for missile and bomb systems for the U.S. and allied militaries. The Company also manufactures and supports our K-MAX® manned and unmanned medium-to-heavy lift helicopters and restores, modifies and supports our SH-2G Super Seasprite maritime helicopters.

Executive Summary

In the first quarter, consolidated net sales from continuing operations decreased by 17.2% to $171.6 million, primarily due to a reduction in sales on our safe and arms device and commercial business and general aviation programs. Gross margin decreased in the quarter to 30.8% compared to 32.7% in the prior year period. This performance was driven in part by the mix of joint programmable fuze ("JPF") sales in the quarter and lower sales and associated gross profit on our commercial bearings products due to the impacts of COVID-19. Selling, general and administrative expenses ("S,G&A") decreased by 26.2%, driven by the absence of Bal Seal acquisition costs and lower employee-related costs as we realize the benefits of the workforce reductions implemented in the prior year. Operating income in the period benefited from the absence of costs associated with the acquired retention plans incurred in the prior year and lower costs related to the transition services agreement ("TSA"). Bal Seal was able to recover quickly from the interruption to its information technology systems, and, as such, there was no material impact to our first quarter results. GAAP diluted earnings per share of $0.29 in the first quarter was the result of the activity discussed above and higher pension-related income, partially offset by lower income from the TSA.

Other financial highlights

- Earnings from continuing operations was $8.0 million for the three-month fiscal period ended April 2, 2021, compared to a loss from continuing operations of $0.4 million in the comparable fiscal period in the prior year. This change was primarily driven by the absence of Bal Seal acquisition costs and costs associated with the acquired retention plans incurred in the prior year, partially offset by lower sales and gross profit.
- Cash used in operating activities of continuing operations during the three-month fiscal period ended April 2, 2021, was $2.4 million, a $53.0 million improvement to the comparable fiscal period in the prior year. This change was primarily due to the collection of payments on outstanding receivables, more specifically significant receivables under a JPF direct commercial sales ("DCS") contract, and the absence of a $10.0 million pension contribution in the current period, partially offset by approximately $25.1 million in nonrecurring payments to eligible participants of Bal Seal's employee retention plans.
- Total unfulfilled performance obligations ("backlog") decreased 10.9% to $562.4 million compared to total backlog at December 31, 2020, driven by deliveries of direct commercial JPF orders and bearings products, partially offset by new orders of our bearings products.

Recent events

- In April 2021, the K-MAX TITAN™, our new unmanned helicopter, successfully completed its first test flight.
- In April 2021, Ian K. Walsh, President and CEO, was appointed Chairman of the Board of Directors and Jennifer Pollino assumed the role of Lead Independent Director.
- 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 second half of 2021.

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- In February 2021, we completed the sale of our UK Composites business.
- In January 2021, we received a signed purchase agreement for a K-MAX® medium-to-heavy lift helicopter. Delivery of this aircraft was completed in March 2021.
- 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

The impact of the novel coronavirus ("COVID-19") and the precautionary measures instituted by governments and businesses to mitigate the spread, including limiting non-essential gatherings of people, ceasing all non-essential travel, ordering certain businesses and government agencies to cease non-essential operations at physical locations and issuing "shelter-in-place" orders, have contributed to a general slowdown in the global economy and significant volatility in financial markets, including a decrease in our stock price. We are closely monitoring the impact of the COVID-19 pandemic on all aspects of our business and across the geographies in which we operate and serve customers, and we are working to assess the extent to which it has impacted and will continue to impact our customers, suppliers and other business partners.

Impact on our Business

Kaman is operating as an essential business in the United States and in most of the markets in which it operates around the world. Despite efforts to mitigate the risks associated with COVID-19, we expect our operations to continue to be adversely impacted through at least the first half of 2021. Additionally, certain of our customers and suppliers have temporarily shut down operations; however, disruptions to our supply chain have been limited to date and we continue to meet the demands of our customers. While we did not incur significant disruptions related to the COVID-19 pandemic during the first quarter of 2021, we continued to see declines in our commercial aerospace products in the first quarter of 2021 as compared to the corresponding period in 2020 which was minimally impacted by COVID-19. As the pandemic continues, we anticipate further challenges in our commercial aerospace programs through the first half of 2021; however, we expect a meaningful ramp in sales for these products in the second half of the year due to the increase in air traffic and vaccination rates in the United States. We saw recoveries in our medical and industrial end markets during the first quarter and expect improved performance through the remainder of 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. The extent to which COVID-19 may adversely impact the Company depends on future developments, which are highly uncertain and unpredictable at this time.

Steps to Protect our Workforce

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 adhere to the policies and procedures implemented in the prior year to allow our employees to work with confidence knowing that their health and safety is a key priority. All employees who are able to work from home have been encouraged to do so for the foreseeable future to limit contact points and reduce the risk of exposure. For those on-site, we continue to operate in segregated workspaces to maintain physical distancing within our facilities, better trace employee contacts, and limit risk of exposure while in the facility. We have also restricted free flow of employees throughout the factories and prevented non-essential employees and business associates from entering these facilities. In addition, we continue to require daily temperature checks and face masks for all persons entering our facilities. Resources are available to our employees via the Company's benefits website, which include the latest news on COVID-19, steps to prevent illness and resources for mental health.

Our senior management team meets regularly to review the status of our operations, including the health and safety of our employees, and the impact of COVID-19 on our customers, suppliers and communities. Our Board of Directors are updated regularly on the realized and expected impacts of COVID-19 and the Company's response to COVID-19, including steps to protect the workforce and cost-savings initiatives. Additionally, the management team has benchmarked our efforts with peer companies to adopt best practices, improve our processes and share challenges that we are facing as we manage through the crisis.

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.

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RESULTS OF OPERATIONS

Net Sales from Continuing Operations

	For the Three Months Ended	
	April 2, 2021	April 3, 2020
	(in thousands)	
Organic sales	$ 169,912	$ 198,836
Sales of disposed businesses that did not qualify for discontinued operations	1,704	8,486
Net sales	$ 171,616	$ 207,322
$ change	(35,706)	40,888
% change	(17.2)%	24.6 %

Net sales decreased for the three-month fiscal period ended April 2, 2021, as compared to the corresponding period in 2020, due to a 14.5% decrease in organic sales and $6.8 million in lower sales due to the sale of our UK Composites business. The decrease in organic sales was primarily driven by $16.4 million in lower sales under our safe and arm devices programs, a $12.5 million decrease in sales on our commercial business and general aviation programs and a $1.2 million decrease in sales on our defense programs, excluding safe and arm devices. These decreases were partially offset by a $1.5 million increase in sales in industrial and other commercial programs. Sales under our medical programs remained relatively flat when compared to the corresponding period in 2020. Foreign currency exchange rates relative to the U.S. dollar had a favorable impact of $1.7 million on net sales for the three-month fiscal period ended April 2, 2021.

The decrease in sales on our safe and arm device programs was attributable to lower direct commercial sales of our JPF to foreign militaries, partially offset by higher sales under our JPF program with the USG and an increase in sales on our ATACMS fuzing contract.

The decrease in sales under our commercial business and general aviation programs was primarily attributable to 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 decrease in sales under certain structures programs. These decreases, totaling $19.1 million, were partially offset by a K-MAX® aircraft delivery in the current period.

The decrease in sales under our defense programs, excluding safe and arm devices was primarily due to lower sales under the AH-1Z program, the Sikorsky BLACK HAWK helicopter program and a certain structures program. These decreases, totaling $4.8 million, were partially offset by higher sales on the A-10 program.

The increase in sales under our industrial and other commercial programs was primarily attributable to $1.3 million in higher sales volume of our bearings products.

Gross Profit from Continuing Operations

	For the Three Months Ended	
	April 2, 2021	April 3, 2020
	(in thousands)	
Gross profit	$ 52,905	$ 67,702
$ change	(14,797)	13,181
% change	(21.9)%	24.2 %
% of net sales	30.8 %	32.7 %

Gross profit decreased for the three-month fiscal period ended April 2, 2021, as compared to the corresponding period in 2020. This decrease was primarily attributable to lower direct commercial sales of our JPF to foreign militaries and lower sales and associated gross profit on our commercial bearings products. These decreases, totaling $17.4 million, were partially offset by higher sales and associated gross profit under our JPF program with the USG.

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

	For the Three Months Ended	
	April 2, 2021	April 3, 2020
	(in thousands)	
S,G&A	$ 44,991	$ 60,989
$ change	(15,998)	19,038
% change	(26.2)%	45.4 %
% of net sales	26.2 %	29.4 %

S,G&A decreased for the three-month fiscal period ended April 2, 2021, when compared to the corresponding period in 2020. This was primarily attributable to the absence of $8.5 million in Bal Seal acquisition costs and $1.8 million in third party costs associated with our efforts to reduce general and administrative expenses in the prior year, lower employee-related costs due to the cost reductions efforts implemented in the prior year, and a decrease in travel expenses and trade show costs due to restrictions imposed to limit the spread of COVID-19.

Costs from Transition Service Agreement

	For the Three Months Ended	
	April 2, 2021	April 3, 2020
	(in thousands)	
Costs from transition services agreement	$ 705	$ 4,140

Upon closing the sale of our former Distribution business, the Company entered into a 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 information technology services. The buyer has the right to terminate individual services at any point over the renewal term and began to terminate certain services in 2020. Substantially all services were completed as of the end of the first quarter of 2021; however, the TSA is expected to be fully completed by the third quarter of 2021. We incurred $0.7 million and $4.1 million in costs associated with the TSA in the three-month fiscal periods ended April 2, 2021 and April 3, 2020, respectively. These costs were partially offset by $0.5 million and $3.0 million in income earned from the TSA in the three-month fiscal periods ended April 2, 2021 and April 3, 2020, respectively, included in income from transition services agreement, which is below operating income on the Company's Condensed Consolidated Statement of Operations.

Cost of Acquired Retention Plans

	For the Three Months Ended	
	April 2, 2021	April 3, 2020
	(in thousands)	
Costs of acquired retention plans	$ —	$ 5,703

Bal Seal's previous owner implemented employee retention plans prior to our acquisition in the first quarter of 2020. Upon closing, we funded $24.7 million of the purchase price into escrow accounts associated with these employee retention plans. As of the date of acquisition, Bal Seal had $1.9 million in costs accrued for these employee retention plans, and the remaining $22.8 million in compensation expense associated with these retention plans was incurred ratably throughout the year ended December 31, 2020. 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 is reflected in the Company's cash flows from operating activities for the three-month fiscal period ended April 2, 2021.

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Restructuring and Severance Costs

	For the Three Months Ended	
	April 2, 2021	April 3, 2020
	(in thousands)	
Restructuring and severance costs	$ 1,352	$ 1,795

The Company continues to evaluate its costs with the objective of a lean organizational structure that provides a scalable infrastructure which facilitates future growth opportunities. In the three-month fiscal period ended April 2, 2021, the Company incurred $1.4 million in severance costs associated with these cost reduction efforts. These actions are expected to contribute total annualized cost savings of approximately $3.7 million, which were factored in the Company's 2021 outlook.

Following the sale of our former distribution business, we announced that we would undertake a comprehensive review of our general and administrative functions in order to improve operational efficiency and to align our costs with our revenues. We identified information technology functions to be outsourced, workforce reductions and other reductions in certain general and administrative expenses which were completed in 2020 to support the cost savings initiative. These actions resulted in $1.3 million in severance costs in the three-month fiscal period ended April 3, 2020. Actions taken since the announcement of the cost savings initiative through 2020 are expected to contribute total annualized cost savings of approximately $18.2 million.

In addition to the severance costs associated with the cost savings initiative discussed above, we incurred $0.5 million in severance costs as we integrated the acquisition of Bal Seal in the year ended December 31, 2020.

Loss (Gain) on Sale of Business

	For the Three Months Ended	
	April 2, 2021	April 3, 2020
	(in thousands)	
Loss (gain) on sale of business	$ 234	$ (493)

In 2020, we received approval from our Board of Directors to sell our UK Composites business. In the fourth quarter of 2020, we accrued a loss of $36.3 million on the anticipated sale. In the first quarter of 2021, we closed on a transaction to sell the UK Composites business. We recorded an additional loss of $0.2 million in the three-month fiscal period ended April 2, 2021 associated with the sale.

During 2018, we sold our UK Tooling business to better position the Company for increased profitability. In 2019, we incurred a loss of $3.7 million associated with the write-off of note receivables recorded 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 three-month fiscal period ended April 3, 2020, we collected $0.5 million of the note receivables written off in 2019.

Operating Income (Loss)

	For the Three Months Ended	
	April 2, 2021	April 3, 2020
	(in thousands)	
Operating income (loss)	$ 5,613	$ (4,422)
$ change	10,035	(16,791)
% change	226.9 %	(135.8)%
% of net sales	3.3 %	(2.1)%

The Company had operating income of $5.6 million for the three-month fiscal period ended April 2, 2021, compared to an operating loss of $4.4 million in the comparable period in 2020. The change in operating income was primarily driven by lower costs related to

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the TSA, the absence of Bal Seal acquisition costs and the costs associated with the acquired retention plans incurred in the prior year and lower employee-related costs due to the cost reduction efforts implemented in the prior year. These changes were partially offset by lower sales and gross profit, as discussed above.

Interest Expense, Net

	For the Three Months Ended	
	April 2, 2021	**April 3, 2020**
	(in thousands)	
Interest expense, net	$ 4,251	$ 3,247

Interest expense, net, generally consists of interest charged on our Credit Agreement, which includes a revolving credit facility, our convertible notes and the amortization of debt issuance costs, offset by interest income. Interest expense, net increased for the three-month fiscal period ended April 2, 2021. This increase was primarily attributable to an increase in interest expense associated with our deferred compensation plan and lower interest income, partially offset by lower average borrowings.

Effective Income Tax Rate from Continuing Operations

	For the Three Months Ended	
	April 2, 2021	**April 3, 2020**
Effective income tax rate from continuing operations	2.5 %	52.1 %

The effective income tax rate represents the combined federal, state and foreign tax effects attributable to pretax earnings from continuing operations for the period. The decrease in the effective tax rate from continuing operations for the three-month fiscal period ended April 2, 2021, compared to the corresponding rate in the prior year was primarily caused by a discrete benefit received in the current period related to the sale of our UK Composites business and the positive earnings in the current period versus a loss in the prior period. See Note 18, *Income Taxes*, for further information on the Company's valuation allowance for deferred tax assets.

Backlog

	April 2, 2021	**December 31, 2020**
	(in thousands)	
Backlog	$ 562,407	$ 631,236

Backlog decreased during the first three months of 2021. The decrease was primarily attributable to revenue recognized for deliveries of direct commercial JPF orders, bearings and medical products and work performed on our structures and legacy fuzing programs. These decreases were partially offset by orders of our bearings and medical products.

Major Programs/Product Lines

Below is a discussion of significant changes in our major programs during the first three months of 2021. See our 2020 Form 10-K for a complete discussion of our major programs.

<u>FMU-152 A/B – JPF</u>

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 USAF, Foreign Military Sales ("FMS") through the USG and DCS to foreign militaries that, although not funded by the USG, require regulatory approvals from the USG.

A total of 8,090 fuzes were delivered to our customers during the first quarter of 2021. We expect to deliver 30,000 to 35,000 fuzes in 2021.

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Total JPF backlog at April 2, 2021 was $184.5 million, all of which has received required export approvals, licenses or authorizations from the USG allowing for the sale of these products outside of the United States. The receipt of future export approvals, licenses, or authorizations are subject to political and geopolitical conditions which could impact the timing and/or our ability to sell these products outside of the United States. Given the change in Administration, there can be no assurance that backlog with appropriate approvals will be recognized due to potential future policies to cease shipments to certain countries. As the Administration has indicated its desire to review the sale of defense products to two Middle Eastern countries, this has led to uncertainty on the timing of delivery of fuzes for one of our key customers. The outcome of the review remains uncertain; therefore, we elected to exclude the previously anticipated order from our outlook for 2021. Total JPF backlog at December 31, 2020 was $214.7 million.

JPF - USG

Revenue for JPF USG programs is recognized over time when costs are incurred as work progresses on the program. The Company currently provides the FMU-152 A/B to the USAF, but the U.S. Navy currently utilizes a different fuze - the FMU-139. In 2015, NAVAIR solicited proposals for a firm fixed price production contract to implement improvements to the performance characteristics of the FMU-139 (such improved fuze having been designated the FMU-139 D/B), and, the USAF had stated that, if and when a contract is awarded and production begins, the funds associated with the FMU-152 A/B will be redirected to the FMU-139 D/B. During the third quarter of 2015, the U.S. Navy announced that a competitor was awarded the contract for the FMU-139 D/B. In the event the FMU-139 D/B program proceeds as planned and the USAF redirects the funds associated with the FMU-152 A/B to the FMU-139 D/B, our business, financial condition, results of operations and cash flows may be materially adversely impacted. During the third quarter of 2019, our competitor announced that it received its first production order from the U.S. Navy to manufacture the FMU-139 D/B. Due to the complexity of this program and the pending status of the USAF's final decision to redirect funds to the FMU-139 D/B, the timing and magnitude of the impact on the Company's financial statements are not certain; however, the Company continues to see demand for the FMU-152 A/B. During the third quarter of 2020, we completed our pricing negotiations for Options 15 and 16 with the USG and we received an order under Option 15 with an expected value of approximately $57.3 million for the procurement of fuzes for 25 foreign militaries. In the first quarter of 2021, we began to satisfy the requirements under Option 15. We expect future orders under Option 16 to extend FMU-152 A/B deliveries into 2023.

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 programs, acquisitions, divestitures, dividends, availability of future credit, share repurchase programs, 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 our 2020 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 April 2, 2021, the Company had $120.7 million of cash on our Condensed 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 the daily 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 the Company has 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 the Company.

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

	For the Three Months Ended		
	April 2, 2021	April 3, 2020	2021 vs. 2020
	(in thousands)		
Total cash provided by (used in):			
Operating activities	$ (2,415)	$ (55,442)	$ 53,027
Investing activities	(8,100)	(303,780)	295,680
Financing activities	(4,684)	182,878	(187,562)
Free Cash Flow [(a)]			
Net cash used in operating activities	$ (2,415)	$ (55,442)	$ 53,027
Expenditures for property, plant and equipment	(4,678)	(5,559)	881
Free cash flow	$ (7,093)	$ (61,001)	$ 53,908

[(a)] Free Cash Flow, a non-GAAP financial measure, is defined as net cash (used in) provided by operating activities less expenditures for property, plant and equipment, both of which are presented in our Condensed Consolidated Statements of Cash Flows. See Management's Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP Financial Measures for more information regarding Free Cash Flow.

Net cash used in operating activities was $2.4 million for the three-month fiscal period ended April 2, 2021, a $53.0 million improvement to cash used in the comparable period in 2020. This change was largely driven by the collection of payments on outstanding receivables, more specifically the receipt of approximately $53.0 million in payments on JPF DCS receivables, the absence of a $10.0 million pension contribution and lower material receipts on the K-MAX® program in the current period. These changes were partially offset by approximately $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 $8.1 million for the three-month fiscal period ended April 2, 2021, $295.7 million less than cash used in the comparable period in 2020. This change was primarily attributable to cash used to acquire Bal Seal in the prior year.

Net cash used in financing activities was $4.7 million for the three-month fiscal period ended April 2, 2021, compared to net cash provided by financing activities of $182.9 million in the comparable period in 2020. This change was primarily due to higher net borrowings under our revolving credit facility in the prior year in preparation for the potential impact of the COVID-19 pandemic, partially offset by lower purchases of treasury shares in the current period.

We anticipate a variety of items will have an impact on our liquidity during the next twelve months, in addition to the impacts of the COVID-19 pandemic and our working capital requirements. These could include one or more of the following:

- the matters described in Note 14, *Commitments and Contingencies*, in the Notes to Consolidated Financial Statements, including the cost of existing environmental remediation matters;
- contributions to our qualified pension plan and Supplemental Employees' Retirement Plan ("SERP");
- deferred compensation payments to officers;
- interest payments on outstanding debt;
- income tax payments;
- costs associated with acquisitions and corporate development activities;
- finance and operating lease payments;
- capital expenditures;
- research and development expenditures;
- repurchase of common stock under the 2015 Share Repurchase Program;
- payment of dividends;
- costs associated with the start-up of new programs; and
- the timing of payments and the extension of payment terms by our customers.

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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 future cash requirements; however, we may decide to borrow additional funds or raise additional 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 advantageous 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 the 2020 Form 10-K for further information on our Financing Arrangements.

Convertible 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, dated May 12, 2017, between the Company and U.S. Bank National Association, as trustee (as amended by the First Supplemental Indenture thereto, dated July 15, 2019, the "Indenture"). 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 our election.

The sale of our former 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 approximately 0.25% of all outstanding notes. Holders of such notes received the repurchase price equal to 100% of the principal amount of the 2024 Notes being purchase, plus accrued and unpaid interest.

We 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 three-month fiscal periods ended April 2, 2021 and April 3, 2020 was $0.2 million in both periods.

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 matures on December 13, 2024 and consists of revolving commitments of $800.0 million. Capitalized terms used but not defined within this discussion of the Credit Agreement have the meanings ascribed thereto in the Credit Agreement, which with amendments is included as Exhibit 10.39 to our 2020 Form 10-K.

We incurred $3.6 million of debt issuance costs in connection with the amendment and restatement of the Credit Agreement. Total amortization expense for three-month fiscal periods ended April 2, 2021 and April 3, 2020 was $0.2 million in both periods.

Interest rates on amounts outstanding under the Credit Agreement are variable based on LIBOR. The LIBOR benchmark has been the subject of national, international, and other regulatory guidance and proposals for reform. In July 2017, the U.K. Financial Conduct Authority announced that it intends to stop persuading or compelling banks to submit rates for calculation of LIBOR after 2021. In November 2020, the ICE Benchmark Association announced its intention to delay the timeline for the retirement of LIBOR until mid-2023. These reforms may cause LIBOR to perform differently than in the past, and LIBOR may ultimately cease to exist after 2021. Alternative benchmark rate(s) may replace LIBOR and could affect the Company's debt securities, derivative instruments, receivables, debt payments and receipts. At this time, it is not possible to predict the effect of any changes to LIBOR, any 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.

No amounts were outstanding under the revolving credit facility in the first quarter of 2021; therefore, the interest rate for the period was 0%. 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 during the three-month period ended April 2, 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:

		April 2, 2021		December 31, 2020
In thousands				
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)]		152,475		165,373
Amounts available for borrowing	$	647,525	$	634,627
Amounts available for borrowing subject to EBITDA, as defined by the Credit Agreement[(3)]	$	346,880	$	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, $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

Advance Payments

In 2018, we received $97.2 million in advance payments, which relate to $146.2 million in letters of a credit 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 obligations, our customer has the ability to draw on the letters of credit.

Pension Plans

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

We contributed $10.0 million to the qualified pension plan subsequent to the end of the first quarter and $0.1 million to the SERP through the end of the first quarter of 2021. No further contributions are expected to be made to the qualified pension plan during 2021. We plan to contribute an additional $2.6 million to the SERP in 2021. For the 2020 plan year, we contributed $10.0 million to the qualified pension plan and $0.5 million to the SERP.

Effective December 31, 2015, our qualified pension plan was frozen with respect to future benefit accruals. Under USG Cost Accounting Standard ("CAS") 413, we must calculate the USG's share of any pension curtailment adjustment calculated 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 calculation, which was submitted to the USG for review in December 2016. We have maintained our accrual at $0.3 million as of April 2, 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.

Share-based Arrangements

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") will 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 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 April 2, 2021, future compensation costs related to non-vested stock options, restricted stock grants and performance stock grants is $12.9 million. The Company anticipates that this cost will be recognized over a weighted-average period of 2.7 years.

NON-GAAP FINANCIAL MEASURES

Management believes the non-GAAP (Generally Accepted Accounting Principles) measures used in this report 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 from continuing operations (in thousands)

	For the Three Months Ended	
	April 2, 2021	**April 3, 2020**
Net sales	$ 171,616	$ 207,322
Acquisition sales	—	—
Sales of disposed businesses that did not qualify for discontinued operations	1,704	8,486
Organic Sales	$ 169,912	$ 198,836

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.

CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS

There have been no material changes outside the ordinary course of business in our contractual obligations or off-balance sheet arrangements during the first three months of 2021. See our 2020 Form 10-K for a discussion of our contractual obligations and off-balance sheet arrangements.

CRITICAL ACCOUNTING ESTIMATES

Preparation of the Company's financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management believes the most complex and sensitive judgments, because of their significance to the Consolidated Financial Statements, result primarily from the need to make estimates about the effects of matters that are inherently uncertain. Management's Discussion and Analysis and the Notes to Consolidated Financial Statements in the Company's 2020 Form 10-K describe the critical accounting estimates and significant accounting policies used in preparing the Consolidated Financial Statements. Actual results in these areas could differ from management's estimates.

RECENT ACCOUNTING STANDARDS

Information regarding recent changes in accounting standards is included in Note 2, *Recent Accounting Standards*, of the Notes to Condensed Consolidated Financial Statements in this report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no significant changes in the Company's exposure to market risk during the first three months of 2021. See the Company's 2020 Form 10-K for a discussion of the Company's exposure to market risk.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We have carried out an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Act of 1934, as amended, as of April 2, 2021. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of April 2, 2021, our disclosure controls and procedures were effective.

Internal Controls over Financial Reporting

There was no change to our internal control over financial reporting that occurred during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to affect, our internal control over financial reporting.

PART II

Item 1. 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 for losses related to those matters that we consider to be probable and that can be reasonably estimated. Gain contingencies, if any, are recognized when they are realized and legal costs generally are 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 April 2, 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.

As of April 2, 2021, neither the Company nor any of its subsidiaries was a party, nor was 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 14, *Commitments and Contingencies*, of the Notes to Condensed Consolidated Financial Statements.

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 April 2, 2021, will not have a material adverse effect on our business, financial condition and results of operations or cash flows.

Item 1A. Risk Factors

Investors should carefully review and consider the information regarding certain factors that could materially affect our business, results of operations, financial condition and cash flows as set forth under Item 1A. "Risk Factors" in our 2020 Form 10-K. We do not believe there have been any material changes to the risk factors previously disclosed in our 2020 Form 10-K, but we may disclose changes to such factors or disclose additional factors from time to time in future filings with the SEC. Additional risks and uncertainties not presently known to us or that we currently believe not to be material may also adversely impact our business, results of operations, financial position and cash flows.

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) risks related to Kaman's performance of its obligations under the transition services agreement entered into in connection with the sale of our former Distribution business and UK Composites business and disruption of management time from ongoing business operations relating thereto; (ii) changes in domestic and foreign economic and competitive conditions in markets served by the Company, particularly the defense, commercial aviation and industrial production markets; (iii) 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, including the elimination of Overseas Contingency Operations funding, or automatic sequestration); (iv) the global economic impact of the COVID-19 pandemic; (v) changes in geopolitical conditions in countries where the Company does or intends to do business; (vi) 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; (vii) the timely receipt of any necessary export approvals and/or other licenses or authorizations from the USG; (viii) timely satisfaction or fulfillment of material contractual conditions precedents in customer purchase orders, contracts, or similar arrangements; (ix) the existence of standard government contract provisions permitting renegotiation of terms and termination for the convenience of the government; (x) the successful resolution of government inquiries or investigations relating to our businesses and programs; (xi) 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; (xii) potential difficulties associated with variable acceptance test results, given sensitive production materials and extreme test parameters; (xiii) 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; (xiv) 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; (xv) the accuracy of current cost estimates associated with environmental remediation activities; (xvi) the profitable integration of acquired businesses into the Company's operations; (xvii) the ability to recover from cyber-based or other security attacks, information technology failures or other disruptions, including the December 2020 Bal Seal incident; (xviii) changes in supplier sales or vendor incentive policies; (xix) the ability of our suppliers to satisfy their performance obligations; (xx) the effects of price increases or decreases; (xxi) 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; (xxii) future levels of indebtedness and capital expenditures; (xxiii) the continued availability of raw materials and other commodities in adequate supplies and the effect of increased costs for such items; (xxiv) the effects of currency exchange rates and foreign competition on future operations; (xxv) changes in laws and regulations, taxes, interest rates, inflation rates and general business conditions; (xxvi) future repurchases and/or issuances of common stock; (xxvii) the occurrence of unanticipated restructuring costs or the failure to realize anticipated savings or benefits from past or future expense reduction actions; (xxviii) the ability to recruit and retain skilled employees; and (xxix) other risks and uncertainties set forth herein and in our 2020 Form 10-K.

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 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information about purchases of common stock by the Company during the three-month fiscal period ended April 2, 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 (b)	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plan *(in thousands)*
January 1, 2021 - January 29, 2021	—	$ —	—	$2,168
January 30, 2021 - February 26, 2021	—	$ —	—	$2,168
February 27, 2021 - April 2, 2021	6,792	$ 50.72	—	$2,168
Total	6,792		—	

(a) During the first quarter of 2021 the Company purchased 6,792 shares in connection with employee tax withholding obligations as permitted by our equity compensation plans, which are SEC Rule 16b-3 qualified compensation plans. These were not purchases under our publicly announced program.

(b) On April 29, 2015, the Company announced that its Board of Directors approved a $100.0 million share repurchase program. For additional information, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources -- Other Sources/Uses of Capital" in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

Item 6. Index To Exhibits

10.1	Form of Restricted Share Agreement under the Kaman Corporation Amended and Restated 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
10.2	Form of Performance Stock Unit Award Agreement under the Kaman Corporation Amended and Restated 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
10.3	Amendment No. 4 to the Executive Employment Agreement between the Company and Neal J. Keating (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
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14 under the Securities Exchange Act of 1934	Filed Herewith
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14 under the Securities Exchange Act of 1934	Filed Herewith
32.1	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	Filed Herewith
32.2	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	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	
101.SCH	Inline XBRL Taxonomy Extension Schema Document	
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document	
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document	
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document	
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document	
104	Cover Page Interactive Data File, formatted in iXBRL and contained in Exhibit 101	

* Management contract or compensatory plan.

SIGNATURES

Kaman Corporation and Subsidiaries

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

KAMAN CORPORATION
Registrant

Date: May 4, 2021

By: */s/ Ian K. Walsh*
Ian K. Walsh
Chairman, President and
Chief Executive Officer

Date: May 4, 2021

By: */s/ Robert D. Starr*
Robert D. Starr
Executive Vice President and
Chief Financial Officer

UCC-128

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

FORM 10-Q

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

For the quarterly period ended July 2, 2021

Or

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

For the transition period from _____ to ______

Commission File Number: 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)

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

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock ($1 par value)	KAMN	New York Stock Exchange LLC

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 check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§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, smaller reporting company, or an emerging growth company. See the 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 is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

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At July 30, 2021, there were 27,836,726 shares of Common Stock outstanding.

PART I

Item 1. Financial Statements

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

	July 2, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 98,362	$ 104,377
Restricted cash	—	25,121
Accounts receivable, net	99,361	153,806
Contract assets	114,552	108,645
Contract costs, current portion	3,841	3,511
Inventories	196,133	185,072
Income tax refunds receivable	3,783	5,269
Other current assets	13,194	12,173
Total current assets	529,226	597,974
Property, plant and equipment, net of accumulated depreciation of $240,970 and $228,984, respectively	204,659	210,852
Operating right-of-use assets, net	12,075	12,880
Goodwill	244,480	247,244
Other intangible assets, net	144,204	150,198
Deferred income taxes	36,144	39,809
Contract costs, noncurrent portion	8,332	8,311
Other assets	37,545	39,125
Total assets	$ 1,216,665	$ 1,306,393
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable – trade	$ 36,543	$ 60,200
Accrued salaries and wages	37,782	70,552
Contract liabilities, current portion	17,268	39,073
Operating lease liabilities, current portion	4,005	4,305
Income taxes payable	1,555	19
Liabilities held for sale, current portion	—	18,086
Other current liabilities	35,183	36,177
Total current liabilities	132,336	228,412
Long-term debt, excluding current portion, net of debt issuance costs	187,358	185,401
Deferred income taxes	7,293	7,381
Underfunded pension	44,754	69,610
Contract liabilities, noncurrent portion	14,324	11,019
Operating lease liabilities, noncurrent portion	8,681	9,325
Liabilities held for sale, noncurrent portion	—	1,171
Other long-term liabilities	42,707	47,636
Commitments and contingencies (Note 14)		
Shareholders' equity:		
Preferred stock, $1 par value, 200,000 shares authorized; none outstanding	—	—
Common stock, $1 par value, 50,000,000 shares authorized; voting; 30,400,125 and 30,278,668 shares issued, respectively	30,400	30,279
Additional paid-in capital	244,546	238,829
Retained earnings	737,203	728,764
Accumulated other comprehensive income (loss)	(111,848)	(130,821)
Less 2,567,430 and 2,555,785 shares of common stock, respectively, held in treasury, at cost	(121,089)	(120,613)
Total shareholders' equity	779,212	746,438
Total liabilities and shareholders' equity	$ 1,216,665	$ 1,306,393

See accompanying notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
KAMAN CORPORATION AND SUBSIDIARIES
(In thousands, except per share amounts) (Unaudited)

	For the Three Months Ended		For the Six Months Ended	
	July 2, 2021	July 3, 2020	July 2, 2021	July 3, 2020
Net sales	$ 182,394	$ 177,890	$ 354,010	$ 385,212
Cost of sales	120,448	121,222	239,159	260,842
Gross profit	61,946	56,668	114,851	124,370
Selling, general and administrative expenses	38,719	38,396	76,847	91,724
Research and development costs	3,238	2,847	7,464	7,702
Intangible asset amortization expense	2,637	3,637	5,274	6,443
Costs from transition services agreement	999	4,373	1,704	8,513
Cost of acquired retention plans	—	5,704	—	11,407
Restructuring and severance costs	1,516	4,484	2,868	6,279
Loss (gain) on sale of business	—	—	234	(493)
Net loss (gain) on sale of assets	5	(3)	15	(13)
Operating income (loss)	14,832	(2,770)	20,445	(7,192)
Interest expense, net	4,335	5,808	8,586	9,055
Non-service pension and post retirement benefit income	(6,577)	(4,062)	(13,220)	(8,125)
Income from transition services agreement	(442)	(3,050)	(917)	(6,024)
Other expense (income), net	158	(108)	447	110
Earnings (loss) from continuing operations before income taxes	17,358	(1,358)	25,549	(2,208)
Income tax expense (benefit)	5,502	(1,258)	5,709	(1,701)
Earnings (loss) from continuing operations	11,856	(100)	19,840	(507)
Earnings from discontinued operations before gain on disposal, net of tax	—	—	—	—
Gain on disposal of discontinued operations, net of tax	—	—	—	692
Total earnings from discontinued operations	—	—	—	692
Net earnings (loss)	$ 11,856	$ (100)	$ 19,840	$ 185
Earnings per share:				
Basic earnings (loss) per share from continuing operations	$ 0.43	$ 0.00	$ 0.71	$ (0.02)
Basic earnings per share from discontinued operations	0.00	0.00	0.00	0.03
Basic earnings per share	$ 0.43	$ 0.00	$ 0.71	$ 0.01
Diluted earnings (loss) per share from continuing operations	$ 0.42	$ 0.00	$ 0.71	$ (0.02)
Diluted earnings per share from discontinued operations	0.00	0.00	0.00	0.03
Diluted earnings per share	$ 0.42	$ 0.00	$ 0.71	$ 0.01
Average shares outstanding:				
Basic	27,867	27,659	27,841	27,734
Diluted	27,913	27,659	27,890	27,734

See accompanying notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
KAMAN CORPORATION AND SUBSIDIARIES
(In thousands) (Unaudited)

	For the Three Months Ended		For the Six Months Ended	
	July 2, 2021	July 3, 2020	July 2, 2021	July 3, 2020
Net earnings (loss)	$ 11,856	$ (100)	$ 19,840	$ 185
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments and other	1,719	8,295	17,232	(2,531)
Change in pension and post-retirement benefit plan liabilities, net of tax expense of $266 and $330 and $516 and $660, respectively	899	1,107	1,741	2,214
Other comprehensive income (loss)	2,618	9,402	18,973	(317)
Comprehensive income (loss)	$ 14,474	$ 9,302	$ 38,813	$ (132)

See accompanying notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
KAMAN CORPORATION AND SUBSIDIARIES
(In thousands) (Unaudited)

	For the Six Months Ended	
	July 2, 2021	July 3, 2020
Cash flows from operating activities:		
Net earnings	$ 19,840	$ 185
Less: Total earnings from discontinued operations	—	692
Earnings (loss) from continuing operations	$ 19,840	$ (507)
Adjustments to reconcile net earnings from continuing operations to net cash (used in) provided by operating activities of continuing operations:		
Depreciation and amortization	18,391	19,814
Amortization of debt issuance costs	882	907
Accretion of convertible notes discount	1,484	1,412
Provision for doubtful accounts	290	314
Loss (gain) on sale of business	234	(493)
Net loss (gain) on sale of assets	15	(13)
Net loss on derivative instruments	566	404
Stock compensation expense	4,225	3,590
Deferred income taxes	2,957	4,124
Changes in assets and liabilities, excluding effects of acquisitions/divestitures:		
Accounts receivable	53,232	(11,368)
Contract assets	(4,637)	(9,158)
Contract costs	(349)	(842)
Inventories	(12,205)	(38,029)
Income tax refunds receivable	1,485	(3,382)
Operating right of use assets	781	1,974
Other assets	1,319	135
Accounts payable - trade	(24,068)	(13,872)
Contract liabilities	(18,588)	(11,002)
Operating lease liabilities	(919)	(1,916)
Acquired retention plan payments	(25,108)	—
Other current liabilities	(9,470)	528
Income taxes payable	1,532	(2,658)
Pension liabilities	(22,837)	(15,775)
Other long-term liabilities	(3,775)	(3,587)
Net cash used in operating activities of continuing operations	(14,723)	(79,400)
Cash flows from investing activities:		
Proceeds from sale of discontinued operations	—	5,223
Proceeds from sale of business, net of cash on hand	(3,428)	493
Expenditures for property, plant & equipment	(8,102)	(9,592)
Acquisition of businesses, net of cash acquired	—	(304,661)
Other, net	(671)	(366)
Net cash used in investing activities of continuing operations	(12,201)	(308,903)
Cash flows from financing activities:		
Net borrowings under revolving credit agreements	—	201,100
Purchase of treasury shares	(390)	(14,168)
Dividends paid	(11,106)	(11,144)
Other, net	876	1,399
Net cash (used in) provided by financing activities of continuing operations	(10,620)	177,187
Net decrease in cash and cash equivalents	(37,544)	(211,116)
Effect of exchange rate changes on cash and cash equivalents	(183)	314
Cash and cash equivalents and restricted cash at beginning of period (See Note 3)	136,089	471,540
Cash and cash equivalents and restricted cash at end of period	$ 98,362	$ 260,738

See accompanying notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the three-month and six-month fiscal periods ended July 2, 2021 and July 3, 2020
(Unaudited)

1. BASIS OF PRESENTATION

During the third quarter of 2019, Kaman Corporation ("the Company") completed the sale of its Distribution business for total cash consideration of approximately $700.0 million, excluding certain working capital adjustments which were finalized in the first quarter of 2020 and transaction costs. The finalization of the gain on the sale of the Distribution business was recorded to gain on disposal of discontinued operations, net of tax on the Company's Condensed Consolidated Statements of Operations in the six-month fiscal period ended July 3, 2020. See Note 3, *Disposals*, to the Condensed Consolidated Financial Statements for further information.

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 Accounting Standards Codification 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, the assets of the UK Composites business were written off and the remaining loss related to the anticipated sale of the disposal group was accrued for in liabilities held for sale, current portion on the Company's Consolidated Balance Sheets. 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. On February 2, 2021, the Company sold its UK Composites business. See Note 3, *Discontinued Operations and Liabilities Held for Sale*, in the Company's Annual Report on Form 10-K for the year ended December 31, 2020 ("2020 Form 10-K") for additional information.

In the opinion of management, the condensed consolidated financial information reflects all adjustments necessary for a fair statement of the Company's financial position, results of operations and cash flows for the interim periods presented, but do not include all disclosures required by accounting principles generally accepted in the United States of America ("GAAP"). All such adjustments are of a normal recurring nature, unless otherwise disclosed in this report. Certain amounts in prior year financial statements and notes thereto have been reclassified to conform to current year presentation. The statements should be read in conjunction with the consolidated financial statements and notes included in the Company's 2020 Form 10-K.

The Company has a calendar year-end; however, its first three fiscal quarters follow a 13-week convention, with each quarter ending on a Friday. The second quarters for 2021 and 2020 ended on July 2, 2021, and July 3, 2020, respectively.

2. 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 reduction to retained earnings of $0.3 million.

2. RECENT ACCOUNTING STANDARDS (CONTINUED)

Recent Accounting Standards Yet to be Adopted

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.

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. 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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three-month and six-month fiscal periods ended July 2, 2021 and July 3, 2020
(Unaudited)

3. 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. 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 significant 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 at December 31, 2020. 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 such, the assets of the UK Composites business were written off and 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.

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		
Proceeds received from the sale of the UK Composites business	$	3,600
Assets, including cash on hand		23,460
Liabilities		6,618
Net book value of business		16,842
UK cumulative foreign currency translation adjustment balance		22,835
Transaction costs		442
Loss on the sale of the UK Composites business	$	36,519

Of this amount, a loss of $36.3 million was recorded in the year ended December 31, 2020 and a loss of $0.2 million was recorded in the six-month fiscal period ended July 2, 2021.

Cash and cash equivalents and restricted cash at the beginning of the period on the Company's Condensed Consolidated Statement of Cash Flows for the six-month fiscal period ended July 2, 2021 includes $6.6 million of cash that was included in the UK Composites business disposal group. Given the assets of the disposal group were recognized net of the impairment recorded in the year ended December 31, 2020, such amounts were not reflected on the Company's Condensed 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 approximately $700.0 million, excluding certain working capital adjustments which were finalized in the first quarter of 2020. 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 business met the criteria set forth in ASC 205-20 for discontinued operations.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three-month and six-month fiscal periods ended July 2, 2021 and July 3, 2020
(Unaudited)

3. DISPOSALS (CONTINUED)

Distribution Business - continued

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 ("IT"), 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 has the right to terminate individual services at any point over the renewal term and began to terminate certain services in 2020. Substantially all services were completed as of the end of the first quarter of 2021 and the Company expects the TSA to be fully completed in the third quarter of 2021. Since the sale of the Distribution business, costs associated with the TSA were $18.9 million through July 2, 2021. The Company incurred $1.0 million and $1.7 million in costs associated with the TSA in the three-month and six-month fiscal periods ended July 2, 2021. In addition, the Company incurred $4.4 million and $8.5 million in costs associated with the TSA in the three-month and six-month fiscal periods ended July 3, 2020. These amounts were included in costs from transition services agreement on the Company's Condensed Consolidated Statements of Operations. Since the sale of the Distribution business, the Company earned $13.0 million in income associated with the TSA through July 2, 2021. The Company earned $0.4 million and $0.9 million in income associated with the TSA in the three-month and six-month fiscal periods ended July 2, 2021. In addition, the Company earned $3.1 million and $6.0 million in income associated with the TSA in the three-month and six-month fiscal periods ended July 3, 2020. These amounts were included in income from transition services on the Company's Condensed Consolidated Statements of Operations.

Since the sale of the Distribution business, cash outflows from the Company to its former Distribution business totaled $8.1 million through July 2, 2021, which primarily related to Distribution employee and employee-related costs incurred prior to the sale. There were no cash flows from the Company to its former Distribution business in the six-month fiscal period ended July 2, 2021. Cash outflows from the Company to its former Distribution business after the sale totaled $0.3 million for the six-month fiscal period ended July 3, 2020. Since the sale of the Distribution business, cash inflows from the Company's former Distribution business to the Company totaled $18.4 million through July 2, 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 received in the six-month fiscal periods ended July 2, 2021 and July 3, 2020 totaled $1.5 million and $10.5 million, respectively.

In the six-month fiscal period ended July 3, 2020, the Company recorded a pretax gain on disposal of discontinued operations as a result of the final settlement of the working capital adjustment, partially offset by transaction costs. The pretax gain of $0.9 million was subject to income tax expense of $0.2 million, resulting in a gain on disposal of discontinued operations, net of tax of $0.7 million in the six-month fiscal period ended July 3, 2020 which was included in the Company's Condensed Consolidated Statement of Operations. As the gain on the sale of the Distribution business was finalized in 2020, no activity aside from the TSA activity and cash flows discussed above impacted the Company's Condensed Consolidated Financial Statements in the three-month and six-month fiscal periods ended July 2, 2021.

4. 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.

Upon closing, the Company funded $24.7 million associated with employee retention plans at Bal Seal. 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 for the six-month fiscal period ended July 2, 2021.

5. REVENUE

Disaggregation of Revenue

The following table disaggregates total revenue by major product sales by end market.

	For the Three Months Ended		For the Six Months Ended	
	July 2, 2021	July 3, 2020	July 2, 2021	July 3, 2020
In thousands				
Defense	$ 39,780	$ 42,200	$ 83,391	$ 90,957
Safe and Arm Devices	58,006	56,986	99,592	114,986
Commercial, Business & General Aviation	41,130	47,855	89,088	111,112
Medical	22,862	14,763	43,445	35,739
Industrial & Other	20,616	16,086	38,494	32,418
Total revenue	$ 182,394	$ 177,890	$ 354,010	$ 385,212

COVID-19

The impact of the novel coronavirus ("COVID-19") and the precautionary measures instituted by governments and businesses to mitigate the spread, including limiting non-essential gatherings of people, ceasing all non-essential travel, ordering certain businesses and government agencies to cease non-essential operations at physical locations and issuing "shelter-in-place" orders, have contributed to a general slowdown in the global economy and significant volatility in financial markets. The Company has implemented strategies to limit the risk to its operations with a continued focus on the health of its employees and the satisfaction of its customers' requirements. Despite all of these efforts to mitigate the risks associated with COVID-19, the effects of the pandemic have adversely impacted our commercial end markets, more specifically Commercial, Business and General Aviation customers. The Company saw recoveries in the medical and industrial end markets through the first half of 2021 and management expects improved performance through the remainder of 2021. As of the date of this filing, the Company's defense and safe and arm device end markets have not been impacted by COVID-19. The extent and duration of time to which COVID-19 may adversely impact the Company depends on future developments, which are highly uncertain and unpredictable at this time.

The following table disaggregates total revenue by product types.

	For the Three Months Ended		For the Six Months Ended	
	July 2, 2021	July 3, 2020	July 2, 2021	July 3, 2020
Original Equipment Manufacturer	55 %	55 %	59 %	58 %
Aftermarket	13 %	13 %	13 %	12 %
Safe and Arm Devices	32 %	32 %	28 %	30 %
Total revenue	100 %	100 %	100 %	100 %

The following table illustrates the approximate percentage of revenue recognized for performance obligations satisfied over time versus the amount of revenue recognized for performance obligations satisfied at a point in time:

	For the Three Months Ended		For the Six Months Ended	
	July 2, 2021	July 3, 2020	July 2, 2021	July 3, 2020
Over time	36 %	35 %	36 %	33 %
Point-in-time	64 %	65 %	64 %	67 %
Total revenue	100 %	100 %	100 %	100 %

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three-month and six-month fiscal periods ended July 2, 2021 and July 3, 2020
(Unaudited)

5. REVENUE (CONTINUED)

Disaggregation of Revenue - continued

For contracts in which revenue is recognized 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.

Net changes in revenue associated with cost growth on the Company's over time contracts were as follows:

	For the Three Months Ended		For the Six Months Ended	
	July 2, 2021	**July 3, 2020**	**July 2, 2021**	**July 3, 2020**
In thousands				
Net change in revenue due to change in profit estimates	$ (3,446)	$ (1,425)	$ (581)	$ (2,540)

The net reductions in revenue in the three-month and six-month fiscal periods ended July 2, 2021 were primarily related to cost growth on certain structures programs and missile fuzing contracts, partially offset by favorable cost performance on the completion of the SH-2 program with New Zealand. Additionally, for the six-month fiscal period ended July 2, 2021, the net decrease in revenue was offset by favorable cost performance on the joint programmable fuze ("JPF") contract with the U.S. Government ("USG"). The net reductions in revenue in the three-month and six-month fiscal periods ended July 3, 2020 were primarily related to cost growth on certain structures programs and legacy fuzing contracts, partially offset by favorable cost performance on the JPF contract with the USG.

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. Backlog at July 2, 2021 and December 31, 2020, and the portion of backlog the Company expects to recognize revenue on over the next twelve months is as follows:

	July 2, 2021[(1)]	**December 31, 2020**
In thousands		
Backlog	$ 510,224	$ 631,236

(1) The Company expects to recognize revenue on approximately 78% of backlog as of July 2, 2021 over the next twelve months.

6. RESTRUCTURING AND SEVERANCE COSTS

General & Administrative Expense Reduction Initiative

The Company continues to evaluate its cost structure with the objective of a lean organizational structure that provides a scalable infrastructure which facilitates future growth opportunities. In the three-month and six-month fiscal periods ended July 2, 2021, the Company incurred $1.5 million and $2.9 million in severance costs associated with these cost reduction efforts, which were included in restructuring and severance costs on the Company's Condensed Consolidated Statements of Operations.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three-month and six-month fiscal periods ended July 2, 2021 and July 3, 2020
(Unaudited)

6. RESTRUCTURING AND SEVERANCE COSTS (CONTINUED)

General & Administrative Expense Reduction Initiative - continued

Following the sale of the Company's former Distribution business, the Company announced it would undertake a comprehensive review of its general and administrative functions in order to improve operational efficiency and to align the Company's costs with its revenues. The objective of the initiative was to ensure that the Company has a lean organizational structure that provides a scalable infrastructure that facilitates future growth opportunities. The Company identified information technology functions to be outsourced, workforce reductions and other reductions in certain general and administrative expenses which were completed in 2020 to support the cost savings initiative discussed above. In accordance with ASC 712-10, *Compensation - Nonretirement Postemployment Benefits*, the Company recorded $1.8 million and $3.1 million in severance costs associated with these workforce reductions in the three-month and six-month fiscal periods ended July 3, 2020, which were included in restructuring and severance costs on the Company's Condensed Consolidated Statements of Operations.

Workforce Reductions in Response to COVID-19

During the second quarter of 2020, the Company implemented workforce reductions and elected to eliminate certain open positions as a response to the unprecedented hardships brought on by COVID-19. For the three-month fiscal period ended July 3, 2020, the Company recorded severance costs of $2.7 million related to workforce reductions.

Other Matters

In addition, the Company incurred $0.5 million in severance costs as it integrated the acquisition of Bal Seal in the six-month fiscal period ended July 3, 2020.

7. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net consisted of the following:

	July 2, 2021	December 31, 2020
In thousands		
Trade receivables	$ 22,187	$ 19,945
U.S. Government contracts:		
Billed	21,928	18,854
Cost and accrued profit - not billed	727	1,080
Commercial and other government contracts		
Billed	48,731	111,794
Cost and accrued profit - not billed	7,382	4,141
Less allowance for doubtful accounts	(1,594)	(2,008)
Accounts receivable, net	$ 99,361	$ 153,806

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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three-month and six-month fiscal periods ended July 2, 2021 and July 3, 2020
(Unaudited)

7. ACCOUNTS RECEIVABLE, NET (CONTINUED)

The following table summarizes the activity in the allowance for doubtful accounts in the six-month fiscal period ended July 2, 2021:

In thousands		
Balance at December 31, 2020	$	(2,008)
Provision		(290)
Amounts written off		387
Recoveries		316
Changes in foreign currency exchange rates		1
Balance at July 2, 2021	$	(1,594)

COVID-19

The Company anticipates that the disruptions and delays resulting from the spread of COVID-19 and the measures instituted by the governments and businesses to mitigate its spread could 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.

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

In thousands		July 2, 2021		December 31, 2020
Contract changes, negotiated settlements and claims for unanticipated contract costs	$	900	$	900

8. CONTRACT ASSETS, CONTRACT COSTS AND CONTRACT LIABILITIES

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

In thousands		July 2, 2021		December 31, 2020		$ Change	% Change
Contract assets	$	114,552	$	108,645	$	5,907	5.4 %
Contract costs, current portion	$	3,841	$	3,511	$	330	9.4 %
Contract costs, noncurrent portion	$	8,332	$	8,311	$	21	0.3 %
Contract liabilities, current portion	$	17,268	$	39,073	$	(21,805)	(55.8)%
Contract liabilities, noncurrent portion	$	14,324	$	11,019	$	3,305	30.0 %

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 during the six-month fiscal period ended July 2, 2021. This increase was primarily related to work performed and not yet billed on certain structures programs, the JPF program and the KAflex® programs, partially offset by amounts billed on certain structures programs. There were no significant impairment losses related to the Company's contract assets during the three-month and six-month fiscal periods ended July 2, 2021 and July 3, 2020.

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

Contract Assets - continued

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

In thousands	**July 2, 2021**	**December 31, 2020**
Contract changes, negotiated settlements and claims for unanticipated contract costs	$ 2,167	$ 3,178

Contract Costs

At July 2, 2021, costs to fulfill a contract and costs to obtain a contract were $11.2 million and $1.0 million, respectively. 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 Condensed Consolidated Balance Sheets at July 2, 2021 and December 31, 2020.

The increase in contract costs, current portion was primarily attributable to the addition of costs to fulfill the K-MAX® program and the reclassification of a portion of costs to fulfill the K-MAX® program and certain structures programs from contract costs, noncurrent portion, partially offset by the amortization of contract costs. For the three-month and six-month fiscal periods ended July 2, 2021, amortization of contract costs was $3.2 million and $5.1 million, respectively. For the three-month and six-month fiscal periods ended July 3, 2020, amortization of contract costs was $2.1 million and $4.6 million, respectively.

Contract costs, noncurrent portion remained relatively flat, which was primarily attributable to the addition of costs to fulfill the K-MAX® unmanned program, offset by the reclassification of costs to fulfill the K-MAX® program and 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 direct commercial sales ("DCS") contract, the K-MAX® unmanned program and the SH-2G program for New Zealand, partially offset by advances received for the K-MAX® unmanned program and the SH-2G program for New Zealand. Revenue recognized related to contract liabilities, current portion was $20.5 million and $29.9 million in the three-month and six-month fiscal periods ended July 2, 2021, respectively. Revenue recognized related to contract liabilities, current portion was $14.0 million and $28.7 million in the three-month and six-month fiscal periods ended July 3, 2020, respectively.

The increase in contract liabilities, noncurrent portion was due to advances received for a JPF DCS contract. For the three-month and six-month fiscal periods ended July 2, 2021 and July 3, 2020, the Company did not recognize revenue against contract liabilities, noncurrent portion.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
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9. FAIR VALUE MEASUREMENTS

Fair value is defined as the exchange price that would be received for an asset or 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 the Company 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 in 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 presents the carrying value and fair value of financial instruments that are not carried at fair value:

	July 2, 2021		December 31, 2020	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
In thousands				
Debt [(1)]	$ 190,404	$ 212,501	$ 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 July 2, 2021 and December 31, 2020 included $65.5 million and $51.5 million of Level 1 money market funds, respectively.

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 its counterparties' credit risks. Based on these inputs, the derivative instruments are classified within Level 2 of the valuation hierarchy. At July 2, 2021 and December 31, 2020, the derivative instruments were included in other current assets and other current liabilities on the Company's Condensed Consolidated Balance Sheets. Based on the Company's continued ability to trade and enter into forward contracts and interest rate swaps, the Company considers the markets for its fair value instruments to be active.

The Company evaluated the credit risk associated with the counterparties to these derivative instruments and determined that as of July 2, 2021, such credit risks had not had an adverse impact on the fair value of these instruments.

10. 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 Condensed 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 (loss) 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.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three-month and six-month fiscal periods ended July 2, 2021 and July 3, 2020
(Unaudited)

10. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Forward Exchange Contracts

The Company holds 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 these contracts are designated as cash flow hedges. The Company will include in earnings amounts currently included in accumulated other comprehensive income (loss) upon recognition of cost of sales related to the underlying transaction. These contracts were not material to the Company's Condensed Consolidated Balance Sheets as of July 2, 2021 and December 31, 2020. The activity related to these contracts was not material to the Company's Condensed Consolidated Financial Statements for the three-month and six-month fiscal periods ended July 2, 2021 and July 3, 2020.

11. INVENTORIES

Inventories consisted of the following:

In thousands	July 2, 2021	December 31, 2020
Raw materials	$ 19,021	$ 19,502
Contracts and other work in process (including certain general stock materials)	140,494	129,241
Finished goods	36,618	36,329
Inventories	$ 196,133	$ 185,072

Inventories include amounts associated with matters such as contract changes, negotiated settlements and claims for unanticipated contract costs. These amounts were as follows:

In thousands	July 2, 2021	December 31, 2020
Contract changes, negotiated settlements and claims for unanticipated contract costs	$ 467	$ 500

At July 2, 2021 and December 31, 2020, $65.8 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 Condensed Consolidated Balance Sheets. Management believes that approximately $30.1 million of the K-MAX® inventory will be sold after July 2, 2022, based upon the anticipation of additional aircraft manufacturing and the requirements to support the fleet for the foreseeable future.

At July 2, 2021 and December 31, 2020, $6.1 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 Condensed Consolidated Balance Sheets. Management believes that approximately $5.2 million of the SH-2G(I) inventory will be sold after July 2, 2022. This balance represents spares requirements and inventory to be used on SH-2G programs.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three-month and six-month fiscal periods ended July 2, 2021 and July 3, 2020
(Unaudited)

12. GOODWILL AND OTHER INTANGIBLE ASSETS, NET

Goodwill

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

In thousands	
Gross balance at December 31, 2020	$ 313,803
Accumulated impairment	(66,559)
Net balance at December 31, 2020	247,244
Additions	—
Impairments	—
Foreign currency translation	(2,764)
Ending balance at July 2, 2021	$ 244,480

Other Intangibles

Other intangible assets consisted of:

		At July 2, 2021		At December 31, 2020	
	Amortization Period	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
In thousands					
Customer lists / relationships	6-38 years	$ 128,176	$ (32,688)	$ 128,882	$ (30,094)
Developed technologies	7-20 years	45,534	(11,661)	45,798	(9,665)
Trademarks / trade names	15-40 years	17,197	(2,421)	17,353	(2,149)
Non-compete agreements and other	1-15 years	4,695	(4,682)	5,290	(5,276)
Patents	17 years	523	(469)	523	(464)
Total		$ 196,125	$ (51,921)	$ 197,846	$ (47,648)

13. PENSION PLANS

Components of net pension cost for the Qualified Pension Plan and Supplemental Employees' Retirement Plan ("SERP") were as follows:

	For the Three Months Ended			
	Qualified Pension Plan		SERP	
	July 2, 2021	July 3, 2020	July 2, 2021	July 3, 2020
In thousands				
Service cost[1]	$ (649)	$ 1,309	$ —	$ —
Interest cost on projected benefit obligation	3,558	5,255	14	42
Expected return on plan assets	(11,314)	(10,796)	—	—
Amortization of net loss	1,147	1,201	18	236
Net pension (income) cost	$ (7,258)	$ (3,031)	$ 32	$ 278

[1] In the second quarter, the Company elected to use the alternative method to calculate the Pension Benefit Guaranty Corporation premium. The change resulted in a $3.9 million decrease to the 2021 premium, which is included in the service cost. Due to this election and the reduction of the premium, the Company reversed $1.0 million of service cost in the three-month fiscal period ended July 2, 2021, which was previously incurred in the first quarter of 2021.

13. PENSION PLANS (CONTINUED)

	For the Six Months Ended			
	Qualified Pension Plan		SERP	
In thousands	July 2, 2021	July 3, 2020	July 2, 2021	July 3, 2020
Service cost	$ 651	$ 2,618	$ —	$ —
Interest cost on projected benefit obligation	7,083	10,510	29	83
Expected return on plan assets	(22,589)	(21,592)	—	—
Amortization of net loss	2,222	2,402	35	472
Net pension (income) cost	$ (12,633)	$ (6,062)	$ 64	$ 555

The Company contributed $10.0 million to the qualified pension plan and $0.3 million to the SERP through the end of the second quarter of 2021. No further contributions are expected to be made to the qualified pension plan during 2021. The Company plans to contribute an additional $2.5 million to the SERP in 2021. For the 2020 plan year, the Company contributed $10.0 million to the qualified pension plan and $0.5 million to the SERP.

14. COMMITMENTS AND CONTINGENCIES

Pension Freeze

Effective December 31, 2015, the Company's qualified pension plan was frozen with respect to future benefit accruals. Under USG Cost Accounting Standard ("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 its 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 maintained its accrual at $0.3 million as of July 2, 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.

New Hartford Property

In connection with the sale of the Company's Music segment in 2007, the Company assumed responsibility for meeting certain requirements of the Connecticut Transfer Act (the "Transfer Act") that applied to the 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 process, 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 remediation has been nearly completed and the Company continues to monitor the results of the remediation. The total amount paid to date in connection with these environmental remediation activities is $1.7 million. At July 2, 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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three-month and six-month fiscal periods ended July 2, 2021 and July 3, 2020
(Unaudited)

14. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Bloomfield Property

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 Connecticut Department of Environmental Protection. 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 $14.6 million. At July 2, 2021, the Company had $2.4 million accrued for these environmental remediation activities. A portion ($0.4 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.

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 July 2, 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. Failure to satisfy the offset requirement could also negatively impact the Company's ability to attract future orders from this 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 performance obligations within this contract. At July 2, 2021, $14.3 million in contract liabilities associated with the potential penalties of the offset requirements were included on the Company's Condensed Consolidated Balance Sheets. At the point the Company has an approved plan to satisfy the offset requirements, the Company will update the estimate of the contract transition price, including any potential penalties or contract costs associated with the plan to fulfill the offset requirements.

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 completed pricing negotiations on 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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three-month and six-month fiscal periods ended July 2, 2021 and July 3, 2020
(Unaudited)

15. 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 period. The computation of diluted earnings per share reflects the common stock equivalency of dilutive options granted to employees under the Company's stock incentive plan, shares issuable on redemption of its convertible notes and shares issuable upon redemption of outstanding warrants.

	For the Three Months Ended		For the Six Months Ended	
	July 2, 2021	**July 3, 2020**	**July 2, 2021**	**July 3, 2020**
In thousands, except per share amounts				
Earnings (loss) from continuing operations	$ 11,856	$ (100)	$ 19,840	$ (507)
Total earnings from discontinued operations	—	—	—	692
Net earnings (loss)	$ 11,856	$ (100)	$ 19,840	$ 185
Basic:				
Weighted average number of shares outstanding	27,867	27,659	27,841	27,734
Earnings (loss) per share from continuing operations	$ 0.43	$ 0.00	$ 0.71	$ (0.02)
Earnings per share from discontinued operations	0.00	0.00	0.00	0.03
Basic earnings per share	$ 0.43	$ 0.00	$ 0.71	$ 0.01
Diluted:				
Weighted average number of shares outstanding	27,867	27,659	27,841	27,734
Weighted average shares issuable on exercise of dilutive stock options	46	—	49	—
Total	27,913	27,659	27,890	27,734
Earnings (loss) per share from continuing operations	$ 0.42	$ 0.00	$ 0.71	$ (0.02)
Earnings per share from discontinued operations	0.00	0.00	0.00	0.03
Diluted earnings per share	$ 0.42	$ 0.00	$ 0.71	$ 0.01

Equity awards

For the three-month and six-month fiscal periods ended July 2, 2021, respectively, 482,339 and 461,649 shares issuable under equity awards granted to employees were excluded from the calculation of diluted earnings per share as they were anti-dilutive based on the average stock price during the periods. For the three-month and six-month fiscal periods ended July 3, 2020, respectively, 772,781 and 608,080 shares issuable under equity awards granted to employees were excluded from the calculation of diluted earnings per share as they were anti-dilutive based on the average stock price during the periods.

All outstanding stock awards were excluded in the computation of diluted earnings per share in the three-month and six-month fiscal periods ended July 3, 2020 because their effect was antidilutive due to the loss from continuing operations. For the three-month and six-month fiscal periods ended July 3, 2020, respectively, an additional 5,226 and 43,645 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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three-month and six-month fiscal periods ended July 2, 2021 and July 3, 2020
(Unaudited)

15. COMPUTATION OF EARNINGS PER SHARE (CONTINUED)

2024 Convertible Notes

For the three-month and six-month fiscal periods ended July 2, 2021 and July 3, 2020, shares issuable under the Convertible Notes due 2024 were excluded from the diluted earnings per share calculation because the conversion price was more than the average market price of the Company's stock during the periods.

16. SHARE-BASED ARRANGEMENTS

The Company accounts for stock options, restricted stock awards ("RSAs"), restricted stock units and performance stock units ("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 Named Executive Officers ("NEOs") will 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 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%.

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 the three-month and six-month fiscal periods ended July 2, 2021 was $2.5 million and $4.2 million, respectively. Of these amounts, $0.2 million was recorded to restructuring and severance costs in both periods, and the remaining amounts were recorded to selling, general and administrative expenses on the Company's Condensed Consolidated Statements of Operations. Share-based compensation expense recorded for the three-month and six-month fiscal periods ended July 3, 2020 was $2.0 million and $3.6 million, respectively. Of these amounts, $0.3 million and $0.4 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 Condensed Consolidated Statements of Operations.

Stock option activity was as follows:

	For the Three Months Ended July 2, 2021		For the Six Months Ended July 2, 2021	
	Options	**Weighted - average exercise price**	**Options**	**Weighted - average exercise price**
Options outstanding at beginning of period	766,520	$ 55.11	772,625	$ 54.87
Granted	—	$ —	4,990	$ 55.85
Exercised	(3,804)	$ 42.86	(14,899)	$ 39.79
Forfeited or expired	(1,780)	$ 64.48	(1,780)	$ 64.48
Options outstanding at July 2, 2021	760,936	$ 55.15	760,936	$ 55.15

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three-month and six-month fiscal periods ended July 2, 2021 and July 3, 2020
(Unaudited)

16. SHARE-BASED ARRANGEMENTS (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:

	For the Six Months Ended	
	July 2, 2021	July 3, 2020
Expected option term (years)	4.9	4.9
Expected volatility	35.7 %	20.2 %
Risk-free interest rate	0.5 %	1.4 %
Expected dividend yield	1.6 %	1.3 %
Per share fair value of options granted	$14.89	$10.74

Restricted stock award and restricted stock unit activity were as follows:

	For the Three Months Ended July 2, 2021			For the Six Months Ended July 2, 2021		
	Restricted Stock		Weighted-average grant date fair value	Restricted Stock		Weighted-average grant date fair value
Restricted Stock outstanding at beginning of period	150,338	$	53.97	109,514	$	53.66
Granted	16,681	$	52.46	83,656	$	55.20
Vested	(21,088)	$	53.47	(47,239)	$	55.81
Forfeited or expired	(2,227)	$	58.29	(2,227)	$	58.29
Restricted Stock outstanding at July 2, 2021	143,704	$	53.77	143,704	$	53.77

Performance stock unit activity was as follows:

	For the Three Months Ended July 2, 2021			For the Six Months Ended July 2, 2021		
	Performance Stock		Weighted-average grant date fair value	Performance Stock		Weighted-average grant date fair value
Performance Stock outstanding at beginning of period	82,460	$	70.17	—	$	—
Granted[(1)]	—	$	—	82,460	$	70.17
Vested	—	$	—	—	$	—
Forfeited or expired	(1,960)	$	70.16	(1,960)	$	70.16
Performance Stock outstanding at July 2, 2021	80,500	$	70.17	80,500	$	70.17

[(1)] The PSUs granted in the first quarter of 2021 assumed a 100% achievement level.

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:

	For the Six Months Ended
	July 2, 2021
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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
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17. SHAREHOLDERS' EQUITY AND ACCUMULATED OTHER COMPREHENSIVE INCOME

Changes in shareholders' equity for the three-month and six-month fiscal periods ended July 2, 2021, and July 3, 2020, were as follows:

	For the Three Months Ended		For the Six Months Ended	
	July 2, 2021	July 3, 2020	July 2, 2021	July 3, 2020
In thousands				
Beginning balance	$ 767,219	$ 797,229	$ 746,438	$ 823,202
Comprehensive income (loss)	14,474	9,302	38,813	(132)
Dividends declared (per share of common stock, $0.20 and $0.20 and $0.40 and $0.40, respectively)	(5,565)	(5,527)	(11,127)	(11,082)
Employee stock plans and related tax benefit	648	531	1,528	1,986
Purchase of treasury shares	(46)	(96)	(390)	(14,168)
Share-based compensation expense	2,482	1,957	4,225	3,590
Impact of change in tax accounting standard	—	—	(275)	—
Ending balance	$ 779,212	$ 803,396	$ 779,212	$ 803,396

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

	For the Three Months Ended	
	July 2, 2021	July 3, 2020
In thousands		
Foreign currency translation and other:		
Beginning balance	$ 14,796	$ (27,177)
Net loss on foreign currency translation	1,719	8,295
Other comprehensive income (loss), net of tax	1,719	8,295
Ending balance	$ 16,515	$ (18,882)
Pension and other post-retirement benefits[(1)]:		
Beginning balance	$ (129,262)	$ (133,435)
Amortization of net loss, net of tax expense of $266 and $330, respectively	899	1,107
Other comprehensive income, net of tax	899	1,107
Ending balance	$ (128,363)	$ (132,328)
Total accumulated other comprehensive loss	$ (111,848)	$ (151,210)

[(1)] These accumulated other comprehensive income components are included in the computation of net periodic pension cost. (See Note 13, *Pension Plans* for additional information.)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three-month and six-month fiscal periods ended July 2, 2021 and July 3, 2020
(Unaudited)

17. SHAREHOLDERS' EQUITY AND ACCUMULATED OTHER COMPREHENSIVE INCOME (CONTINUED)

	For the Six Months Ended	
	July 2, 2021	July 3, 2020
In thousands		
Foreign currency translation and other:		
Beginning balance	$ (717)	$ (16,351)
Net loss on foreign currency translation	(5,603)	(2,531)
Reclassification to net income[(1)]	22,835	—
Other comprehensive income (loss), net of tax	17,232	(2,531)
Ending balance	$ 16,515	$ (18,882)
Pension and other post-retirement benefits[(2)]:		
Beginning balance	$ (130,104)	$ (134,542)
Amortization of net loss, net of tax expense of $516 and $660, respectively	1,741	2,214
Other comprehensive income, net of tax	1,741	2,214
Ending balance	$ (128,363)	$ (132,328)
Total accumulated other comprehensive loss	$ (111,848)	$ (151,210)

(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 3, *Disposals*, for additional information).
(2) These accumulated other comprehensive income components are included in the computation of net periodic pension cost. (See Note 13, *Pension Plans* for additional information.)

18. INCOME TAXES

	For the Three Months Ended		For the Six Months Ended	
	July 2, 2021	July 3, 2020	July 2, 2021	July 3, 2020
Effective Income Tax Rate from continuing operations	31.7 %	92.6 %	22.3 %	77.0 %

The effective income tax rate represents the combined federal, state and foreign tax effects attributable to pretax earnings from continuing operations for the period. The variation in the effective tax rate for the current periods compared to the corresponding periods in the prior year was primarily attributable to positive earnings in the current period versus certain discrete provision to return benefits and the relatively small pretax loss in the prior periods. Additionally, in the three-month period ended July 2, 2021, the effective tax rate was impacted by discrete charges related to the sale of the Company's UK Composites business.

A valuation allowance for deferred tax assets, including those associated with net operating loss carryforwards, is recognized when it is more likely than not that some or all of the benefit from the deferred tax asset will not be realized. To assess that likelihood, the Company uses estimates and judgment regarding future taxable income, and considers the tax consequences in the jurisdiction where such taxable income is generated, to determine whether a valuation allowance is required. Such evidence can include current financial position, results of operations, both actual and forecasted, the reversal of deferred tax liabilities, and tax planning strategies, as well as the current and forecasted business economics.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three-month and six-month fiscal periods ended July 2, 2021 and July 3, 2020
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18. INCOME TAXES (CONTINUED)

The Company has assessed both positive and negative evidence to estimate whether sufficient future taxable income will be generated to utilize the $32.4 million of deferred tax assets recorded as of July 2, 2021. Through the end of the second quarter of 2021, the Company believes it is more likely than not that only $28.8 million of these deferred tax assets will be realized and, as such, has recorded a valuation allowance of $3.6 million. Going forward, management will continue to assess the available positive and negative evidence to determine whether it is likely sufficient future taxable income will be generated to permit the use of these deferred tax assets. The amount of the deferred tax asset considered realizable could be adjusted if estimates of future taxable income are reduced or increased, or if additional weight is given to subjective evidence such as future expected growth because objective negative evidence in the form of cumulative losses is no longer present.

19. SUBSEQUENT EVENTS

On July 8, 2021, the Company announced the appointment of James G. Coogan as Senior Vice President and Chief Financial Officer, effective as of the announcement date. Mr. Coogan succeeded Robert D. Starr, who separated from the Company as of July 31, 2021. The Company will incur approximately $2.0 million in costs associated with Mr. Starr's separation in the third quarter of 2021.

The Company has evaluated subsequent events through the issuance date of these financial statements. Other than the matter noted above, no material subsequent events were identified that require disclosure.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Discussion and Analysis of Financial Condition and Results of Operations is intended to provide readers of our condensed consolidated financial statements with the perspectives of management. It presents, in narrative and tabular form, information regarding our financial condition, results of operations, liquidity and certain other factors that may affect our future results, and is designed to enable the readers of this report to obtain an understanding of our businesses, strategies, current trends and future prospects. It should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2020 ("2020 Form 10-K") and the Condensed Consolidated Financial Statements included in Item 1 of this Form 10-Q.

OVERVIEW OF BUSINESS

Kaman Corporation (the "Company" or "Kaman") currently conducts business in the aerospace and defense, industrial and medical markets. Kaman produces and markets proprietary aircraft bearings and components; super precision, miniature ball bearings, proprietary spring energized seals, springs and contacts; complex metallic and composite aerostructures for commercial, military and general aviation fixed and rotary wing aircraft; and safe and arming solutions for missile and bomb systems for the U.S. and allied militaries. The Company also manufactures and supports our K-MAX® manned and unmanned medium-to-heavy lift helicopters and restores, modifies and supports our SH-2G Super Seasprite maritime helicopters.

Executive Summary

In the second quarter, consolidated net sales from continuing operations increased by 2.5% to $182.4 million, primarily due to an increase in sales on our medical and industrial and other commercial programs. Gross margin increased in the quarter to 34.0% compared to 31.9% in the prior year period. This performance was driven in part by the higher direct commercial sales ("DCS") of our joint programmable fuze ("JPF") to foreign militaries. Selling, general and administrative expenses ("S,G&A") remained relatively flat on a percentage of sales basis due to efficiencies achieved as part of our cost control efforts. Operating income in the period benefited from the absence of $5.7 million in costs associated with the acquired retention plans incurred in the prior year and $3.4 million in lower costs related to the transition services agreement ("TSA"). GAAP diluted earnings per share of $0.42 in the second quarter was the result of the activity discussed above and higher pension-related income, partially offset by lower income from the TSA.

Other financial highlights

- Earnings from continuing operations was $11.9 million and $19.8 million for the three-month and six-month fiscal periods ended July 2, 2021, respectively, compared to losses from continuing operations of $0.1 million and $0.5 million in the comparable fiscal periods in the prior year. These changes were primarily driven by the absence of costs associated with the acquired retention plans incurred in the prior year and higher non-service pension and post retirement benefit income. Additionally, for the six-month fiscal period, earnings from continuing operations benefited from the absence of Bal Seal acquisition costs.
- Cash used in operating activities of continuing operations during the six-month fiscal period ended July 2, 2021, was $14.7 million, a $64.7 million improvement to the comparable fiscal period in the prior year. This change was primarily due to the collection of payments on outstanding receivables, more specifically significant receipts under a JPF DCS contract, partially offset by approximately $25.1 million in nonrecurring payments to eligible participants of Bal Seal's employee retention plans.
- Total unfulfilled performance obligations ("backlog") decreased 19.2% to $510.2 million compared to total backlog at December 31, 2020, driven by deliveries of direct commercial JPF orders and bearings products, partially offset by new orders of our bearings products and seals, springs and contacts.

Recent events

- 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. Mr. Starr continued to be employed by the Company through July 31, 2021 as Executive Vice President.
- 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.
- In April 2021, the K-MAX TITAN™, our new unmanned helicopter, successfully completed its first test flight.

- In April 2021, Ian K. Walsh, President and CEO, was appointed Chairman of the Board of Directors and Jennifer Pollino assumed the role of Lead Independent Director.

COVID-19 Discussion

The impact of the novel coronavirus ("COVID-19") and the precautionary measures instituted by governments and businesses to mitigate the spread, including limiting non-essential gatherings of people, ceasing all non-essential travel, ordering certain businesses and government agencies to cease non-essential operations at physical locations and issuing "shelter-in-place" orders, have contributed to a general slowdown in the global economy and significant volatility in financial markets, including a decrease in our stock price. We are closely monitoring the impact of the COVID-19 pandemic on all aspects of our business and across the geographies in which we operate and serve customers, and we are working to assess the extent to which it has impacted and will continue to impact our customers, suppliers and other business partners.

Kaman is operating as an essential business in the United States and in most of the markets in which it operates around the world. Despite efforts to mitigate the risks associated with COVID-19, our operations were adversely impacted during the first half of 2021. Additionally, earlier in the pandemic, certain of our customers and suppliers had temporarily shut down operations; however, disruptions to our supply chain have been limited to date and we continue to meet the demands of our customers. While we did not incur significant disruptions related to the COVID-19 pandemic during the first half of 2021, we continued to see declines in our commercial aerospace products through the second quarter of 2021 as compared to the corresponding periods in 2020 which were minimally impacted by COVID-19. We expect a meaningful ramp in sales for these products in the second half of the year due to the increase in air traffic and vaccination rates in the United States; however, we are monitoring the developments related to COVID-19 variants which make it difficult to predict the timing and magnitude of the recovery in the current year. We saw recoveries in our medical and industrial end markets through the second quarter and expect improved performance through the remainder of 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. 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. Resources are available to our employees via the Company's benefits website, which include the latest news on COVID-19, steps to prevent illness and resources for mental health.

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 OF OPERATIONS

Net Sales from Continuing Operations

	For the Three Months Ended		For the Six Months Ended	
	July 2, 2021	July 3, 2020	July 2, 2021	July 3, 2020
	(in thousands)			
Net sales	$ 182,394	$ 177,890	$ 354,010	$ 385,212
$ change	4,504	3,178	(31,202)	44,066
% change	2.5 %	1.8 %	(8.1)%	12.9 %
Sales of disposed businesses that did not qualify for discontinued operations	—	4,812	1,704	13,298
Organic sales	$ 182,394	$ 173,078	$ 352,306	$ 371,914
$ change	9,316		(19,608)	
% change	5.4 %		(5.3)%	

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For the Three Months Ended

Net sales increased for the three-month fiscal period ended July 2, 2021, as compared to the corresponding period in 2020, due to a 5.4% increase in organic sales related to the recoveries in our medical and industrial end markets. Improvements in our miniature bearings contributed to the $8.1 million increase in sales in our medical products and $4.5 million increase in sales of our industrial products. Sales of our medical products also benefited from an increase in sales of products used in medical implantable and analytical devices. Additionally contributing to our higher organic sales were increases in sales of $1.2 million on our defense programs and $1.0 million under our safe and arm devices programs. These increases were primarily attributable to higher direct commercial sales of our JPF to foreign militaries and an increase in sales on our A-10 program, partially offset by unfavorable performance on certain fuzing and structures contracts.

The increases discussed above were partially offset by lower sales on our commercial, business and general aviation programs which continue to be impacted by the effects of COVID-19, more specifically our commercial bearings products. Additionally contributing to the decrease was $4.8 million in lower sales due to the sale of our UK Composites business in the current year.
Foreign currency exchange rates relative to the U.S. dollar had a favorable impact of $2.4 million in the three-month fiscal period ended July 2, 2021.

The table below summarizes the changes in organic net sales by product line for the three-month fiscal period ended July 2, 2021, compared to the corresponding period in 2020.

Product Line	Increase (Decrease)	$ (in millions)	%
Defense	↑	$1.2	3.0%
Safe and Arm Devices	↑	$1.0	1.8%
Commercial, Business and General Aviation	↓	$(5.5)	(11.8)%
Medical	↑	$8.1	54.8%
Industrial	↑	$4.5	28.2%

For the Six Months Ended

Net sales decreased for the six-month fiscal period ended July 2, 2021 as compared to the corresponding period in 2020, due to a 5.3% decrease in organic sales. The decrease was primarily attributable to $18.0 in lower organic sales on our commercial, business and general aviation programs which continue to be impacted by the effects of COVID-19 and lower sales on certain structures contracts, partially offset by a K-MAX® aircraft delivery in the current period. Sales of our safe and arm devices decreased $15.4 million primarily due to lower direct commercial sales of our JPF to foreign militaries, partially offset by higher sales under the JPF program with the U.S. Government ("USG"). Additionally contributing to the decrease in sales was $11.6 million in lower sales due to the sale of our UK Composites business in the current year.

The decreases discussed above were partially offset by recoveries in our medical and industrial end markets. Improvements in our miniature bearings contributed to the $7.7 million increase in sales in our medical products and $6.1 million increase in our industrial products. Sales of our medical products also benefited from an increase in sales of products used in medical implantable and analytical devices. Foreign currency exchange rates relative to the U.S. dollar had a favorable impact of $4.6 million in the six-month fiscal period ended.

Defense sales remained relatively flat due to higher sales on the A-10 program, mostly offset by unfavorable performance on certain structures programs.

The table below summarizes the changes in organic net sales by product line for the six-month fiscal period ended July 2, 2021, compared to the corresponding period in 2020.

Product Line	Increase (Decrease)	$ (in millions)	%
Defense	—	$—	—%
Safe and Arm Devices	↓	$(15.4)	(13.4)%
Commercial, Business and General Aviation	↓	$(18.0)	(16.9)%
Medical	↑	$7.7	21.6%
Industrial	↑	$6.1	18.7%

Gross Profit from Continuing Operations

	For the Three Months Ended		For the Six Months Ended	
	July 2, 2021	July 3, 2020	July 2, 2021	July 3, 2020
	(in thousands)			
Gross profit	$ 61,946	$ 56,668	$ 114,851	$ 124,370
$ change	5,278	4,079	(9,519)	17,260
% change	9.3 %	7.8 %	(7.7)%	16.1 %
% of net sales	34.0 %	31.9 %	32.4 %	32.3 %

Gross profit increased for the three-month fiscal period ended July 2, 2021, as compared to the corresponding period in 2020. This increase was primarily attributable to higher direct commercial sales of our JPF to foreign militaries and higher sales and associated gross profit on the SH-2G program with New Zealand and our springs, seals and contacts. These increases, totaling $9.0 million, were partially offset by lower sales and associated gross profit on our missile fuzing contracts and our bearings products.

Gross profit decreased for the six-month fiscal period ended July 2, 2021, as compared to the corresponding period in 2020. This decrease was primarily attributable to lower direct commercial sales of our JPF to foreign militaries and lower sales and associated gross profit on our commercial bearings products, the MK54 fuzing program and our Boeing Wing-to-Body Fairing program. These decreases, totaling $20.1 million, were partially offset by higher sales and associated gross profit under our JPF program with the USG and on our springs, seals and contacts.

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

	For the Three Months Ended		For the Six Months Ended	
	July 2, 2021	July 3, 2020	July 2, 2021	July 3, 2020
	(in thousands)			
S,G&A	$ 38,719	$ 38,396	$ 76,847	$ 91,724
$ change	323	843	(14,877)	16,202
% change	0.8 %	2.2 %	(16.2)%	21.5 %
% of net sales	21.2 %	21.6 %	21.7 %	23.8 %

S,G&A remained relatively flat for the three-month fiscal period ended July 2, 2021, when compared to the corresponding period in 2020. S,G&A as a percentage of sales decreased compared to the second quarter of 2020, driven in large part by efficiencies achieved as part of our cost reduction efforts and the benefit of lower employee related costs.

S,G&A decreased for the six-month fiscal period ended July 2, 2021, when compared to the corresponding period in 2020. This was primarily attributable to the absence of $8.5 million in 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 employee-related costs due to our cost reductions efforts.

Costs from Transition Service Agreement

	For the Three Months Ended		For the Six Months Ended	
	July 2, 2021	July 3, 2020	July 2, 2021	July 3, 2020
	(in thousands)			
Costs from transition services agreement	$ 999	$ 4,373	$ 1,704	$ 8,513

Upon closing the sale of our former Distribution business, the Company entered into a 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 information technology services. The buyer has the right to terminate individual services at any point over the renewal term and began to terminate certain services in 2020. Substantially all services were completed as of the end of the first quarter of 2021 and we expect the TSA to be fully completed in the third quarter of 2021. We incurred $1.0 million and $1.7 million in costs associated with the TSA in the three-month and six-month fiscal periods ended July 2, 2021, respectively. These costs were partially offset by $0.4 million and $0.9 million in income earned from the TSA in the three-month and six-month fiscal periods ended July 2, 2021, respectively, which was included below operating income in income from transition services agreement on the Company's Condensed Consolidated Statement of Operations. We incurred $4.4 million and $8.5 million in costs associated with the TSA in the three-month and six-month fiscal periods ended July 3, 2020, respectively. These costs were partially offset by $3.1 million and $6.0 million in income earned from the TSA in the three-month and six-month fiscal periods ended July 2, 2021, respectively, which was included below operating income in income from transition services agreement on the Company's Condensed Consolidated Statement of Operations.

Cost of Acquired Retention Plans

	For the Three Months Ended		For the Six Months Ended	
	July 2, 2021	July 3, 2020	July 2, 2021	July 3, 2020
	(in thousands)			
Costs of acquired retention plans	$ —	$ 5,704	$ —	$ 11,407

Bal Seal's previous owner implemented employee retention plans prior to our acquisition in the first quarter of 2020. Upon closing, we funded $24.7 million of the purchase price into escrow accounts associated with these employee retention plans. As of the date of acquisition, Bal Seal had $1.9 million in costs accrued for these employee retention plans, and the remaining $22.8 million in compensation expense associated with these retention plans was incurred ratably throughout the year ended December 31, 2020. 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 is reflected in the Company's cash flows from operating activities for the six-month fiscal period ended July 2, 2021.

Restructuring and Severance Costs

	For the Three Months Ended		For the Six Months Ended	
	July 2, 2021	July 3, 2020	July 2, 2021	July 3, 2020
	(in thousands)			
Restructuring and severance costs	$ 1,516	$ 4,484	$ 2,868	$ 6,279

The Company continues to evaluate its costs with the objective of a lean organizational structure that provides a scalable infrastructure which facilitates future growth opportunities. In the three-month and six-month fiscal periods ended July 2, 2021, the Company incurred $1.5 million and $2.9 million in severance costs associated with these cost reduction efforts. These actions are expected to

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contribute total annualized cost savings of approximately $4.8 million, which we expect to realize beginning in the first quarter of 2022.

Following the sale of our former distribution business, we announced that we would undertake a comprehensive review of our general and administrative functions in order to improve operational efficiency and to align our costs with our revenues. We identified information technology functions to be outsourced, workforce reductions and other reductions in certain general and administrative expenses which were completed in 2020 to support the cost savings initiative. These actions resulted in $1.8 million and $3.1 million in severance costs in the three-month and six-month fiscal periods ended July 3, 2020. Actions taken since the announcement of the cost savings initiative through 2020 are expected to contribute total annualized cost savings of approximately $18.2 million.

During the second quarter of 2020, the Company implemented workforce reductions and elected to eliminate certain open positions as a response to the unprecedented hardships brought on by COVID-19. For the three-month fiscal period ended July 3, 2020, the Company recorded severance costs of $2.7 million related to workforce reductions.

In addition to the severance costs discussed above, we incurred $0.5 million in severance costs as we integrated the acquisition of Bal Seal in the six-month fiscal period ended July 3, 2020.

Loss (Gain) on Sale of Business

	For the Three Months Ended		For the Six Months Ended	
	July 2, 2021	July 3, 2020	July 2, 2021	July 3, 2020
	(in thousands)			
Loss (gain) on sale of business	$ —	$ —	$ 234	$ (493)

In 2020, we received approval from our Board of Directors to sell our UK Composites business. In the fourth quarter of 2020, we accrued a loss of $36.3 million on the anticipated sale. In the first quarter of 2021, we closed on a transaction to sell the UK Composites business. We recorded an additional loss of $0.2 million in the six-month fiscal period ended July 2, 2021 associated with the sale.

During 2018, we sold our UK Tooling business to better position the Company for increased profitability. In 2019, we incurred a loss of $3.7 million associated with the write-off of note receivables recorded 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 six-month fiscal period ended July 3, 2020, we collected $0.5 million of the note receivables written off in 2019.

Operating Income (Loss)

	For the Three Months Ended		For the Six Months Ended	
	July 2, 2021	July 3, 2020	July 2, 2021	July 3, 2020
	(in thousands)			
Operating income (loss)	$ 14,832	$ (2,770)	$ 20,445	$ (7,192)
$ change	17,602	(13,345)	27,637	(30,136)
% change	635.5 %	(126.2)%	384.3 %	(131.3)%
% of net sales	8.1 %	(1.6)%	5.8 %	(1.9)%

The Company had operating income of $14.8 million for the three-month fiscal period ended July 2, 2021, compared to an operating loss of $2.8 million in the comparable period in 2020. The increase in operating income was primarily driven by higher sales and gross profit as discussed above, lower costs related to the TSA, the absence of costs associated with the acquired retention plans incurred in the prior year and lower severance costs.

The Company had operating income of $20.4 million for the six-month fiscal period ended July 2, 2021, compared to an operating loss of $7.2 million in the comparable period in 2020. The increase in operating income was primarily driven by lower costs related to the TSA, the absence of Bal Seal acquisition costs and the costs associated with the acquired retention plans incurred in the prior year, lower severance costs and lower employee-related costs. These changes were partially offset by lower sales and gross profit, as discussed above.

Interest Expense, Net

	For the Three Months Ended		For the Six Months Ended	
	July 2, 2021	July 3, 2020	July 2, 2021	July 3, 2020
	(in thousands)			
Interest expense, net	$ 4,335	$ 5,808	$ 8,586	$ 9,055

Interest expense, net, generally consists of interest charged on our Credit Agreement, which includes a revolving credit facility, our convertible notes and the amortization of debt issuance costs, offset by interest income. The decrease in interest expense, net for the three-month fiscal period ended July 2, 2021 was primarily attributable to lower average borrowings and a decrease in interest expense associated with our deferred compensation plan. The decrease in interest expense, net for the six-month fiscal period ended July 2, 2021 was primarily attributable to lower average borrowings, partially offset by lower interest income and an increase in interest expense associated with our deferred compensation plan.

Effective Income Tax Rate from Continuing Operations

	For the Three Months Ended		For the Six Months Ended	
	July 2, 2021	July 3, 2020	July 2, 2021	July 3, 2020
Effective income tax rate from continuing operations	31.7 %	92.6 %	22.3 %	77.0 %

The effective income tax rate represents the combined federal, state and foreign tax effects attributable to pretax earnings from continuing operations for the period. The variation in the effective tax rate for the current periods compared to the corresponding periods in the prior year was primarily attributable to positive earnings in the current period versus certain discrete provision to return benefits and the relatively small pretax loss in the prior periods. Additionally, in the three-month period ended July 2, 2021, the effective tax rate was impacted by discrete charges related to the sale of the Company's UK Composites business. See Note 18, *Income Taxes*, for further information on the Company's valuation allowance for deferred tax assets.

Backlog

	July 2, 2021	December 31, 2020
	(in thousands)	
Backlog	$ 510,224	$ 631,236

Backlog decreased during the first six months of 2021. The decrease was primarily attributable to revenue recognized on deliveries of direct commercial JPF orders, bearings and springs, seals and contacts and work performed on our structures and missile fuzing programs. These decreases were partially offset by orders of our bearings products and springs, seals and contacts.

Major Programs/Product Lines

Below is a discussion of significant changes in our major programs during the first six months of 2021. See our 2020 Form 10-K, including Item 1A, "Risk Factors", for a complete discussion of our major programs.

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 8,200 fuzes were delivered to our customers during the second quarter of 2021, bringing the year-to-date total to 16,290 fuzes for the six-month fiscal period ended July 2, 2021. We expect to deliver 30,000 to 35,000 fuzes in 2021.

Total JPF backlog at July 2, 2021, was $139.4 million, down from $214.7 million at December 31, 2020, reflecting the delivery of fuzes during the first six months of the year. Of the $139.4 million in backlog at July 2, 2021, $1.3 million requires the receipt of export approvals, licenses or authorizations from the USG before we are permitted to ship the fuzes outside of the United States. The timing and receipt of any such export approvals, licenses, or authorizations are subject to political and geopolitical conditions that are beyond our control. Therefore, there can be no assurance that this portion of our backlog will be converted to a firm sale and, even if it is, the timing of the conversion.

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. We expect to receive an award under Option 16 during the second half of 2021, and similar to Option 15, we expect this order will relate solely to the procurement of fuzes by or in support of foreign militaries and will not include any sales to the USAF. We currently expect Option 16 to have a value of approximately $40 million to $45 million. Assuming that is the case, Option 16 would extend FMU-152 A/B production into 2023.

We continue to market the FMU-152 A/B directly to foreign militaries, and we are currently in discussions with two Middle Eastern customers for one or more follow-on orders aggregating approximately $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.

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 programs, acquisitions, divestitures, dividends, availability of future credit, share repurchase programs, 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 our 2020 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 July 2, 2021, the Company had $98.4 million of cash on our Condensed 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 the daily 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 the Company has 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 the Company.

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

	For the Six Months Ended		
	July 2, 2021	July 3, 2020	2021 vs. 2020
	(in thousands)		
Total cash provided by (used in):			
Operating activities	$ (14,723)	$ (79,400)	$ 64,677
Investing activities	(12,201)	(308,903)	296,702
Financing activities	(10,620)	177,187	(187,807)
Free Cash Flow [a]			
Net cash used in operating activities	$ (14,723)	$ (79,400)	$ 64,677
Expenditures for property, plant and equipment	(8,102)	(9,592)	1,490
Free cash flow	$ (22,825)	$ (88,992)	$ 66,167

[a] Free Cash Flow, a non-GAAP financial measure, is defined as net cash (used in) provided by operating activities less expenditures for property, plant and equipment, both of which are presented in our Condensed Consolidated Statements of Cash Flows. See Management's Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP Financial Measures for more information regarding Free Cash Flow.

Net cash used in operating activities was $14.7 million for the six-month fiscal period ended July 2, 2021, a $64.7 million improvement to cash used in the comparable period in 2020. This change was largely driven by the collection of payments on outstanding receivables, more specifically significant receipts on JPF DCS receivables and lower material receipts on the K-MAX® program and the JPF DCS program in the current period. These changes were partially offset by approximately $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 $12.2 million for the six-month fiscal period ended July 2, 2021, $296.7 million less than cash used in the comparable period in 2020. This change was primarily attributable to cash used to acquire Bal Seal in the prior year.

Net cash used in financing activities was $10.6 million for the six-month fiscal period ended July 2, 2021, compared to net cash provided by financing activities of $177.2 million in the comparable period in 2020. This change was primarily due to higher net borrowings under our revolving credit facility in the prior year in preparation for the potential impact of the COVID-19 pandemic, partially offset by lower purchases of treasury shares in the current period.

We anticipate a variety of items will have an impact on our liquidity during the next twelve months, in addition to the impacts of the COVID-19 pandemic and our working capital requirements. These could include one or more of the following:

- the matters described in Note 14, *Commitments and Contingencies*, in the Notes to Consolidated Financial Statements, including the cost of existing environmental remediation matters;
- contributions to our qualified pension plan and Supplemental Employees' Retirement Plan ("SERP");
- deferred compensation payments to officers;
- interest payments on outstanding debt;
- income tax payments;
- costs associated with acquisitions and corporate development activities;
- finance and operating lease payments;
- capital expenditures;
- research and development expenditures;
- repurchase of common stock under the 2015 Share Repurchase Program;
- payment of dividends;
- costs associated with the start-up of new programs; and
- the timing of payments and the extension of payment terms by our customers.

<u>Financing Arrangements</u>

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

future cash requirements; however, we may decide to borrow additional funds or raise additional 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 advantageous 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 the 2020 Form 10-K for further information on our Financing Arrangements.

Convertible 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, dated May 12, 2017, between the Company and U.S. Bank National Association, as trustee (as amended by the First Supplemental Indenture thereto, dated July 15, 2019, the "Indenture"). 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 our election.

The sale of our former 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 approximately 0.25% of all outstanding notes. Holders of such notes received the repurchase price equal to 100% of the principal amount of the 2024 Notes being purchase, plus accrued and unpaid interest.

We 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 three-month fiscal periods ended July 2, 2021 and July 3, 2020 was $0.3 million in both periods. Total amortization expense for the six-month fiscal periods ended July 2, 2021 and July 3, 2020 was $0.5 million in both periods.

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 matures on December 13, 2024 and consists of revolving commitments of $800.0 million. Capitalized terms used but not defined within this discussion of the Credit Agreement have the meanings ascribed thereto in the Credit Agreement, which with amendments is included as Exhibit 10.39 to our 2020 Form 10-K.

We incurred $3.6 million of debt issuance costs in connection with the amendment and restatement of the Credit Agreement. Total amortization expense for the three-month fiscal periods ended July 2, 2021 and July 3, 2020 was $0.2 million in both periods. Total amortization expense for the six-month fiscal periods ended July 2, 2021 and July 3, 2020 was $0.4 million in both periods.

Interest rates on amounts outstanding under the Credit Agreement are variable based on LIBOR. The LIBOR benchmark has been the subject of national, international, and other regulatory guidance and proposals for reform. In July 2017, the U.K. Financial Conduct Authority announced that it intends to stop persuading or compelling banks to submit rates for calculation of LIBOR after 2021. In November 2020, the ICE Benchmark Association announced its intention to delay the timeline for the retirement of LIBOR until mid-2023. These reforms may cause LIBOR to perform differently than in the past, and LIBOR may ultimately cease to exist after 2021. Alternative benchmark rate(s) may replace LIBOR and could affect the Company's debt securities, derivative instruments, receivables, debt payments and receipts. At this time, it is not possible to predict the effect of any changes to LIBOR, any 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.

No amounts were outstanding under the revolving credit facility in the second quarter of 2021; therefore, the interest rate for the period was 0%. 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 during the six-month period ended July 2, 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:

In thousands	July 2, 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)	$ 350,809	$ 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 JPF DCS contract in the periods ended July 2, 2021 and December 31, 2020, respectively.
(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

Of the standby letters of credit under our credit facility, $86.3 million in letters of a credit relate to 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 obligations, our customer has the ability to draw on the letters of credit.

Pension Plans

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

We contributed $10.0 million to the qualified pension plan and $0.3 million to the SERP through the end of the second quarter of 2021. No further contributions are expected to be made to the qualified pension plan during 2021. We plan to contribute an additional $2.5 million to the SERP in 2021. For the 2020 plan year, we contributed $10.0 million to the qualified pension plan and $0.5 million to the SERP.

Effective December 31, 2015, our qualified pension plan was frozen with respect to future benefit accruals. Under USG Cost Accounting Standard ("CAS") 413, we must calculate the USG's share of any pension curtailment adjustment calculated 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 calculation, which was submitted to the USG for review in December 2016. We have maintained our accrual at $0.3 million as of July 2, 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.

Share-based Arrangements

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") will 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 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 July 2, 2021, future compensation costs related to non-vested stock options, restricted stock grants and performance stock grants is $11.1 million. The Company anticipates that this cost will be recognized over a weighted-average period of 2.49 years.

NON-GAAP FINANCIAL MEASURES

Management believes the non-GAAP (Generally Accepted Accounting Principles) measures used in this report 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 from continuing operations (in thousands)

	For the Three Months Ended		For the Six Months Ended	
	July 2, 2021	**July 3, 2020**	**July 2, 2021**	**July 3, 2020**
Net sales	$ 182,394	$ 177,890	$ 354,010	$ 385,212
Acquisition sales	—	—	—	—
Sales of disposed businesses that did not qualify for discontinued operations	—	4,812	1,704	13,298
Organic Sales	$ 182,394	$ 173,078	$ 352,306	$ 371,914

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.

CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS

There have been no material changes outside the ordinary course of business in our contractual obligations or off-balance sheet arrangements during the first six months of 2021. See our 2020 Form 10-K for a discussion of our contractual obligations and off-balance sheet arrangements.

CRITICAL ACCOUNTING ESTIMATES

Preparation of the Company's financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management believes the most complex and sensitive judgments, because of their significance to the Consolidated Financial Statements, result primarily from the need to make estimates about the effects of matters that are inherently uncertain. Management's Discussion and Analysis and the Notes to Consolidated Financial Statements in the Company's 2020 Form 10-K describe the critical accounting estimates and significant accounting policies used in preparing the Consolidated Financial Statements. Actual results in these areas could differ from management's estimates.

RECENT ACCOUNTING STANDARDS

Information regarding recent changes in accounting standards is included in Note 2, *Recent Accounting Standards*, of the Notes to Condensed Consolidated Financial Statements in this report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no significant changes in the Company's exposure to market risk during the first six months of 2021. See the Company's 2020 Form 10-K for a discussion of the Company's exposure to market risk.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We have carried out an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Act of 1934, as amended, as of July 2, 2021. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of July 2, 2021, our disclosure controls and procedures were effective.

Internal Controls over Financial Reporting

There was no change to our internal control over financial reporting that occurred during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to affect, our internal control over financial reporting.

PART II

Item 1. 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 for losses related to those matters that we consider to be probable and that can be reasonably estimated. Gain contingencies, if any, are recognized when they are realized and legal costs generally are 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 July 2, 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.

As of July 2, 2021, neither the Company nor any of its subsidiaries was a party, nor was 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 14, *Commitments and Contingencies*, of the Notes to Condensed Consolidated Financial Statements.

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 July 2, 2021, will not have a material adverse effect on our business, financial condition and results of operations or cash flows.

Item 1A. Risk Factors

Investors should carefully review and consider the information regarding certain factors that could materially affect our business, results of operations, financial condition and cash flows as set forth under Item 1A. "Risk Factors" in our 2020 Form 10-K. We do not believe there have been any material changes to the risk factors previously disclosed in our 2020 Form 10-K, but we may disclose changes to such factors or disclose additional factors from time to time in future filings with the SEC. Additional risks and uncertainties not presently known to us or that we currently believe not to be material may also adversely impact our business, results of operations, financial position and cash flows.

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) risks related to Kaman's performance of its obligations under the transition services agreement entered into in connection with the sale of our former Distribution business and UK Composites business and disruption of management time from ongoing business operations relating thereto; (ii) changes in domestic and foreign economic and competitive conditions in markets served by the Company, particularly the defense, commercial aviation and industrial production markets; (iii) 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, including the elimination of Overseas Contingency Operations funding, or automatic sequestration); (iv) the global economic impact of the COVID-19 pandemic; (v) changes in geopolitical conditions in countries where the Company does or intends to do business; (vi) 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; (vii) the timely receipt of any necessary export approvals and/or other licenses or authorizations from the USG; (viii) timely satisfaction or fulfillment of material contractual conditions precedents in customer purchase orders, contracts, or similar arrangements; (ix) the existence of standard government contract provisions permitting renegotiation of terms and termination for the convenience of the government; (x) the successful resolution of government inquiries or investigations relating to our businesses and programs; (xi) 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; (xii) potential difficulties associated with variable acceptance test results, given sensitive production materials and extreme test parameters; (xiii) 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; (xiv) the continued support of the existing K-MAX® helicopter fleet, including the 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; (xv) the accuracy of current cost estimates associated with environmental remediation activities; (xvi) the profitable integration of acquired businesses into the Company's operations; (xvii) the ability to recover from cyber-based or other security attacks, information technology failures or other disruptions, including the December 2020 Bal Seal incident; (xviii) changes in supplier sales or vendor incentive policies; (xix) the ability of our suppliers to satisfy their performance obligations; (xx) the effects of price increases or decreases; (xxi) 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; (xxii) future levels of indebtedness and capital expenditures; (xxiii) the continued availability of raw materials and other commodities in adequate supplies and the effect of increased costs for such items; (xxiv) the effects of currency exchange rates and foreign competition on future operations; (xxv) changes in laws and regulations, taxes, interest rates, inflation rates and general business conditions; (xxvi) future repurchases and/or issuances of common stock; (xxvii) the occurrence of unanticipated restructuring costs or the failure to realize anticipated savings or benefits from past or future expense reduction actions; (xxviii) the ability to recruit and retain skilled employees; and (xxix) other risks and uncertainties set forth herein and in our 2020 Form 10-K.

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 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information about purchases of common stock by the Company during the three-month fiscal period ended July 2, 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 (b)	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plan *(in thousands)*
April 3, 2021 - April 30, 2021	—	$ —	—	$2,168
May 1, 2021 - May 28, 2021	—	$ —	—	$2,168
May 29, 2021 - July 2, 2021	845	$ 54.00	—	$2,168
Total	845		—	

(a) During the second quarter of 2021 the Company purchased 845 shares in connection with employee tax withholding obligations as permitted by our equity compensation plans, which are SEC Rule 16b-3 qualified compensation plans. These were not purchases under our publicly announced program.

(b) On April 29, 2015, the Company announced that its Board of Directors approved a $100.0 million share repurchase program. For additional information, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources -- Other Sources/Uses of Capital" in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

Item 6. Index To Exhibits

10.1	Amendment No. 4 to the Executive Employment Agreement between the Company and Neal J. Keating (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
10.2	Amendment No. 1 to Executive Employment Agreement, dated July 8, 2021, by and between the Company and Mr. Starr (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
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14 under the Securities Exchange Act of 1934	Filed Herewith
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14 under the Securities Exchange Act of 1934	Filed Herewith
32.1	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	Filed Herewith
32.2	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	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	
101.SCH	Inline XBRL Taxonomy Extension Schema Document	
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document	
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document	
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document	
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document	
104	Cover Page Interactive Data File, formatted in iXBRL and contained in Exhibit 101	

* Management contract or compensatory plan.

SIGNATURES

Kaman Corporation and Subsidiaries

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	KAMAN CORPORATION Registrant	
Date: August 5, 2021		*/s/ Ian K. Walsh*
	By:	Ian K. Walsh Chairman, President and Chief Executive Officer
Date: August 5, 2021		*/s/ James G. Coogan*
	By:	James G. Coogan Senior Vice President and Chief Financial Officer

UCC-129

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

FORM 10-Q

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

For the quarterly period ended October 1, 2021

Or

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

For the transition period from _____ to ______

Commission File Number: 001-35419

KAMAN CORPORATION
(Exact name of registrant as specified in its charter)

Connecticut
(State or other jurisdiction of incorporation or organization)

06-0613548
(I.R.S. Employer Identification No.)

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

06002
(Zip Code)

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

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock ($1 par value)	KAMN	New York Stock Exchange LLC

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 check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§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, smaller reporting company, or an emerging growth company. See the 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 is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

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At October 29, 2021, there were 27,850,233 shares of Common Stock outstanding.

PART I

Item 1. Financial Statements
CONDENSED CONSOLIDATED BALANCE SHEETS
KAMAN CORPORATION AND SUBSIDIARIES
(In thousands, except share and per share amounts) (Unaudited)

	October 1, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 121,458	$ 104,377
Restricted cash	—	25,121
Accounts receivable, net	80,849	153,806
Contract assets	128,824	108,645
Contract costs, current portion	1,533	3,511
Inventories	195,700	185,072
Income tax refunds receivable	2,123	5,269
Other current assets	14,488	12,173
Total current assets	544,975	597,974
Property, plant and equipment, net of accumulated depreciation of $246,431 and $228,984, respectively	199,955	210,852
Operating right-of-use assets, net	11,091	12,880
Goodwill	242,366	247,244
Other intangible assets, net	141,055	150,198
Deferred income taxes	34,061	39,809
Contract costs, noncurrent portion	10,389	8,311
Other assets	37,808	39,125
Total assets	$ 1,221,700	$ 1,306,393
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable – trade	$ 38,738	$ 60,200
Accrued salaries and wages	40,639	70,552
Contract liabilities, current portion	10,719	39,073
Operating lease liabilities, current portion	4,215	4,305
Income taxes payable	1,228	19
Liabilities held for sale, current portion	—	18,086
Other current liabilities	42,291	36,177
Total current liabilities	137,830	228,412
Long-term debt, excluding current portion, net of debt issuance costs	188,407	185,401
Deferred income taxes	7,180	7,381
Underfunded pension	37,326	69,610
Contract liabilities, noncurrent portion	15,426	11,019
Operating lease liabilities, noncurrent portion	7,556	9,325
Liabilities held for sale, noncurrent portion	—	1,171
Other long-term liabilities	41,226	47,636
Commitments and contingencies (Note 14)		
Shareholders' equity:		
Preferred stock, $1 par value, 200,000 shares authorized; none outstanding	—	—
Common stock, $1 par value, 50,000,000 shares authorized; voting; 30,414,184 and 30,278,668 shares issued, respectively	30,414	30,279
Additional paid-in capital	246,516	238,829
Retained earnings	746,300	728,764
Accumulated other comprehensive income (loss)	(115,322)	(130,821)
Less 2,569,169 and 2,555,785 shares of common stock, respectively, held in treasury, at cost	(121,159)	(120,613)
Total shareholders' equity	786,749	746,438
Total liabilities and shareholders' equity	$ 1,221,700	$ 1,306,393

See accompanying notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
KAMAN CORPORATION AND SUBSIDIARIES
(In thousands, except per share amounts) (Unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	October 1, 2021	October 2, 2020	October 1, 2021	October 2, 2020
Net sales	$ 179,836	$ 213,959	$ 533,846	$ 599,171
Cost of sales	116,771	147,084	355,930	407,926
Gross profit	63,065	66,875	177,916	191,245
Selling, general and administrative expenses	39,335	36,764	116,182	128,488
Goodwill impairment	—	50,307	—	50,307
Research and development costs	2,540	3,634	10,004	11,336
Intangible asset amortization expense	2,624	4,826	7,898	11,269
Costs from transition services agreement	24	3,019	1,728	11,532
Cost of acquired retention plans	—	5,703	—	17,110
Restructuring and severance costs	2,611	1,541	5,479	7,820
Loss (gain) on sale of business	—	—	234	(493)
Net (gain) loss on sale of assets	(31)	8	(16)	(5)
Operating income (loss)	15,962	(38,927)	36,407	(46,119)
Interest expense, net	3,646	5,327	12,232	14,382
Non-service pension and post retirement benefit income	(6,612)	(4,063)	(19,832)	(12,188)
Income from transition services agreement	(14)	(1,829)	(931)	(7,853)
Other (income) expense, net	(172)	(534)	275	(424)
Earnings (loss) from continuing operations before income taxes	19,114	(37,828)	44,663	(40,036)
Income tax expense (benefit)	4,447	679	10,156	(1,022)
Earnings (loss) from continuing operations	14,667	(38,507)	34,507	(39,014)
Earnings from discontinued operations before gain on disposal, net of tax	—	—	—	—
Gain on disposal of discontinued operations, net of tax	—	—	—	692
Total earnings from discontinued operations	—	—	—	692
Net earnings (loss)	$ 14,667	$ (38,507)	$ 34,507	$ (38,322)
Earnings per share:				
Basic earnings (loss) per share from continuing operations	$ 0.53	$ (1.39)	$ 1.24	$ (1.41)
Basic earnings per share from discontinued operations	0.00	0.00	0.00	0.03
Basic earnings (loss) per share	$ 0.53	$ (1.39)	$ 1.24	$ (1.38)
Diluted earnings (loss) per share from continuing operations	$ 0.53	$ (1.39)	$ 1.24	$ (1.41)
Diluted earnings per share from discontinued operations	0.00	0.00	0.00	0.03
Diluted earnings (loss) per share	$ 0.53	$ (1.39)	$ 1.24	$ (1.38)
Average shares outstanding:				
Basic	27,882	27,687	27,855	27,718
Diluted	27,888	27,687	27,889	27,718

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
KAMAN CORPORATION AND SUBSIDIARIES
(In thousands) (Unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	October 1, 2021	**October 2, 2020**	**October 1, 2021**	**October 2, 2020**
Net earnings (loss)	$ 14,667	$ (38,507)	$ 34,507	$ (38,322)
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments and other	(4,342)	9,130	12,890	6,599
Change in pension and post-retirement benefit plan liabilities, net of tax expense of $257 and $330 and $773 and $990, respectively	868	1,107	2,609	3,321
Other comprehensive (loss) income	(3,474)	10,237	15,499	9,920
Comprehensive income (loss)	$ 11,193	$ (28,270)	$ 50,006	$ (28,402)

See accompanying notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
KAMAN CORPORATION AND SUBSIDIARIES
(In thousands) (Unaudited)

	For the Nine Months Ended	
	October 1, 2021	October 2, 2020
Cash flows from operating activities:		
Net earnings (loss)	$ 34,507	$ (38,322)
Less: Total earnings from discontinued operations	—	692
Earnings (loss) from continuing operations	$ 34,507	$ (39,014)
Adjustments to reconcile net earnings from continuing operations to net cash provided by (used in) operating activities of continuing operations:		
Depreciation and amortization	27,474	32,204
Amortization of debt issuance costs	1,406	1,325
Accretion of convertible notes discount	2,191	2,132
Provision for doubtful accounts	373	570
Goodwill impairment	—	50,307
Loss (gain) on sale of business	234	(493)
Net gain on sale of assets	(16)	(5)
Net loss on derivative instruments	815	144
Stock compensation expense	5,684	4,254
Deferred income taxes	4,822	6,590
Changes in assets and liabilities, excluding effects of acquisitions/divestitures:		
Accounts receivable	71,434	(19,556)
Contract assets	(19,940)	(5,085)
Contract costs	(99)	(48)
Inventories	(12,435)	(18,273)
Income tax refunds receivable	3,145	(4,431)
Operating right of use assets	1,739	427
Other assets	1,042	526
Accounts payable - trade	(21,829)	(18,258)
Contract liabilities	(24,036)	(26,165)
Operating lease liabilities	(1,810)	(498)
Acquired retention plan payments	(25,108)	—
Other current liabilities	(2,698)	5,997
Income taxes payable	1,173	(3,464)
Pension liabilities	(29,256)	(18,662)
Other long-term liabilities	(4,689)	(2,903)
Net cash provided by (used in) operating activities of continuing operations	14,123	(52,379)
Cash flows from investing activities:		
Proceeds from sale of discontinued operations	—	5,223
Proceeds from sale of business, net of cash on hand	(3,428)	493
Expenditures for property, plant & equipment	(11,364)	(14,232)
Acquisition of businesses, net of cash acquired	—	(304,661)
Other, net	(502)	(2,097)
Net cash used in investing activities of continuing operations	(15,294)	(315,274)
Cash flows from financing activities:		
Net borrowings under revolving credit agreements	—	101,100
Purchase of treasury shares	(459)	(14,205)
Dividends paid	(16,672)	(16,675)
Other, net	4,086	2,843
Net cash (used in) provided by financing activities of continuing operations	(13,045)	73,063
Net decrease in cash and cash equivalents	(14,216)	(294,590)
Effect of exchange rate changes on cash and cash equivalents	(415)	458
Cash and cash equivalents and restricted cash at beginning of period (See Note 3)	136,089	471,540
Cash and cash equivalents and restricted cash at end of period	$ 121,458	$ 177,408

See accompanying notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the three-month and nine-month fiscal periods ended October 1, 2021 and October 2, 2020
(Unaudited)

1. BASIS OF PRESENTATION

During the third quarter of 2019, Kaman Corporation ("the Company") completed the sale of its Distribution business for total cash consideration of approximately $700.0 million, excluding certain working capital adjustments which were finalized in the first quarter of 2020 and transaction costs. The finalization of the gain on the sale of the Distribution business was recorded to gain on disposal of discontinued operations, net of tax on the Company's Condensed Consolidated Statements of Operations in the nine-month fiscal period ended October 2, 2020. See Note 3, *Disposals*, to the Condensed Consolidated Financial Statements for further information.

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 Accounting Standards Codification 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, the assets of the UK Composites business were written off and the remaining loss related to the anticipated sale of the disposal group was accrued for in liabilities held for sale, current portion on the Company's Consolidated Balance Sheet. 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 Sheet. On February 2, 2021, the Company sold its UK Composites business. See Note 3, *Discontinued Operations and Liabilities Held for Sale*, in the Company's Annual Report on Form 10-K for the year ended December 31, 2020 ("2020 Form 10-K") for additional information.

In the opinion of management, the condensed consolidated financial information reflects all adjustments necessary for a fair statement of the Company's financial position, results of operations and cash flows for the interim periods presented, but do not include all disclosures required by accounting principles generally accepted in the United States of America ("GAAP"). All such adjustments are of a normal recurring nature, unless otherwise disclosed in this report. Certain amounts in prior year financial statements and notes thereto have been reclassified to conform to current year presentation. The statements should be read in conjunction with the consolidated financial statements and notes included in the Company's 2020 Form 10-K.

The Company has a calendar year-end; however, its first three fiscal quarters follow a 13-week convention, with each quarter ending on a Friday. The third quarters for 2021 and 2020 ended on October 1, 2021, and October 2, 2020, respectively.

2. 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 reduction 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

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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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three-month and nine-month fiscal periods ended October 1, 2021 and October 2, 2020
(Unaudited)

2. RECENT ACCOUNTING STANDARDS (CONTINUED)

Recent Accounting Standards Yet to be Adopted - continued

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.

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. The Company is currently in the process of moving its LIBOR benchmark to other non-USD benchmark rates. 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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three-month and nine-month fiscal periods ended October 1, 2021 and October 2, 2020
(Unaudited)

3. 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. 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 significant 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 at December 31, 2020. 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 such, the assets of the UK Composites business were written off and 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.

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		
Proceeds received from the sale of the UK Composites business	$	3,600
Assets, including cash on hand		23,460
Liabilities		6,618
Net book value of business		16,842
UK cumulative foreign currency translation adjustment balance		22,835
Transaction costs		442
Loss on the sale of the UK Composites business	$	36,519

Of this amount, a loss of $36.3 million was recorded in the year ended December 31, 2020 and a loss of $0.2 million was recorded in the nine-month fiscal period ended October 1, 2021.

Cash and cash equivalents and restricted cash at the beginning of the period on the Company's Condensed Consolidated Statement of Cash Flows for the nine-month fiscal period ended October 1, 2021 includes $6.6 million of cash that was included in the UK Composites business disposal group. Given the assets of the disposal group were recognized net of the impairment recorded in the year ended December 31, 2020, such amounts were not reflected on the Company's Condensed 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 approximately $700.0 million, excluding certain working capital adjustments which were finalized in the first quarter of 2020. 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 business met the criteria set forth in ASC 205-20 for discontinued operations.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three-month and nine-month fiscal periods ended October 1, 2021 and October 2, 2020
(Unaudited)

3. DISPOSALS (CONTINUED)

Distribution Business - continued

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 ("IT"), 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. The Company is currently negotiating a release agreement related to certain IT services, which may result in a cash outflow that is not material. Since the sale of the Distribution business, costs associated with the TSA were $18.9 million through October 1, 2021. Costs associated with the TSA in the three-month fiscal period ended October 1, 2021 were not material. The Company incurred $1.7 million in costs associated with the TSA in the nine-month fiscal period ended October 1, 2021. In addition, the Company incurred $3.0 million and $11.5 million in costs associated with the TSA in the three-month and nine-month fiscal periods ended October 2, 2020, respectively. These amounts were included in costs from transition services agreement on the Company's Condensed Consolidated Statements of Operations. Since the sale of the Distribution business, the Company earned $13.0 million in income associated with the TSA through October 1, 2021. Income earned associated with the TSA in the three-month fiscal period ended October 1, 2021 was not material. The Company earned $0.9 million in income associated with the TSA in the nine-month fiscal period ended October 1, 2021. In addition, the Company earned $1.8 million and $7.9 million in income associated with the TSA in the three-month and nine-month fiscal periods ended October 2, 2020, respectively. These amounts were included in income from transition services on the Company's Condensed Consolidated Statements of Operations.

Since the sale of the Distribution business, cash outflows from the Company to its former Distribution business totaled $8.1 million through October 1, 2021, which primarily related to Distribution employee and employee-related costs incurred prior to the sale. There were no cash flows from the Company to its former Distribution business in the nine-month fiscal period ended October 1, 2021. Cash outflows from the Company to its former Distribution business after the sale totaled $0.3 million for the nine-month fiscal period ended October 2, 2020. Since the sale of the Distribution business, cash inflows from the Company's former Distribution business to the Company totaled $18.7 million through October 1, 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 received in the nine-month fiscal periods ended October 1, 2021 and October 2, 2020 totaled $1.8 million and $12.5 million, respectively.

In the nine-month fiscal period ended October 2, 2020, the Company recorded a pretax gain on disposal of discontinued operations as a result of the final settlement of the working capital adjustment, partially offset by transaction costs. The pretax gain of $0.9 million was subject to income tax expense of $0.2 million, resulting in a gain on disposal of discontinued operations, net of tax of $0.7 million in the nine-month fiscal period ended October 2, 2020, which was included in the Company's Condensed Consolidated Statement of Operations. As the gain on the sale of the Distribution business was finalized in 2020, no activity aside from the TSA activity and cash flows discussed above impacted the Company's Condensed Consolidated Financial Statements in the three-month and nine-month fiscal periods ended October 1, 2021.

4. 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.

Upon closing, the Company funded $24.7 million associated with employee retention plans at Bal Seal. 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 for the nine-month fiscal period ended October 1, 2021.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three-month and nine-month fiscal periods ended October 1, 2021 and October 2, 2020
(Unaudited)

5. REVENUE

Disaggregation of Revenue

The following table disaggregates total revenue by major product sales by end market.

	For the Three Months Ended		For the Nine Months Ended	
	October 1, 2021	October 2, 2020	October 1, 2021	October 2, 2020
In thousands				
Defense	$ 43,017	$ 46,324	$ 126,408	$ 137,281
Safe and Arm Devices	49,393	81,252	148,985	196,238
Commercial, Business & General Aviation	44,746	52,894	133,834	164,006
Medical	21,996	17,506	65,441	53,245
Industrial & Other	20,684	15,983	59,178	48,401
Total revenue	$ 179,836	$ 213,959	$ 533,846	$ 599,171

COVID-19

The impact of the novel coronavirus ("COVID-19") and the precautionary measures instituted by governments and businesses to mitigate the spread, including limiting non-essential travel, have contributed to a general slowdown in the global economy. The Company has implemented strategies to limit the risk to its operations with a continued focus on the health of its employees and the satisfaction of its customers' requirements. Despite all of these efforts to mitigate the risks associated with COVID-19, the effects of the pandemic have adversely impacted our commercial end markets, more specifically Commercial, Business and General Aviation customers. The Company saw recoveries in the medical and industrial end markets through the first nine months of 2021 and management expects improved performance through the remainder of 2021. As of the date of this filing, the Company's defense and safe and arm device end markets have not been impacted by COVID-19. The extent and duration of time to which COVID-19 may adversely impact the Company depends on future developments, which are highly uncertain and unpredictable at this time.

The following table disaggregates total revenue by product types.

	For the Three Months Ended		For the Nine Months Ended	
	October 1, 2021	October 2, 2020	October 1, 2021	October 2, 2020
Original Equipment Manufacturer	56 %	49 %	58 %	55 %
Aftermarket	17 %	13 %	14 %	12 %
Safe and Arm Devices	27 %	38 %	28 %	33 %
Total revenue	100 %	100 %	100 %	100 %

The following table illustrates the approximate percentage of revenue recognized for performance obligations satisfied over time versus the amount of revenue recognized for performance obligations satisfied at a point in time.

	For the Three Months Ended		For the Nine Months Ended	
	October 1, 2021	October 2, 2020	October 1, 2021	October 2, 2020
Over time	41 %	25 %	37 %	31 %
Point-in-time	59 %	75 %	63 %	69 %
Total revenue	100 %	100 %	100 %	100 %

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three-month and nine-month fiscal periods ended October 1, 2021 and October 2, 2020
(Unaudited)

5. REVENUE (CONTINUED)

Disaggregation of Revenue - continued

For contracts in which revenue is recognized 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.

Net changes in revenue associated with cost growth on the Company's over time contracts were as follows:

	For the Three Months Ended		For the Nine Months Ended	
	October 1, 2021	October 2, 2020	October 1, 2021	October 2, 2020
In thousands				
Net change in revenue due to change in profit estimates	$ (937)	$ (2,798)	$ (1,518)	$ (5,338)

The net reduction in revenue in the three-month fiscal period ended October 1, 2021 was primarily related to cost growth on certain missile fuzing contracts, partially offset by favorable cost performance on certain structures programs. The net reduction in revenue in the nine-month fiscal period ended October 1, 2021 was primarily related to cost growth on certain structures programs and missile fuzing contracts, partially offset by favorable cost performance on the joint programmable fuze ("JPF") contract with the U.S. Government ("USG"). The net reductions in revenue in the three-month and nine-month fiscal periods ended October 2, 2020 were primarily related to cost growth on certain structures programs and legacy fuzing contracts, partially offset by favorable cost performance on the JPF contract with the USG.

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. Backlog at October 1, 2021 and December 31, 2020, and the portion of backlog the Company expects to recognize revenue on over the next twelve months is as follows:

	October 1, 2021(1)	December 31, 2020
In thousands		
Backlog	$ 545,281	$ 631,236

(1) The Company expects to recognize revenue on approximately 65% of backlog as of October 1, 2021 over the next twelve months.

6. RESTRUCTURING AND SEVERANCE COSTS

General & Administrative Expense Reduction Initiative

The Company continues to evaluate its cost structure with the objective of a lean organizational structure that provides a scalable infrastructure which facilitates future growth opportunities. In the three-month and nine-month fiscal periods ended October 1, 2021, the Company incurred $0.4 million and $3.3 million, respectively, in severance costs associated with these cost reduction efforts, which were included in restructuring and severance costs on the Company's Condensed Consolidated Statements of Operations.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three-month and nine-month fiscal periods ended October 1, 2021 and October 2, 2020
(Unaudited)

6. RESTRUCTURING AND SEVERANCE COSTS (CONTINUED)

General & Administrative Expense Reduction Initiative - continued

Following the sale of the Company's former Distribution business, the Company announced it would undertake a comprehensive review of its general and administrative functions in order to improve operational efficiency and to align the Company's costs with its revenues. The objective of the initiative was to ensure that the Company has a lean organizational structure that provides a scalable infrastructure that facilitates future growth opportunities. The Company identified information technology functions to be outsourced, workforce reductions and other reductions in certain general and administrative expenses which were completed in 2020 to support the cost savings initiative discussed above. In accordance with ASC 712-10, *Compensation - Nonretirement Postemployment Benefits*, the Company recorded $0.7 million and $3.8 million in severance costs associated with these workforce reductions in the three-month and nine-month fiscal periods ended October 2, 2020, respectively, which were included in restructuring and severance costs on the Company's Condensed Consolidated Statements of Operations.

Workforce Reductions in Response to COVID-19

During the first nine months of 2020, the Company implemented workforce reductions and elected to eliminate certain open positions as a response to the unprecedented hardships brought on by COVID-19. For the three-month and nine-month fiscal periods ended October 2, 2020, the Company recorded severance costs of $0.5 million and $3.2 million, respectively, related to workforce reductions, which were included in restructuring costs on the Company's Condensed Consolidated Statement of Operations.

Other Matters

In both the three-month and nine-month fiscal periods ended October 1, 2021, the Company incurred $2.2 million in costs associated with the separation of executive officers, which were included in restructuring and severance costs on the Company's Condensed Consolidated Statements of Operations.

In addition, the Company incurred $0.5 million in severance costs as it integrated the acquisition of Bal Seal in the nine-month fiscal period ended October 2, 2020.

7. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net consisted of the following:

In thousands	October 1, 2021	December 31, 2020
Trade receivables	$ 24,516	$ 19,945
U.S. Government contracts:		
Billed	12,539	18,854
Cost and accrued profit - not billed	1,554	1,080
Commercial and other government contracts		
Billed	39,730	111,794
Cost and accrued profit - not billed	4,141	4,141
Less allowance for doubtful accounts	(1,631)	(2,008)
Accounts receivable, net	$ 80,849	$ 153,806

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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
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7. ACCOUNTS RECEIVABLE, NET (CONTINUED)

The following table summarizes the activity in the allowance for doubtful accounts in the nine-month fiscal period ended October 1, 2021:

In thousands		
Balance at December 31, 2020	$	(2,008)
Provision		(373)
Amounts written off		433
Recoveries		314
Changes in foreign currency exchange rates		3
Balance at October 1, 2021	$	(1,631)

COVID-19

The Company anticipates that the disruptions and delays resulting from the spread of COVID-19 and the measures instituted by the governments and businesses to mitigate its spread could 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.

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

In thousands	October 1, 2021		December 31, 2020	
Contract changes, negotiated settlements and claims for unanticipated contract costs	$	900	$	900

8. CONTRACT ASSETS, CONTRACT COSTS AND CONTRACT LIABILITIES

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

In thousands	October 1, 2021		December 31, 2020		$ Change		% Change
Contract assets	$	128,824	$	108,645	$	20,179	18.6 %
Contract costs, current portion	$	1,533	$	3,511	$	(1,978)	(56.3)%
Contract costs, noncurrent portion	$	10,389	$	8,311	$	2,078	25.0 %
Contract liabilities, current portion	$	10,719	$	39,073	$	(28,354)	(72.6)%
Contract liabilities, noncurrent portion	$	15,426	$	11,019	$	4,407	40.0 %

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 during the nine-month fiscal period ended October 1, 2021. This increase was primarily related to work performed and not yet billed on certain structures programs, the JPF program and the KAflex® program, partially offset by amounts billed on certain structures programs. There were no significant impairment losses related to the Company's contract assets during the three-month and nine-month fiscal periods ended October 1, 2021 and October 2, 2020.

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

Contract Assets - continued

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

In thousands	October 1, 2021	December 31, 2020
Contract changes, negotiated settlements and claims for unanticipated contract costs	$ 2,023	$ 3,178

Contract Costs

At October 1, 2021, costs to fulfill a contract and costs to obtain a contract were $11.4 million and $0.5 million, respectively. 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 Condensed Consolidated Balance Sheets at October 1, 2021 and December 31, 2020.

The decrease in contract costs, current portion was primarily attributable to the amortization of contract costs, partially offset by the reclassification of a portion of costs to fulfill certain structures programs from contract costs, noncurrent portion. For the three-month and nine-month fiscal periods ended October 1, 2021, amortization of contract costs was $1.7 million and $6.9 million, respectively. For the three-month and nine-month fiscal periods ended October 2, 2020, amortization of contract costs was $4.9 million and $9.5 million, respectively.

The increase in contract costs, noncurrent portion was primarily attributable to the addition of costs to fulfill the Titan UAV aerial system program, offset by the reclassification of 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 direct commercial sales ("DCS") contract, the Titan UAV aerial system program and the SH-2G program for New Zealand, partially offset by advances received for the Titan UAV aerial system program and the SH-2G program for New Zealand. Revenue recognized related to contract liabilities, current portion was $18.3 million and $38.8 million in the three-month and nine-month fiscal periods ended October 1, 2021, respectively. Revenue recognized related to contract liabilities, current portion was $21.5 million and $50.2 million in the three-month and nine-month fiscal periods ended October 2, 2020, respectively.

The increase in contract liabilities, noncurrent portion was due to advances received for a JPF DCS contract. For the three-month and nine-month fiscal periods ended October 1, 2021 and October 2, 2020, the Company did not recognize revenue against contract liabilities, noncurrent portion.

9. FAIR VALUE MEASUREMENTS

Fair value is defined as the exchange price that would be received for an asset or 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 the Company 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 in 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.

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9. FAIR VALUE MEASUREMENTS (CONTINUED)

The following table presents the carrying value and fair value of financial instruments that are not carried at fair value:

	October 1, 2021		December 31, 2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value
In thousands				
Debt [1]	$ 191,110	$ 204,031	$ 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 October 1, 2021 and December 31, 2020 included $65.5 million and $51.5 million of Level 1 money market funds, respectively.

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 its counterparties' credit risks. Based on these inputs, the derivative instruments are classified within Level 2 of the valuation hierarchy. At October 1, 2021 and December 31, 2020, the derivative instruments were included in other current assets and other current liabilities on the Company's Condensed Consolidated Balance Sheets. Based on the Company's continued ability to trade and enter into forward contracts and interest rate swaps, the Company considers the markets for its fair value instruments to be active.

The Company evaluated the credit risk associated with the counterparties to these derivative instruments and determined that as of October 1, 2021, such credit risks had not had an adverse impact on the fair value of these instruments.

Nonrecurring Fair Value Measurements

During the third quarter of 2020, the Company incurred a $50.3 million goodwill impairment charge for its Aerosystems reporting unit. Refer to Note 12, *Goodwill and Other Intangible Assets, Net*, in the Company's 2020 Form 10-K for further information regarding the calculation of fair value.

10. 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 Condensed 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 (loss) 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.

Forward Exchange Contracts

The Company holds 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 these contracts are designated as cash flow hedges. The Company will include in earnings amounts currently included in accumulated other comprehensive income (loss) upon recognition of cost of sales related to the underlying transaction. These contracts were not material to the Company's Condensed Consolidated Balance Sheets as of October 1, 2021 and December 31, 2020. The activity related to these contracts was not material to the Company's Condensed Consolidated Financial Statements for the three-month and nine-month fiscal periods ended October 1, 2021 and October 2, 2020.

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11. INVENTORIES

Inventories consisted of the following:

In thousands	October 1, 2021	December 31, 2020
Raw materials	$ 19,341	$ 19,502
Contracts and other work in process (including certain general stock materials)	142,657	129,241
Finished goods	33,702	36,329
Inventories	$ 195,700	$ 185,072

Inventories include amounts associated with matters such as contract changes, negotiated settlements and claims for unanticipated contract costs. These amounts were as follows:

In thousands	October 1, 2021	December 31, 2020
Contract changes, negotiated settlements and claims for unanticipated contract costs	$ 467	$ 500

At October 1, 2021 and December 31, 2020, $71.0 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 Condensed Consolidated Balance Sheets. Management believes that approximately $25.8 million of the K-MAX® inventory will be sold after October 1, 2022, based upon the anticipation of additional aircraft manufacturing and the requirements to support the fleet for the foreseeable future.

At October 1, 2021 and December 31, 2020, $5.8 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 Condensed Consolidated Balance Sheets. Management believes that approximately $4.4 million of the SH-2G(I) inventory will be sold after October 1, 2022. This balance represents spares requirements and inventory to be used on SH-2G programs.

12. GOODWILL AND OTHER INTANGIBLE ASSETS, NET

Goodwill

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

In thousands	
Gross balance at December 31, 2020	$ 313,803
Accumulated impairment	(66,559)
Net balance at December 31, 2020	247,244
Additions	—
Impairments	—
Foreign currency translation	(4,878)
Ending balance at October 1, 2021	$ 242,366

In accordance with ASC 350 - Intangibles - Goodwill and Other, 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. In 2020, 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.

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

During the third quarter of 2020, management identified a triggering event for possible goodwill impairment in its Aerosystems reporting unit. The evaluation resulted in a $50.3 million goodwill impairment charge for the Aerosystems reporting unit, which represented the entire goodwill balance for the reporting unit. This impairment charge was included in goodwill impairment on the Company's Condensed Statement of Operations in both the three-month and nine-month fiscal periods ended October 2, 2020. See Note 12, *Goodwill and Other Intangible Assets*, of the Company's Annual Report on Form 10-K for the year ended December 31, 2020 for further information on the evaluation. No such impairment charges were incurred in the three-month and nine-month fiscal periods ended October 1, 2021.

Other Intangibles

Other intangible assets consisted of:

		At October 1, 2021		At December 31, 2020	
	Amortization Period	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
In thousands					
Customer lists / relationships	6-38 years	$ 127,636	$ (33,896)	$ 128,882	$ (30,094)
Developed technologies	7-20 years	45,331	(12,620)	45,798	(9,665)
Trademarks / trade names	15-40 years	17,077	(2,537)	17,353	(2,149)
Non-compete agreements and other	1-15 years	4,658	(4,646)	5,290	(5,276)
Patents	17 years	523	(471)	523	(464)
Total		$ 195,225	$ (54,170)	$ 197,846	$ (47,648)

13. PENSION PLANS

Components of net pension cost for the Qualified Pension Plan and Supplemental Employees' Retirement Plan ("SERP") were as follows:

	For the Three Months Ended			
	Qualified Pension Plan		SERP	
	October 1, 2021	October 2, 2020	October 1, 2021	October 2, 2020
In thousands				
Service cost	$ 325	$ 1,309	$ —	$ —
Interest cost on projected benefit obligation	3,541	5,255	16	41
Expected return on plan assets	(11,294)	(10,796)	—	—
Amortization of net loss	1,111	1,201	14	236
Net pension (income) cost	$ (6,317)	$ (3,031)	$ 30	$ 277

	For the Nine Months Ended			
	Qualified Pension Plan		SERP	
	October 1, 2021	October 2, 2020	October 1, 2021	October 2, 2020
In thousands				
Service cost	$ 976	$ 3,927	$ —	$ —
Interest cost on projected benefit obligation	10,624	15,765	45	124
Expected return on plan assets	(33,883)	(32,388)	—	—
Amortization of net loss	3,333	3,603	49	708
Net pension (income) cost	$ (18,950)	$ (9,093)	$ 94	$ 832

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13. PENSION PLANS (CONTINUED)

The Company contributed $10.0 million to the qualified pension plan and $0.4 million to the SERP through the end of the third quarter of 2021. No further contributions are expected to be made to the qualified pension plan during 2021. The Company plans to contribute an additional $2.3 million to the SERP in 2021. For the 2020 plan year, the Company contributed $10.0 million to the qualified pension plan and $0.5 million to the SERP.

14. COMMITMENTS AND CONTINGENCIES

Pension Freeze

Effective December 31, 2015, the Company's qualified pension plan was frozen with respect to future benefit accruals. Under USG Cost Accounting Standard (“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 its 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 maintained its accrual at $0.3 million as of October 1, 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.

New Hartford Property

In connection with the sale of the Company’s Music segment in 2007, the Company assumed responsibility for meeting certain requirements of the Connecticut Transfer Act (the “Transfer Act”) that applied to the 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 process, 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 remediation has been nearly completed and the Company continues to monitor the results of the remediation. The total amount paid to date in connection with these environmental remediation activities is $1.7 million. At October 1, 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 Property

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 Connecticut Department of Environmental Protection. 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 $14.6 million. At October 1, 2021, the Company had $2.5 million accrued for these environmental remediation activities. A portion ($0.2 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.

14. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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 October 1, 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. Failure to satisfy the offset requirement could also negatively impact the Company's ability to attract future orders from this 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 performance obligations within this contract. At October 1, 2021, $15.4 million in contract liabilities associated with the potential penalties of the offset requirements were included on the Company's Condensed Consolidated Balance Sheets. At the point the Company has an approved plan to satisfy the offset requirements, the Company will update the estimate of the contract transaction price, including any potential penalties or contract costs associated with the plan to fulfill the offset requirements.

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.

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15. 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 period. The computation of diluted earnings per share reflects the common stock equivalency of dilutive options granted to employees under the Company's stock incentive plan, shares issuable on redemption of its convertible notes and shares issuable upon redemption of outstanding warrants.

	For the Three Months Ended		For the Nine Months Ended	
	October 1, 2021	October 2, 2020	October 1, 2021	October 2, 2020
In thousands, except per share amounts				
Earnings (loss) from continuing operations	$ 14,667	$ (38,507)	$ 34,507	$ (39,014)
Total earnings from discontinued operations	—	—	—	692
Net earnings (loss)	$ 14,667	$ (38,507)	$ 34,507	$ (38,322)
Basic:				
Weighted average number of shares outstanding	27,882	27,687	27,855	27,718
Earnings (loss) per share from continuing operations	$ 0.53	$ (1.39)	$ 1.24	$ (1.41)
Earnings per share from discontinued operations	0.00	0.00	0.00	0.03
Basic earnings per share	$ 0.53	$ (1.39)	$ 1.24	$ (1.38)
Diluted:				
Weighted average number of shares outstanding	27,882	27,687	27,855	27,718
Weighted average shares issuable on exercise of dilutive stock options	6	—	34	—
Total	27,888	27,687	27,889	27,718
Earnings (loss) per share from continuing operations	$ 0.53	$ (1.39)	$ 1.24	$ (1.41)
Earnings per share from discontinued operations	0.00	0.00	0.00	0.03
Diluted earnings per share	$ 0.53	$ (1.39)	$ 1.24	$ (1.38)

Equity awards

For the three-month and nine-month fiscal periods ended October 1, 2021, respectively, 650,554 and 524,617 shares issuable under equity awards granted to employees were excluded from the calculation of diluted earnings per share as they were anti-dilutive based on the average stock price during the periods. For the three-month and nine-month fiscal periods ended October 2, 2020, respectively, 610,253 and 608,804 shares issuable under equity awards granted to employees were excluded from the calculation of diluted earnings per share as they were anti-dilutive based on the average stock price during the periods.

All outstanding stock awards were excluded in the computation of diluted earnings per share in the three-month and nine-month fiscal periods ended October 2, 2020 because their effect was antidilutive due to the loss from continuing operations. For the three-month and nine-month fiscal periods ended October 2, 2020, respectively, an additional 15,574 and 34,288 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.

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15. COMPUTATION OF EARNINGS PER SHARE (CONTINUED)

2024 Convertible Notes

For the three-month and nine-month fiscal periods ended October 1, 2021 and October 2, 2020, shares issuable under the Convertible Notes due 2024 were excluded from the diluted earnings per share calculation because the conversion price was more than the average market price of the Company's stock during the periods.

16. SHARE-BASED ARRANGEMENTS

The Company accounts for stock options, restricted stock awards ("RSAs"), restricted stock units and performance stock units ("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 Named Executive Officers ("NEOs") will 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 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%.

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 the three-month and nine-month fiscal periods ended October 1, 2021 was $1.5 million and $5.7 million, respectively. Of these amounts, $0.1 million and $0.3 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 Condensed Consolidated Statements of Operations. Share-based compensation expense recorded for the three-month and nine-month fiscal periods ended October 2, 2020 was $0.7 million and $4.3 million, respectively. Of these amounts, $0.4 million was recorded to restructuring and severance costs in both the three-month and nine-month fiscal periods ended October 2, 2020 and the remaining amounts were recorded to selling, general and administrative expenses on the Company's Condensed Consolidated Statements of Operations.

Stock option activity was as follows:

	For the Three Months Ended October 1, 2021			For the Nine Months Ended October 1, 2021		
	Options		Weighted - average exercise price	Options		Weighted - average exercise price
Options outstanding at beginning of period	760,936	$	55.15	772,625	$	54.87
Granted	—	$	—	4,990	$	55.85
Exercised	—	$	—	(14,899)	$	39.79
Forfeited or expired	(9,610)	$	63.43	(11,390)	$	63.59
Options outstanding at October 1, 2021	751,326	$	55.05	751,326	$	55.05

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16. SHARE-BASED ARRANGEMENTS (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:

	For the Nine Months Ended	
	October 1, 2021	October 2, 2020
Expected option term (years)	4.9	4.9
Expected volatility	35.7 %	20.2 %
Risk-free interest rate	0.5 %	1.4 %
Expected dividend yield	1.6 %	1.3 %
Per share fair value of options granted	$14.89	$10.74

Restricted stock award and restricted stock unit activity were as follows:

	For the Three Months Ended October 1, 2021			For the Nine Months Ended October 1, 2021		
	Restricted Stock		Weighted-average grant date fair value	Restricted Stock		Weighted-average grant date fair value
Restricted Stock outstanding at beginning of period	143,704	$	53.77	109,514	$	53.66
Granted	—	$	—	83,656	$	55.20
Vested	(3,373)	$	55.85	(50,612)	$	55.81
Forfeited or expired	(210)	$	57.33	(2,437)	$	58.21
Restricted Stock outstanding at October 1, 2021	140,121	$	53.72	140,121	$	53.72

Performance stock unit activity was as follows:

	For the Three Months Ended October 1, 2021			For the Nine Months Ended October 1, 2021		
	Performance Stock		Weighted-average grant date fair value	Performance Stock		Weighted-average grant date fair value
Performance Stock outstanding at beginning of period	80,500	$	70.17	—	$	—
Granted[(1)]	—	$	—	82,460	$	70.17
Vested	—	$	—	—	$	—
Forfeited or expired	—	$	—	(1,960)	$	70.16
Performance Stock outstanding at October 1, 2021	80,500	$	70.17	80,500	$	70.17

[(1)] The PSUs granted in the first quarter of 2021 assumed a 100% achievement level.

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:

		For the Nine Months Ended October 1, 2021
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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three-month and nine-month fiscal periods ended October 1, 2021 and October 2, 2020
(Unaudited)

17. SHAREHOLDERS' EQUITY AND ACCUMULATED OTHER COMPREHENSIVE INCOME

Changes in shareholders' equity for the three-month and nine-month fiscal periods ended October 1, 2021, and October 2, 2020, were as follows:

	For the Three Months Ended		For the Nine Months Ended	
	October 1, 2021	October 2, 2020	October 1, 2021	October 2, 2020
In thousands				
Beginning balance	$ 779,212	$ 803,396	$ 746,438	$ 823,202
Comprehensive income (loss)	11,193	(28,270)	50,006	(28,402)
Dividends declared (per share of common stock, $0.20 and $0.20 and $0.60 and $0.60, respectively)	(5,569)	(5,540)	(16,696)	(16,622)
Employee stock plans and related tax benefit	523	465	2,051	2,451
Purchase of treasury shares	(69)	(37)	(459)	(14,205)
Share-based compensation expense	1,459	664	5,684	4,254
Impact of change in tax accounting standard	—	—	(275)	—
Ending balance	$ 786,749	$ 770,678	$ 786,749	$ 770,678

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

	For the Three Months Ended	
	October 1, 2021	October 2, 2020
In thousands		
Foreign currency translation and other:		
Beginning balance	$ 16,515	$ (18,882)
Net loss on foreign currency translation	(4,342)	9,130
Other comprehensive income (loss), net of tax	(4,342)	9,130
Ending balance	$ 12,173	$ (9,752)
Pension and other post-retirement benefits[1]:		
Beginning balance	$ (128,363)	$ (132,328)
Amortization of net loss, net of tax expense of $257 and $330, respectively	868	1,107
Other comprehensive income, net of tax	868	1,107
Ending balance	$ (127,495)	$ (131,221)
Total accumulated other comprehensive loss	$ (115,322)	$ (140,973)

[1] These accumulated other comprehensive income components are included in the computation of net periodic pension cost. (See Note 13, *Pension Plans* for additional information.)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
For the three-month and nine-month fiscal periods ended October 1, 2021 and October 2, 2020
(Unaudited)

17. SHAREHOLDERS' EQUITY AND ACCUMULATED OTHER COMPREHENSIVE INCOME (CONTINUED)

	For the Nine Months Ended	
In thousands	October 1, 2021	October 2, 2020
Foreign currency translation and other:		
Beginning balance	$ (717)	$ (16,351)
Net loss on foreign currency translation	(9,945)	6,599
Reclassification to net income[1]	22,835	—
Other comprehensive income (loss), net of tax	12,890	6,599
Ending balance	$ 12,173	$ (9,752)
Pension and other post-retirement benefits[2]:		
Beginning balance	$ (130,104)	$ (134,542)
Amortization of net loss, net of tax expense of $773 and $990, respectively	2,609	3,321
Other comprehensive income, net of tax	2,609	3,321
Ending balance	$ (127,495)	$ (131,221)
Total accumulated other comprehensive loss	$ (115,322)	$ (140,973)

[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 3, *Disposals*, for additional information).
[2] These accumulated other comprehensive income components are included in the computation of net periodic pension cost. (See Note 13, *Pension Plans* for additional information.)

18. INCOME TAXES

	For the Three Months Ended		For the Nine Months Ended	
	October 1, 2021	October 2, 2020	October 1, 2021	October 2, 2020
Effective Income Tax Rate from continuing operations	23.3 %	(1.8)%	22.7 %	2.6 %

The effective income tax rate represents the combined federal, state and foreign tax effects attributable to pretax earnings from continuing operations for the period. The comparison of the effective tax rate from continuing operations for the three-month and nine-month fiscal periods ended October 1, 2021 to the corresponding rates in the prior year was impacted by the pretax income in the current period versus pretax loss in the prior period. Due to the prior period pretax loss, the relatively low rate represents a tax expense and was primarily caused by the requirement to treat the tax impact from the goodwill impairment as a discrete item in the prior period. Additionally, the effective tax rate in the current period was impacted by a discrete charge to record a valuation allowance on deferred tax assets for one of the Company's foreign subsidiaries. This charge was partially offset by incremental research and development credit benefits.

19. 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 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Discussion and Analysis of Financial Condition and Results of Operations is intended to provide readers of our condensed consolidated financial statements with the perspectives of management. It presents, in narrative and tabular form, information regarding our financial condition, results of operations, liquidity and certain other factors that may affect our future results, and is designed to enable the readers of this report to obtain an understanding of our businesses, strategies, current trends and future prospects. It should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2020 ("2020 Form 10-K") and the Condensed Consolidated Financial Statements included in Item 1 of this Form 10-Q.

OVERVIEW OF BUSINESS

Kaman Corporation (the "Company" or "Kaman") currently conducts business in the aerospace and defense, industrial and medical markets. Kaman produces and markets proprietary aircraft bearings and components; super precision, miniature ball bearings, proprietary spring energized seals, springs and contacts; complex metallic and composite aerostructures for commercial, military and general aviation fixed and rotary wing aircraft; and safe and arming solutions for missile and bomb systems for the U.S. and allied militaries. The Company also manufactures and supports our K-MAX® manned and unmanned medium-to-heavy lift helicopters and restores, modifies and supports our SH-2G Super Seasprite maritime helicopters.

Executive Summary

In the third quarter, consolidated net sales from continuing operations decreased by 15.9% to $179.8 million compared to the prior year, primarily due to a decrease in sales on our safe and arm devices and commercial, business and general aviation programs. Gross margin as a percentage of sales increased in the quarter to 35.1% compared to 31.3% in the prior year period, due to improved performance on our K-MAX® spares and support and on our seals, springs and contacts. Selling, general and administrative expenses ("S,G&A") increased primarily due to higher group health costs. Operating income in the period benefited from the absence of both the $50.3 million goodwill impairment charge and $5.7 million in costs associated with the acquired retention plans incurred in the prior year, and $3.0 million in lower costs related to the transition services agreement ("TSA"). GAAP diluted earnings per share of $0.53 in the third quarter was the result of the activity discussed above and higher pension-related income, partially offset by lower income from the TSA.

Other financial highlights

- Earnings from continuing operations was $14.7 million and $34.5 million for the three-month and nine-month fiscal periods ended October 1, 2021, respectively, compared to losses from continuing operations of $38.5 million and $39.0 million in the comparable fiscal periods in the prior year. These improvements were primarily driven by the absence of the $50.3 million goodwill impairment charge and costs associated with the acquired retention plans incurred in the prior year and higher non-service pension and post retirement benefit income. Additionally, for the nine-month fiscal period, earnings from continuing operations benefited from the absence of Bal Seal acquisition costs.
- Cash provided by operating activities of continuing operations during the nine-month fiscal period ended October 1, 2021, was $14.1 million, a $66.5 million improvement to the comparable fiscal period in the prior year. This change was primarily due to the collection of payments on outstanding receivables, more specifically significant receipts under a joint programmable fuze ("JPF") direct commercial sales ("DCS") contract, partially offset by approximately $25.1 million in nonrecurring payments to eligible participants of Bal Seal's employee retention plans.
- Total unfulfilled performance obligations ("backlog") decreased 13.6% to $545.3 million compared to total backlog at December 31, 2020, driven by deliveries of direct commercial JPF orders and bearings products, partially offset by the award of Option 16 on our JPF program with the U.S. Government ("USG") and new orders of our bearings products and seals, springs and contacts.

Recent events

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

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- In October 2021, we successfully completed the demonstration of two flight tests for our FireBurst™ enhanced fusing capability, a Kaman patented Height of Burst solution to add to existing and future safe and arm devices.

- In September 2021, we unveiled the KARGO UAV aerial system, a purpose-built, autonomous unmanned 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 July 2021, James G. Coogan was appointed Senior Vice President and Chief Financial Officer, effective July 8, 2021. Mr. Coogan succeeded Robert D. Starr. Mr. Starr continued to be employed by the Company through July 31, 2021 as Executive Vice President.

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, our operations were adversely impacted during the first nine months of 2021 and we have seen some disruptions to our supply chain; however, we continue to meet the demands of our customers. While we did not incur significant disruptions related to the COVID-19 pandemic during the first nine months of 2021, we continue to operate below pre-pandemic levels for our commercial aerospace products through the third quarter of 2021 and expect these levels through the remainder of the year. 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 through the third quarter and expect improved performance through the remainder of 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. 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. 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 has not yet issued this ETS, nor provided any information on its contents, though it is expected that the final rule will echo the requirements of the executive order discussed above. 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 OF OPERATIONS

Net Sales from Continuing Operations

	For the Three Months Ended		For the Nine Months Ended	
	October 1, 2021	October 2, 2020	October 1, 2021	October 2, 2020
	(in thousands)			
Net sales	$ 179,836	$ 213,959	$ 533,846	$ 599,171
$ change	(34,123)	31,289	(65,325)	75,355
% change	(15.9)%	17.1 %	(10.9)%	14.4 %
Sales of disposed businesses that did not qualify for discontinued operations	—	2,804	1,704	16,102
Organic sales	$ 179,836	$ 211,155	$ 532,142	$ 583,069
$ change	(31,319)		(50,927)	
% change	(14.8)%		(8.7)%	

<u>For the Three Months Ended</u>

Net sales decreased for the three-month fiscal period ended October 1, 2021, as compared to the corresponding period in 2020, primarily due to a 14.8% decrease in organic sales. This decrease was driven by a $31.9 million decline in sales of our safe and arm devices, which was due to lower direct commercial sales of our JPF to foreign militaries, partially offset by higher sales under the JPF program with the USG. We saw less significant decreases in our commercial, business and general aviation programs, which continue to be impacted by the effects of COVID-19, and our defense programs, more specifically driven by the absence of a K-MAX® aircraft delivery in the current period and lower sales on our structures programs. Additionally contributing to the decrease was $2.8 million in lower sales due to the absence of sales from our former UK Composites business.

The decreases discussed above were partially offset by recoveries in our medical and industrial end markets. Improvements in our springs, seals and contacts contributed to the $4.7 million increase in sales of our industrial products, while their use in medical implantable and analytical devices drove the $4.5 million increase in sales of our medical products. Sales of our industrial products also benefited from an increase in sales of our bearings and measuring products. Foreign currency exchange rates relative to the U.S. dollar had a favorable impact of $0.2 million in the three-month fiscal period ended October 1, 2021.

The table below summarizes the changes in organic net sales by product line for the three-month fiscal period ended October 1, 2021, compared to the corresponding period in 2020.

Product Line	Increase (Decrease)	$ (in millions)	%
Defense	↓	$(1.6)	(3.5)%
Safe and Arm Devices	↓	$(31.9)	(39.2)%
Commercial, Business and General Aviation	↓	$(7.1)	(13.7)%
Medical	↑	$4.5	25.6%
Industrial	↑	$4.7	29.4%

<u>For the Nine Months Ended</u>

Net sales decreased for the nine-month fiscal period ended October 1, 2021 as compared to the corresponding period in 2020, primarily due to an 8.7% decrease in organic sales. The decrease was driven by $47.3 million in lower sales on our safe and arm devices, due to lower direct commercial sales of our JPF to foreign militaries, partially offset by higher sales under the JPF program with the USG. Our commercial, business and general aviation programs continue to be impacted by COVID-19, evidenced by the $25.1 million decrease in organic sales. This decrease was primarily driven by $27.8 million in lower sales volume of our bearings products and a decrease in sales on the Boeing Wing-to-Body Fairing program, partially offset by increased sales of K-MAX® spares and support in the current period. Organic sales on our defense programs declined $1.6 million, driven by $14.9 million in lower sales on certain structures programs and a certain memory program, partially offset by sales on our A-10 program and the Titan UAV aerial system program. Additionally contributing to the decrease in sales was $14.4 million in lower sales due to the sale of our UK Composites business in the current year.

The decreases discussed above were partially offset by recoveries in our medical and industrial end markets. Improvements in our bearings products and springs, seals and contacts, including products used in medical implantable and analytical devices, contributed to the $12.2 million increase sales of our medical products and the $10.8 million increase in sales in our industrial products. Foreign currency exchange rates relative to the U.S. dollar had a favorable impact of $4.8 million in the nine-month fiscal period ended October 1, 2021.

The table below summarizes the changes in organic net sales by product line for the nine-month fiscal period ended October 1, 2021, compared to the corresponding period in 2020.

Product Line	Increase (Decrease)	$ (in millions)	%
Defense	↓	$(1.6)	(1.2)%
Safe and Arm Devices	↓	$(47.3)	(24.1)%
Commercial, Business and General Aviation	↓	$(25.1)	(15.9)%
Medical	↑	$12.2	22.9%
Industrial	↑	$10.8	22.3%

Gross Profit from Continuing Operations

	For the Three Months Ended		For the Nine Months Ended	
	October 1, 2021	October 2, 2020	October 1, 2021	October 2, 2020
	(in thousands)			
Gross profit	$ 63,065	$ 66,875	$ 177,916	$ 191,245
$ change	(3,810)	5,742	(13,329)	23,002
% change	(5.7)%	9.4 %	(7.0)%	13.7 %
% of net sales	35.1 %	31.3 %	33.3 %	31.9 %

Gross profit decreased for the three-month and nine-month fiscal periods ended October 1, 2021, as compared to the corresponding periods in 2020. These decreases were primarily attributable to lower direct commercial sales of our JPF to foreign militaries and lower sales and associated gross profit on our missile fuzing contracts. These decreases, totaling $15.8 million and $27.6 million, respectively, 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 and on our medical implantable and analytical devices.

Gross profit as a percentage of sales increased for the three-month and nine-month fiscal periods ended October 1, 2021, as compared to the corresponding periods in 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

	For the Three Months Ended		For the Nine Months Ended	
	October 1, 2021	October 2, 2020	October 1, 2021	October 2, 2020
	(in thousands)			
S,G&A	$ 39,335	$ 36,764	$ 116,182	$ 128,488
$ change	2,571	(3,259)	(12,306)	12,943
% change	7.0 %	(8.1)%	(9.6)%	11.2 %
% of net sales	21.9 %	17.2 %	21.8 %	21.4 %

S,G&A increased for the three-month fiscal period ended October 1, 2021, when compared to the corresponding period in 2020. This was primarily attributable to an increase in group health costs and higher incentive compensation costs.

S,G&A decreased for the nine-month fiscal period ended October 1, 2021, when compared to the corresponding period in 2020. This was primarily attributable to the absence of $8.5 million in 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 pension expense, partially offset by an increase in group health costs and higher incentive compensation costs.

Goodwill Impairment

	For the Three Months Ended		For the Nine Months Ended	
	October 1, 2021	October 2, 2020	October 1, 2021	October 2, 2020
	(in thousands)			
Goodwill impairment	$ —	$ 50,307	$ —	$ 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 three-month fiscal period ended October 2, 2020.

See Note 12, *Goodwill and Other Intangible Assets, Net*, of the Company's Annual Report on Form 10-K for the year ended December 31, 2020 for further information on the goodwill impairment charge taken in the prior year period.

Costs from Transition Service Agreement

	For the Three Months Ended		For the Nine Months Ended	
	October 1, 2021	October 2, 2020	October 1, 2021	October 2, 2020
	(in thousands)			
Costs from transition services agreement	$ 24	$ 3,019	$ 1,728	$ 11,532

Upon closing the sale of our former Distribution business, the Company entered into a TSA with the buyer, pursuant to which the Company agreed to support the information technology ("IT"), 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. The Company is currently negotiating a release agreement related to certain IT services, which may result in a cash outflow that is not material. Costs associated with the TSA in the three-month fiscal period ended October 1, 2021 were not material. We incurred $1.7 million in costs associated with the TSA in the nine-month fiscal period ended October 1, 2021. Income earned associated with the TSA in the three-month fiscal period ended October 1, 2021 was not material. In the nine-month fiscal period ended October 1, 2021, these costs were partially offset by $0.9 million in income earned from the TSA, which was included below operating income in income from transition services agreement on the Company's Condensed Consolidated Statement of Operations. We incurred

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$3.0 million and $11.5 million in costs associated with the TSA in the three-month and nine-month fiscal periods ended October 2, 2020, respectively. These costs were partially offset by $1.8 million and $7.9 million in income earned from the TSA in the three-month and nine-month fiscal periods ended October 2, 2020, respectively, which was included below operating income in income from transition services agreement on the Company's Condensed Consolidated Statement of Operations.

Cost of Acquired Retention Plans

	For the Three Months Ended		For the Nine Months Ended	
	October 1, 2021	October 2, 2020	October 1, 2021	October 2, 2020
	(in thousands)			
Costs of acquired retention plans	$ —	$ 5,703	$ —	$ 17,110

Bal Seal's previous owner implemented employee retention plans prior to our acquisition in the first quarter of 2020. Upon closing, we funded $24.7 million of the purchase price into escrow accounts associated with these employee retention plans. As of the date of acquisition, Bal Seal had $1.9 million in costs accrued for these employee retention plans, and the remaining $22.8 million in compensation expense associated with these retention plans was incurred ratably throughout the year ended December 31, 2020. 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 is reflected in the Company's cash flows from operating activities for the nine-month fiscal period ended October 1, 2021.

Restructuring and Severance Costs

	For the Three Months Ended		For the Nine Months Ended	
	October 1, 2021	October 2, 2020	October 1, 2021	October 2, 2020
	(in thousands)			
Restructuring and severance costs	$ 2,611	$ 1,541	$ 5,479	$ 7,820

The Company continues to evaluate its costs with the objective of a lean organizational structure that provides a scalable infrastructure which facilitates future growth opportunities. In the three-month and nine-month fiscal periods ended October 1, 2021, the Company incurred $0.4 million and $3.3 million in severance costs associated with these cost reduction efforts. These actions are expected to begin generating savings in the first half of 2022, with total annualized cost savings of approximately $5.4 million being realized by 2024.

In addition to the severance costs discussed above, we incurred $2.2 million in costs associated with the separation of executive officers in both the three-month and nine-month fiscal periods ended October 1, 2021.

Refer to Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, of the Quarterly Report on Form 10-Q for the period ended October 2, 2020 for a discussion of restructuring and severance costs for the earliest periods presented.

Loss (Gain) on Sale of Business

	For the Three Months Ended		For the Nine Months Ended	
	October 1, 2021	October 2, 2020	October 1, 2021	October 2, 2020
	(in thousands)			
Loss (gain) on sale of business	$ —	$ —	$ 234	$ (493)

In 2020, we received approval from our Board of Directors to sell our UK Composites business. In the fourth quarter of 2020, we accrued a loss of $36.3 million on the anticipated sale. In the first quarter of 2021, we closed on a transaction to sell the UK Composites business. We recorded an additional loss of $0.2 million in the nine-month fiscal period ended October 1, 2021 associated with the sale.

During 2018, we sold our UK Tooling business to better position the Company for increased profitability. In 2019, we incurred a loss of $3.7 million associated with the write-off of note receivables recorded for the remaining amounts to be collected on the

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sale of the UK Tooling business as this balance was deemed not likely to be collected. In the nine-month fiscal period ended October 2, 2020, we collected $0.5 million of the note receivables written off in 2019.

Operating Income (Loss)

	For the Three Months Ended		For the Nine Months Ended	
	October 1, 2021	October 2, 2020	October 1, 2021	October 2, 2020
	(in thousands)			
Operating income (loss)	$ 15,962	$ (38,927)	$ 36,407	$ (46,119)
$ change	54,889	(54,554)	82,526	(84,690)
% change	141.0 %	(349.1)%	178.9 %	(219.6)%
% of net sales	8.9 %	(18.2)%	6.8 %	(7.7)%

The Company had operating income of $16.0 million and $36.4 million for the three-month and nine-month fiscal periods ended October 1, 2021, respectively, compared to operating losses of $38.9 million and $46.1 million in the comparable periods in 2020. The increases in operating income were primarily driven by the absence of the goodwill impairment charge and costs associated with the acquired retention plans incurred in the prior year and lower costs related to the TSA. Additionally contributing to the increase in the nine-month fiscal period was the absence of Bal Seal acquisition costs and third party costs associated with our efforts to reduce general and administrative expenses incurred in the prior year. These changes were partially offset by lower sales and gross profit as discussed above.

Interest Expense, Net

	For the Three Months Ended		For the Nine Months Ended	
	October 1, 2021	October 2, 2020	October 1, 2021	October 2, 2020
	(in thousands)			
Interest expense, net	$ 3,646	$ 5,327	$ 12,232	$ 14,382

Interest expense, net, generally consists of interest charged on our Credit Agreement, which includes a revolving credit facility, our convertible notes and the amortization of debt issuance costs, offset by interest income. The decrease in interest expense, net for the three-month fiscal period ended October 1, 2021 was primarily attributable to lower average borrowings and a decrease in interest expense associated with our deferred compensation plan. The decrease in interest expense, net for the nine-month fiscal period ended October 1, 2021 was primarily attributable to lower average borrowings, partially offset by lower interest income.

Effective Income Tax Rate from Continuing Operations

	For the Three Months Ended		For the Nine Months Ended	
	October 1, 2021	October 2, 2020	October 1, 2021	October 2, 2020
Effective income tax rate from continuing operations	23.3 %	(1.8)%	22.7 %	2.6 %

The effective income tax rate represents the combined federal, state and foreign tax effects attributable to pretax earnings from continuing operations for the period. The comparison of the effective tax rate from continuing operations for the three-month and nine-month fiscal periods ended October 1, 2021 to the corresponding rates in the prior year was impacted by the pretax income in the current period versus pretax loss in the prior period. Due to the prior period pretax loss, the relatively low rate represents a tax expense and was primarily caused by the requirement to treat the tax impact from the goodwill impairment as a discrete item in the prior period. Additionally, the effective tax rate in the current period was impacted by a discrete charge to record a valuation allowance on deferred tax assets for one of the Company's foreign subsidiaries. This charge was partially offset by incremental research and development credit benefits.

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Backlog

	October 1, 2021	December 31, 2020
	(in thousands)	
Backlog	$ 545,281	$ 631,236

Backlog decreased during the first nine months of 2021. The decrease was primarily attributable to revenue recognized on deliveries of direct commercial JPF orders, bearings and springs, seals and contacts and work performed on our structures and missile fuzing programs. These decreases were partially offset by the award of Option 16 on our JPF program with the USG and orders of our bearings products and springs, seals and contacts.

Major Programs/Product Lines

Below is a discussion of significant changes in our major programs during the first nine months of 2021. See our 2020 Form 10-K, including Item 1A, "Risk Factors", for a complete discussion of our major programs.

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 4,000 fuzes were delivered to our customers during the third quarter of 2021, bringing the year-to-date total to 20,290 fuzes for the nine-month fiscal period ended October 1, 2021. We expect to deliver 28,000 to 30,000 fuzes in 2021. Total JPF backlog at October 1, 2021 was $134.7 million, down from $214.7 million at December 31, 2020, reflecting the delivery of fuzes during the first nine months of the year, partially offset by the award of Option 16 discussed below. Of the $134.7 million in backlog at October 1, 2021, $1.3 million requires the receipt of export approvals, licenses or authorizations from the USG before we are permitted to ship the fuzes outside of the United States. The timing and receipt of any such export approvals, licenses, or authorizations are subject to political and geopolitical conditions that are beyond our control. Therefore, there can be no assurance that this portion of our backlog will be converted to a firm sale and, even if it is, the timing of the conversion is unknown.

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.

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 programs, acquisitions, divestitures, dividends, availability of future credit, share repurchase programs, adequacy of available bank lines of credit, and factors that might otherwise affect the company's business

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and operations generally, as described under the heading "Risk Factors" and "Forward-Looking Statements" in Item 1A of Part I of our 2020 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 October 1, 2021, the Company had $121.5 million of cash on our Condensed 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 the daily 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 the Company has 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 the Company.

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

	For the Nine Months Ended		
	October 1, 2021	**October 2, 2020**	**2021 vs. 2020**
		(in thousands)	
Total cash provided by (used in):			
Operating activities	$ 14,123	$ (52,379)	$ 66,502
Investing activities	(15,294)	(315,274)	299,980
Financing activities	(13,045)	73,063	(86,108)
Free Cash Flow [(a)]			
Net cash provided by (used in) operating activities	$ 14,123	$ (52,379)	$ 66,502
Expenditures for property, plant and equipment	(11,364)	(14,232)	2,868
Free cash flow	$ 2,759	$ (66,611)	$ 69,370

[(a)] Free Cash Flow, a non-GAAP financial measure, is defined as net cash (used in) provided by operating activities less expenditures for property, plant and equipment, both of which are presented in our Condensed Consolidated Statements of Cash Flows. See Management's Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP Financial Measures for more information regarding Free Cash Flow.

Net cash provided by operating activities was $14.1 million for the nine-month fiscal period ended October 1, 2021, a $66.5 million improvement to cash used in the comparable period in 2020. This change was largely driven by the collection of payments on outstanding receivables, more specifically significant receipts on JPF DCS receivables, and lower material receipts on the K-MAX® program in the current period. These changes were partially offset by approximately $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 $15.3 million for the nine-month fiscal period ended October 1, 2021, $300.0 million less than cash used in the comparable period in 2020. This change was primarily attributable to cash used to acquire Bal Seal in the prior year.

Net cash used in financing activities was $13.0 million for the nine-month fiscal period ended October 1, 2021, compared to net cash provided by financing activities of $73.1 million in the comparable period in 2020. This change was primarily due to higher net borrowings under our revolving credit facility in the prior year in preparation for the potential impact of the COVID-19 pandemic, partially offset by lower purchases of treasury shares in the current period.

We anticipate a variety of items will have an impact on our liquidity during the next twelve months, in addition to the impacts of the COVID-19 pandemic and our working capital requirements. These could include one or more of the following:

- the matters described in Note 14, *Commitments and Contingencies*, in the Notes to Consolidated Financial Statements, including the cost of existing environmental remediation matters;
- contributions to our qualified pension plan and Supplemental Employees' Retirement Plan ("SERP");
- deferred compensation payments to officers;
- interest payments on outstanding debt;
- income tax payments;
- costs associated with acquisitions and corporate development activities;
- finance and operating lease payments;
- capital expenditures;
- research and development expenditures;
- repurchase of common stock under the 2015 Share Repurchase Program;
- payment of dividends;
- costs associated with the start-up of new programs; and
- the timing of payments and the 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 future cash requirements; however, we may decide to borrow additional funds or raise additional 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 advantageous 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 the 2020 Form 10-K for further information on our Financing Arrangements.

Convertible 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, dated May 12, 2017, between the Company and U.S. Bank National Association, as trustee (as amended by the First Supplemental Indenture thereto, dated July 15, 2019, the "Indenture"). 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 our election.

The sale of our former 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 approximately 0.25% of all outstanding notes. Holders of such notes received the repurchase price equal to 100% of the principal amount of the 2024 Notes being purchase, plus accrued and unpaid interest.

We 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 three-month fiscal periods ended October 1, 2021 and October 2, 2020 was $0.3 million and $0.2 million, respectively. Total amortization expense for the nine-month fiscal periods ended October 1, 2021 and October 2, 2020 was $0.8 million and $0.7 million, respectively.

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 matures on December 13, 2024 and consists of revolving commitments of $800.0 million. Capitalized terms used but not defined within this discussion of the Credit Agreement have the meanings ascribed thereto in the Credit Agreement, which with amendments is included as Exhibit 10.39 to our 2020 Form 10-K.

We incurred $3.6 million of debt issuance costs in connection with the amendment and restatement of the Credit Agreement. Total amortization expense for the three-month fiscal periods ended October 1, 2021 and October 2, 2020 was $0.2 million in both periods. Total amortization expense for the nine-month fiscal periods ended October 1, 2021 and October 2, 2020 was $0.6 million in both periods.

Interest rates on amounts outstanding under the Credit Agreement are variable based on LIBOR. The LIBOR benchmark has been the subject of national, international, and other regulatory guidance and proposals for reform. In July 2017, the U.K. Financial Conduct Authority announced that it intends to stop persuading or compelling banks to submit rates for calculation of LIBOR after 2021. In November 2020, the ICE Benchmark Association announced its intention to delay the timeline for the retirement of LIBOR until mid-2023. These reforms may cause LIBOR to perform differently than in the past, and LIBOR may ultimately cease to exist after 2021. Alternative benchmark rate(s) may replace LIBOR and could affect the Company's debt securities, derivative instruments, receivables, debt payments and receipts. At this time, it is not possible to predict the effect of any changes to LIBOR, any 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 Company is currently in the process of moving its LIBOR benchmark to other non-USD benchmark rates.

No amounts were outstanding under the revolving credit facility in the third quarter of 2021; therefore, the interest rate for the period was 0%. 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 during the nine-month period ended October 1, 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:

In thousands	October 1, 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)]	$ 356,613	$ 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 JPF DCS contract in the periods ended October 1, 2021 and December 31, 2020, respectively.
(3) Amounts available for borrowing subject to EBITDA reflect the minimum borrowing capacity under EBITDA, subject to adjustments.

<u>Other Sources/Uses of Capital</u>

<u>Letters of Credit</u>

Of the standby letters of credit under our credit facility, $86.3 million in letters of a credit relate to 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 obligations, our customer has the ability to draw on the letters of credit.

Pension Plans

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

We contributed $10.0 million to the qualified pension plan and $0.4 million to the SERP through the end of the third quarter of 2021. No further contributions are expected to be made to the qualified pension plan during 2021. We plan to contribute an additional $2.3 million to the SERP in 2021. For the 2020 plan year, we contributed $10.0 million to the qualified pension plan and $0.5 million to the SERP.

Effective December 31, 2015, our qualified pension plan was frozen with respect to future benefit accruals. Under USG Cost Accounting Standard (“CAS”) 413, we must calculate the USG’s share of any pension curtailment adjustment calculated 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 calculation, which was submitted to the USG for review in December 2016. We have maintained our accrual at $0.3 million as of October 1, 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.

Share-based Arrangements

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") will 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 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 October 1, 2021, future compensation costs related to non-vested stock options, restricted stock grants and performance stock grants is $9.0 million. The Company anticipates that this cost will be recognized over a weighted-average period of 2.3 years.

NON-GAAP FINANCIAL MEASURES

Management believes the non-GAAP (Generally Accepted Accounting Principles) measures used in this report 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 from continuing operations (in thousands)

	For the Three Months Ended		For the Nine Months Ended	
	October 1, 2021	**October 2, 2020**	**October 1, 2021**	**October 2, 2020**
Net sales	$ 179,836	$ 213,959	$ 533,846	$ 599,171
Acquisition sales	—	—	—	—
Sales of disposed businesses that did not qualify for discontinued operations	—	2,804	1,704	16,102
Organic Sales	$ 179,836	$ 211,155	$ 532,142	$ 583,069

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.

CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS

There have been no material changes outside the ordinary course of business in our contractual obligations or off-balance sheet arrangements during the first nine months of 2021. See our 2020 Form 10-K for a discussion of our contractual obligations and off-balance sheet arrangements.

CRITICAL ACCOUNTING ESTIMATES

Preparation of the Company's financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management believes the most complex and sensitive judgments, because of their significance to the Consolidated Financial Statements, result primarily from the need to make estimates about the effects of matters that are inherently uncertain. Management's Discussion and Analysis and the Notes to Consolidated Financial Statements in the Company's 2020 Form 10-K describe the critical accounting estimates and significant accounting policies used in preparing the Consolidated Financial Statements. Actual results in these areas could differ from management's estimates.

RECENT ACCOUNTING STANDARDS

Information regarding recent changes in accounting standards is included in Note 2, *Recent Accounting Standards*, of the Notes to Condensed Consolidated Financial Statements in this report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no significant changes in the Company's exposure to market risk during the first nine months of 2021. See the Company's 2020 Form 10-K for a discussion of the Company's exposure to market risk.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We have carried out an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Act of 1934, as amended, as of October 1, 2021. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation,

the Chief Executive Officer and Chief Financial Officer have concluded that, as of October 1, 2021, our disclosure controls and procedures were effective.

Internal Controls over Financial Reporting

There was no change to our internal control over financial reporting that occurred during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to affect, our internal control over financial reporting.

PART II

Item 1. 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 for losses related to those matters that we consider to be probable and that can be reasonably estimated. Gain contingencies, if any, are recognized when they are realized and legal costs generally are 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 October 1, 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.

As of October 1, 2021, neither the Company nor any of its subsidiaries was a party, nor was 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 14, *Commitments and Contingencies*, of the Notes to Condensed Consolidated Financial Statements.

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 October 1, 2021, will not have a material adverse effect on our business, financial condition and results of operations or cash flows.

Item 1A. Risk Factors

Investors should carefully review and consider the information regarding certain factors that could materially affect our business, results of operations, financial condition and cash flows as set forth under Item 1A. “Risk Factors” in our 2020 Form 10-K. We do not believe there have been any material changes to the risk factors previously disclosed in our 2020 Form 10-K, but we may disclose changes to such factors or disclose additional factors from time to time in future filings with the SEC. Additional risks and uncertainties not presently known to us or that we currently believe not to be material may also adversely impact our business, results of operations, financial position and cash flows.

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) risks related to Kaman's performance of its obligations under the transition services agreement entered into in connection with the sale of our former Distribution business and UK Composites business and disruption of management time from ongoing business operations relating thereto; (ii) changes in domestic and foreign economic and competitive conditions in markets served by the Company, particularly the defense, commercial aviation and industrial production markets; (iii) 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, including the elimination of Overseas Contingency Operations funding, or automatic sequestration); (iv) the global economic impact of the COVID-19 pandemic; (v) changes in geopolitical conditions in countries where the Company does or intends to do business; (vi) 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; (vii) the timely receipt of any necessary export approvals and/or other licenses or authorizations from the USG; (viii) timely satisfaction or fulfillment of material contractual conditions precedents in customer purchase orders, contracts, or similar arrangements; (ix) the existence of standard government contract provisions permitting renegotiation of terms and termination for the convenience of the government; (x) the successful resolution of government inquiries or investigations relating to our businesses and programs; (xi) 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; (xii) potential difficulties associated with variable acceptance test results, given sensitive production materials and extreme test parameters; (xiii) 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; (xiv) the continued support of the existing K-MAX® helicopter fleet, including the 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; (xv) the accuracy of current cost estimates associated with environmental remediation activities; (xvi) the profitable integration of acquired businesses into the Company's operations; (xvii) the ability to recover from cyber-based or other security attacks, information technology failures or other disruptions, including the December 2020 Bal Seal incident; (xviii) changes in supplier sales or vendor incentive policies; (xix) the ability of our suppliers to satisfy their performance obligations; (xx) the effects of price increases or decreases; (xxi) 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; (xxii) future levels of indebtedness and capital expenditures; (xxiii) the continued availability of raw materials and other commodities in adequate supplies, including supply chain disruptions, and the effect of increased costs for such items; (xxiv) the effects of currency exchange rates and foreign competition on future operations; (xxv) changes in laws and regulations, taxes, interest rates, inflation rates and general business conditions; (xxvi) future repurchases and/or issuances of common stock; (xxvii) the occurrence of unanticipated restructuring costs or the failure to realize anticipated savings or benefits from past or future expense reduction actions; (xxviii) the ability to recruit and retain skilled employees; and (xxix) other risks and uncertainties set forth herein and in our 2020 Form 10-K.

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.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information about purchases of common stock by the Company during the three-month fiscal period ended October 1, 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 (b)	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plan *(in thousands)*
July 3, 2021 - July 30, 2021	—	$ —	—	$2,168
July 31, 2021 - August 27, 2021	1,529	$ 45.05	—	$2,168
August 28, 2021 - October 1, 2021	—	$ —	—	$2,168
Total	1,529		—	

(a) During the third quarter of 2021 the Company purchased 1,529 shares in connection with employee tax withholding obligations as permitted by our equity compensation plans, which are SEC Rule 16b-3 qualified compensation plans. These were not purchases under our publicly announced program.

(b) On April 29, 2015, the Company announced that its Board of Directors approved a $100.0 million share repurchase program. For additional information, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources -- Other Sources/Uses of Capital" in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

Item 6. Index To Exhibits

10.1	Amendment No. 1 to Executive Employment Agreement, dated July 8, 2021, by and between the Company and Mr. Starr (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
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14 under the Securities Exchange Act of 1934	Filed Herewith
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14 under the Securities Exchange Act of 1934	Filed Herewith
32.1	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	Filed Herewith
32.2	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	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	
101.SCH	Inline XBRL Taxonomy Extension Schema Document	
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document	
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document	
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document	
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document	
104	Cover Page Interactive Data File, formatted in iXBRL and contained in Exhibit 101	

* Management contract or compensatory plan.

SIGNATURES

Kaman Corporation and Subsidiaries

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	KAMAN CORPORATION Registrant	
Date: November 2, 2021		*/s/ Ian K. Walsh*
	By:	Ian K. Walsh Chairman, President and Chief Executive Officer
Date: November 2, 2021		*/s/ James G. Coogan*
	By:	James G. Coogan Senior Vice President and Chief Financial Officer

UCC-130

J.P. MORGAN INDUSTRIALS CONFERENCE

MARCH 17, 2022

Ian Walsh – Chairman, President and CEO

EXTEND YOUR REACH.

KAMAN

CAUTIONARY STATEMENT

FORWARD LOOKING STATEMENTS

This presentation includes "forward looking statements" relating to the announced transactions and future operations of the Company, which can be identified by the use of words such as "will," "expect," "poise," "believe," "plans," "strategy," "prospects," "estimate," "project", "seek," "target," "anticipate," "intend," "future," "likely," "may," "should," "would," "could," and other words of similar meaning in connection with a discussion of future operating or financial performance or events. 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 statements are based on assumptions currently believed to be valid but involve significant risks and uncertainties, many of which are beyond our control, which could cause our actual results to differ from those expressed in the forward looking statements. Such risks and uncertainties include, among others, the ability to implement the anticipated business plans following closing and achieve anticipated benefits and savings; and future and estimated revenues, earnings, cash flow, charges, cost savings and expenditures. Additional risks and uncertainties that could cause our actual results to differ from those expressed in the forward looking statements are identified in our reports filed with the SEC, including our Quarterly Reports on Form 10-Q, our Annual Reports on Form 10-K, and our Current Reports on Form 8-K. The forward looking statements included in this presentation are made only as of the date of this presentation, and the Company does not undertake any obligation to update the forward looking statements to reflect subsequent events or circumstances.

NON-GAAP FINANCIAL MEASURES

Management believes that the Non-GAAP financial measures (i.e. financial measures that are not computed in accordance with Generally Accepted Accounting Principles) used in this presentation or in other disclosures provide important perspectives into the Company's ongoing business performance. The Company does 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. Reconciliations from GAAP measures to the Non-GAAP measures are presented at the end of the presentation.

EXTEND YOUR REACH.

KAMAN

$1.3 B ENTERPRISE VALUE	2,800+ EMPLOYEES
52 CONSECUTIVE YEARS OF DIVIDEND PAYMENTS	SALES IN 50+ COUNTRIES

Note: Data as of December 31, 2021

OUR VISION

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

2021 KEY MESSAGES

EARNINGS

- Achieved our earnings targets by leveraging our new operational excellence model

PERFORMANCE

- Lower JPF sales on legacy fuzing programs
- Robust sales in the medical, industrial, and commercial, business and general aviation markets
- Backlog increase of 11% due in part to higher commercial aerospace order rates

INNOVATION

- Began creating lightweight durable solutions with our proprietary Titanium Diffusion Hardening process
- Launched *KARGO UAV* unmanned aerial system, a purpose built autonomous medium lift logistics vehicle
- Successful demonstration of the *K-MAX TITAN* unmanned aerial system

2021 FINANCIAL RESULTS

$709 M
NET SALES

33%
GROSS MARGIN

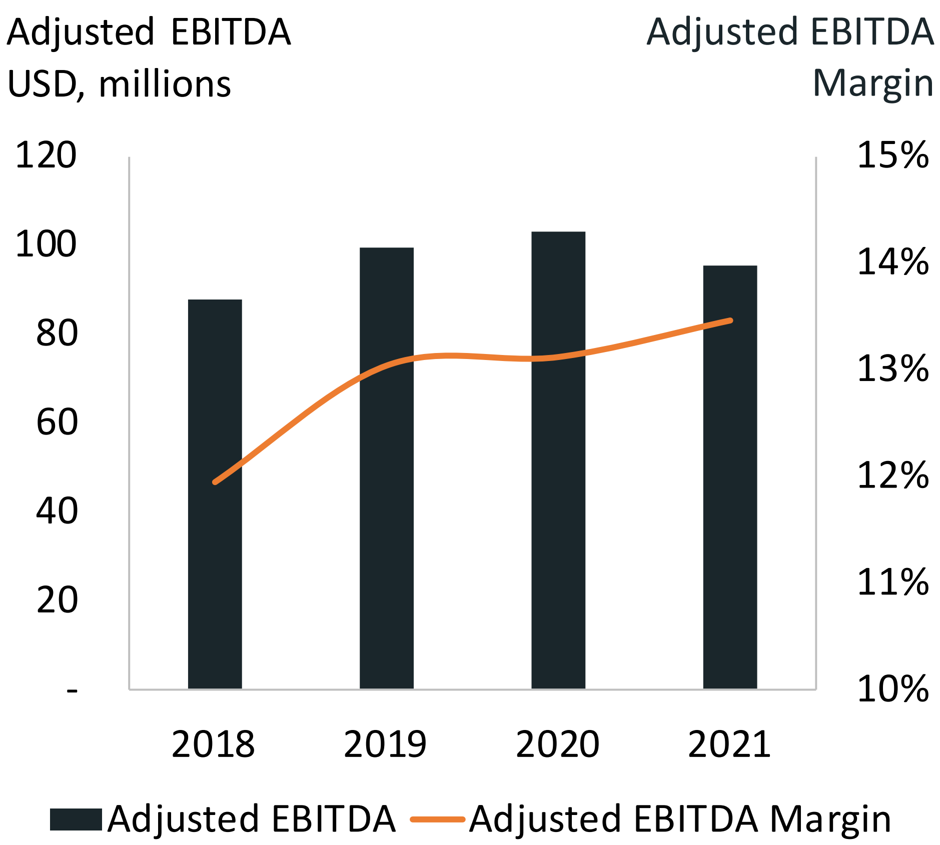
$49 M
CASH FLOW FROM OPERATING ACTIVITIES

$56 M
ADJUSTED FREE CASH FLOW

Earnings from continuing operations	$44 M
Adjusted EBITDA	$95 M
Adjusted EBITDA margin	13.5%
Diluted EPS	$1.57
Adjusted diluted EPS	$1.93

CONSISTENT PERFORMANCE

DIVERSE PORTFOLIO POISED TO CAPTURE REBOUNDING COMMERCIAL AEROSPACE



PORTFOLIO TRANSFORMATION

2019 - Peak commercial aerospace volumes

2020 - Acquired Bal Seal

- Record JPF deliveries
- Pandemic impacts

2021 - Divested U.K. composites business

- Improving outlook for commercial aerospace

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NEW REPORTING STRUCTURE

Provides sophisticated, proprietary bearings and components; super precision, miniature ball bearings; and proprietary spring energized seals, springs and contacts.

ENGINEERED PRODUCTS

Provides precision safe and arming solutions for missile and bomb systems for the U.S. and allied militaries; subcontract helicopter work; manufacture, restoration, modification and support of our helicopter programs including K-MAX®, SH-2G and KARGO UAV unmanned aerial system.

PRECISION PRODUCTS

Provides sophisticated complex metallic and composite aerostructures for commercial, military and general aviation fixed and rotary wing aircraft, and medical imaging solutions.

STRUCTURES

WESCO_UCC00001807

ENGINEERED PRODUCTS

PROVIDING A BROAD RANGE OF PREMIER PRODUCTS FOR DIVERSE END MARKETS

Self Lubricating Bearings

Karon® Self Lubricating Machinable Liner

Traditional Airframe Bearings

Custom design capability

Flexible Drive Systems

Patented and proprietary technology

High Precision Miniature Bearings

Proprietary design, machining & assembly

Engine Aftermarket Components

FAA parts manufacturing authorization

High Precision Seals, Springs & Contacts

Proprietary design, machining & assembly

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PRECISION PRODUCTS

PROVIDING UNMATCHED PRECISON, VERSATILITY AND EFFICIENCY

SAFE & ARM DEVICES

Supporting U.S. & Allied militaries

Joint Programmable Fuze
Harpoon
Maverick
Tomahawk
SLAM_ER
JASSM/LRASSM
ATACMS
Standard
AMRAAM

MEMORY & MEASUREMENT

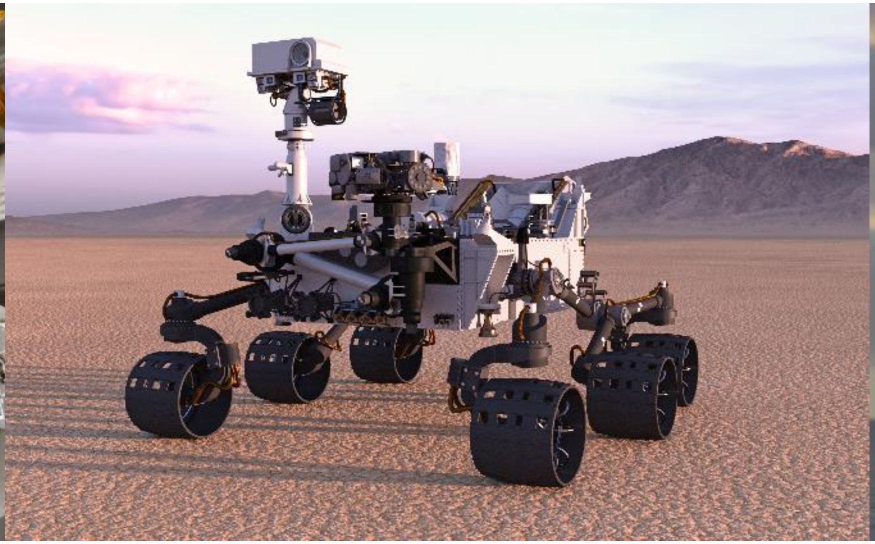
Supporting mission & flight critical applications

Ruggedized avionics modules
Advanced sensor technology
Signal Conditioning electronics

DIVERSE AERIAL SYSTEMS

Supporting heavy & medium lift applications

SH-G2
K-MAX®
K-MAX TITAN
KARGO UAV unmanned aerial system



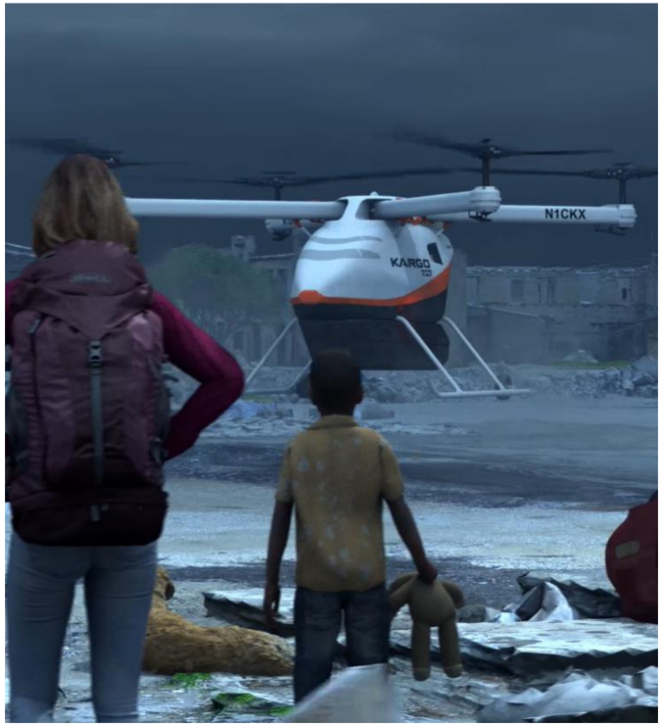
FOCUSED ON INNOVATION

KARGO UAV, unmanned aerial system, a purpose built autonomous medium lift logistics vehicle for a wide range of defense and commercial applications

- Designed for easy transport and deployment
- Lifting capacity of 800 lbs
- Self-deploys with no payload up to 523 nautical miles
- Flight testing of scaled model - Completed 3Q21
- Flight testing of full-scale vehicle - 2022

FUTURE COMMERICAL AIRCRAFT APPLICATIONS

OFFSHORE SUPPORT



HUMANITARIAN AID & DISASTER RELIEF

URBAN DELIVERY

STRUCTURES

PROVIDING KEY STRUCTURAL COMPONENTS ACROSS CRITICAL END MARKETS

Black Hawk Cockpit
Sikorsky multi-year contract awarded in Dec 2021

AH-1Z
Bell blade skin to core structural components

Medical Imaging Tables
Partnership with Mirion Technologies in Jan 2022

A-10 Thunderbolt
Boeing wing assemblies contract through 2030

Commercial
Engine OEM

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2021 SEGMENT RESULTS

ENGINEERED PRODUCTS	PRECISION PRODUCTS	STRUCTURES
Net Sales **$318 M**	Net Sales **$256 M**	Net Sales **$135 M**
Operating Income **$43 M**	Operating Income **$55 M**	Operating Income **-$0.3 M**
Adjusted EBITDA **$69 M**	Adjusted EBITDA **$60 M**	Adjusted EBITDA **$3 M**
Adjusted EBITDA Margin **21.8%**	Adjusted EBITDA Margin **23.2%**	Adjusted EBITDA Margin **2.3%**

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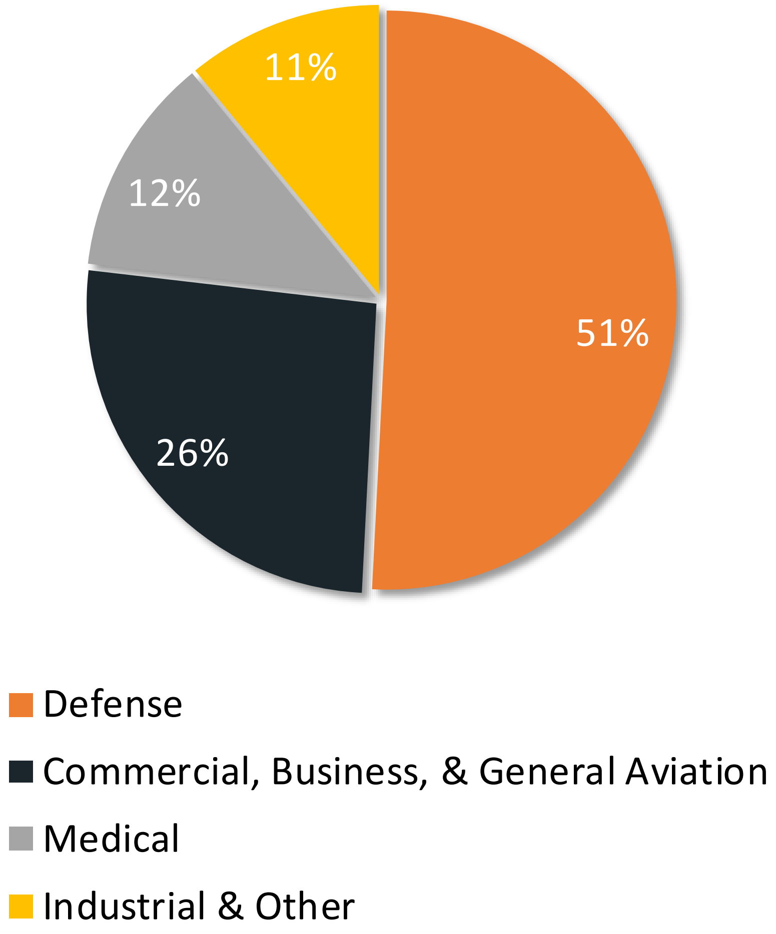
SEGMENT OUTLOOK & STRATEGY

	ENGINEERED PRODUCTS	PRECISION PRODUCTS	STRUCTURES
OUTLOOK	GROWING	TRANSFORMING	IMPROVING
MISSION	Drive organic growth	Pivot to new technologies and markets	Strengthen margin
STRATEGY	Win new business Improve new product introduction Benefit from rebounding commercial aviation market	Develop new products Advance autonomous technologies Launch next generation fuzing systems	Win higher margin programs Improve quality and on-time delivery Drive operations excellence

2021 SALES BY END MARKET



CONSOLIDATED SALES

~86%
OEM

~14%
Aftermarket

COMMERCIAL, BUSINESS, & GENERAL AVIATION

~28%
Boeing & Airbus

~72%
All Other

2022 MARKET OUTLOOK

PLATFORM / END MARKETS	2022 vs. 2021	FULL YEAR EXPECTATIONS
Defense	↓	Improved performance in defense offerings to offset lower JPF volume
Commercial, Business & General Aviation	↑	Benefiting from strong order rates, improved performance and market share wins
Medical	↑	Benefiting from strong order rates, improved performance and adoption of new technologies
Industrials	↑	Benefiting from strong order rates, improved performance and expansion into new markets

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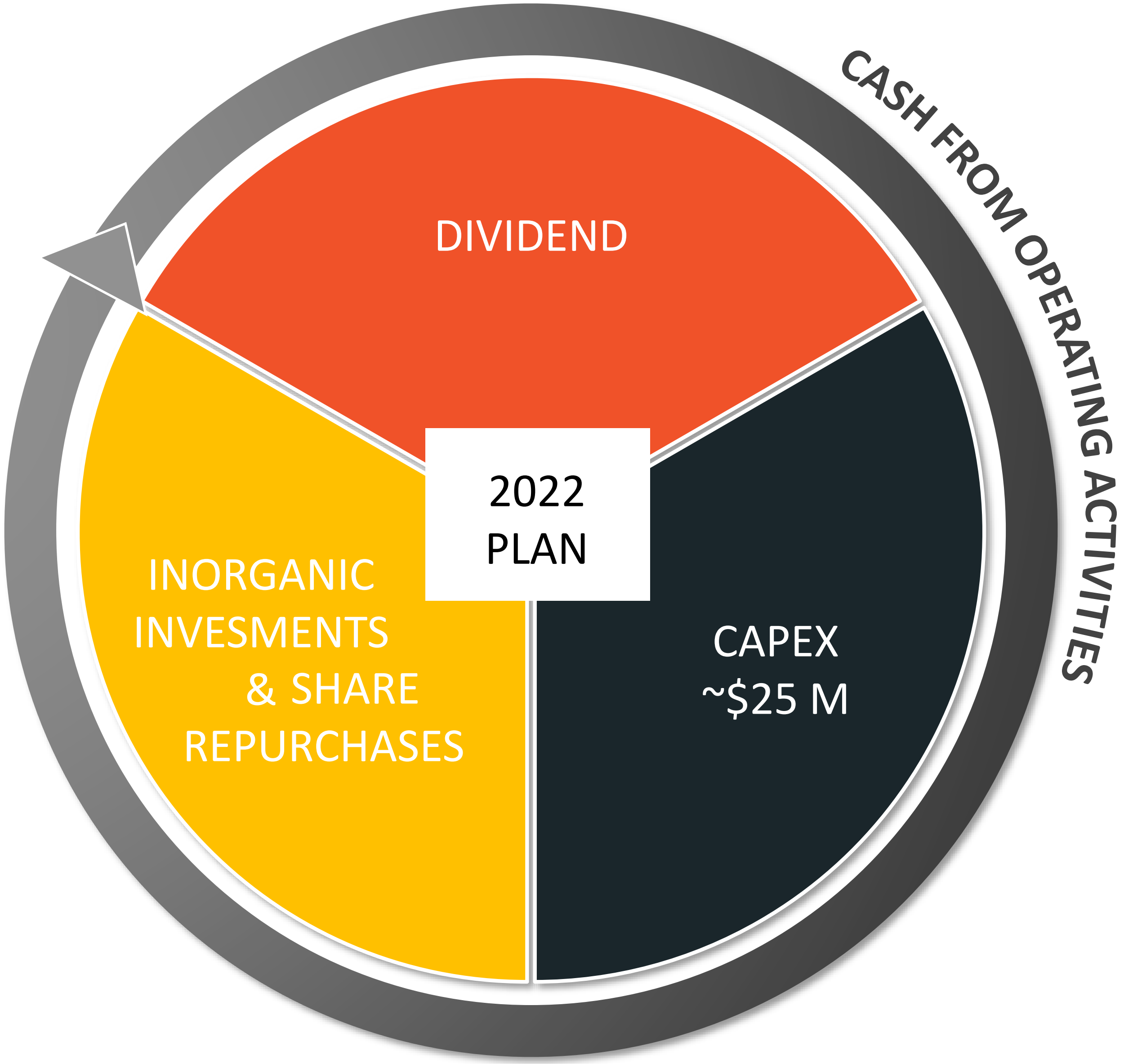
DISCIPLINED CAPITAL ALLOCATION



1 **DIVIDEND**

Committed to a strong dividend

2 **CAPEX**

Capital investments to grow our assets

3 **INORGANIC INVESTMENTS & SHARE REPURCHASES**

Value-creating inorganic growth

Return cash through share repurchases

DISCIPLINED APPROACH TO M&A

OUR STRENGTHS

- Product innovation
- Engineering and manufacturing expertise
- Helping customers solve complex problems

AREAS OF INTEREST

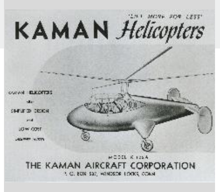
- Businesses with a technical leadership position
- Exposure to high-growth end markets
- Attractive financial profile with strong margins and cash flows
- Markets and technologies we know well

VALUE CRITERIA

- High return investment
- Meaningful synergy opportunities
- Long term leverage target of 2x-3x

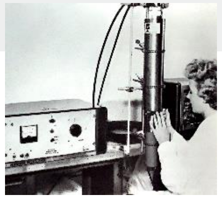
HISTORY OF PORTFOLIO RESHAPING

1940 1950 1960 1970 1980 1990 2000 2010 2020 2030



1945

Founded Kaman Aircraft Corporation



1950s

Launched Kaman Nuclear

1960s

Launched Kamatics and Kaman Music

1970s

Launched Distribution and grew through various acquisitions

1980s

Entered the fuzing business

1997

Divested Kaman Sciences

2007

Divested Kaman Music

2015

Acquired GRW and Extex

2019

Divested Kaman Distribution

2020

Acquired Bal Seal Engineering

2021

Divested U.K. Composites

FOCUSED ON TOP QUARTILE PERFORMANCE

GROWTH THROUGH INNOVATION

Accelerate internal investments in our products, facilities and people

M&A AND CAPITAL ALLOCATION

Expand capabilities through accretive M&A

Maintain a disciplined approach to shareholder returns

OPERATIONAL EXCELLENCE

Drive significantly improved operating and financial performance

EBITDA MARGIN

FREE CASH FLOW CONVERSION

RETURN ON INVESTED CAPITAL

APPENDIX

RECONCILIATIONS

Table 1. Enterprise Value (unaudited)

Thousands of U.S. dollars, except share data	**December 31, 2021**
Common shares outstanding	27,860,373
Closing Price	$ 43.15
Market Capitalization	1,202,175
Long-term debt, excluding current portion, net of debt issuance costs	189,421
Cash and cash equivalents	(140,800)
Net Debt	48,621
Enterprise Value	$ 1,250,796

KAMAN >> 1945

NON-GAAP RECONCILIATIONS

Adjusted EBITDA - Adjusted EBITDA is defined as earnings from continuing operations before interest, taxes, other expense (income), net, depreciation and amortization and certain items that are not indicative of the operating performance of the Company for the periods presented. Adjusted EBITDA differs from earnings from continuing operations, as calculated in accordance with GAAP, in that it excludes interest expense, net, income tax expense, depreciation and amortization, other expense (income), net, non-service pension and post retirement benefit expense (income), and certain items that are not indicative of the operating performance of the Company for the periods presented. We have made numerous investments in our business, such as acquisitions and capital expenditures, including facility improvements, new machinery and equipment, improvements to our information technology infrastructure and ERP systems, which we have adjusted for in Adjusted EBITDA. Adjusted EBITDA also does not give effect to cash used for debt service requirements and thus does not reflect funds available for distributions, reinvestments or other discretionary uses. Management believes Adjusted EBITDA provides an additional perspective on the operating results of the organization and its earnings capacity and helps improve the comparability of our results between periods because it provides a view of our operations that excludes items that management believes are not reflective of operating performance, such as items traditionally removed from net earnings in the calculation of EBITDA as well as Other expense (income), net and certain items that are not indicative of the operating performance of the Company for the period presented. Adjusted EBITDA is not presented as an alternative measure of operating performance, as determined in accordance with GAAP.

Adjusted Earnings from Continuing Operations and Adjusted Diluted Earnings Per Share - Adjusted earnings from continuing operations and adjusted diluted earnings per Share are defined as GAAP "Earnings from continuing operations" and "Diluted earnings per share from continuing operations", less items that are not indicative of the operating performance of the business for the periods presented. These items are included in the reconciliation below. Management uses adjusted earnings from continuing operations and adjusted diluted earnings per share to evaluate performance period over period, to analyze the underlying trends in our business and to assess its performance relative to its competitors. We believe that this information is useful for investors and financial institutions seeking to analyze and compare companies on the basis of operating performance.

Adjusted Free Cash Flow - Adjusted free cash flow is defined as GAAP "Net cash provided by (used in) operating activities from continuing operations" in a period less "Expenditures for property, plant & equipment" in the same period and any adjustments that are representative of the Company's cash generation or usage in the period. For 2021 we adjusted free cash flow to remove the cash payment made to Bal Seal employees under the retention plan established by the former owners of Bal Seal. Management believes free cash flow from continuing operations and adjusted 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 and adjusted 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 and Adjusted free cash flow internally to assess overall liquidity.

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NON-GAAP RECONCILIATIONS

Table 2. Adjusted EBITDA (unaudited)

	Twelve Months Ended			
Thousands of U.S. dollars	December 31, 2018	December 31, 2019	December 31, 2020	December 31, 2021
Sales from continuing operations	$ 735,994	$ 761,608	$ 784,459	$ 708,993
Earnings (loss) from continuing operations, net of tax	15,877	56,446	(70,434)	43,676
Interest expense, net	20,046	17,202	19,270	16,290
Income tax expense (benefit)	9,259	(15,859)	(7,730)	16,832
Non-service pension and post retirement benefit income	(12,127)	(396)	(16,250)	(26,229)
Other income, net	(92)	(309)	(728)	(142)
Income from TSA	-	(3,673)	(8,439)	(931)
Operating income (loss)	$ 32,963	$ 53,411	$ (84,311)	$ 49,496
Depreciation and amortization	27,875	25,854	43,899	36,654
Non-cash, non tax goodwill impairment charge	-	-	50,307	-
Impairment on assets held for sale	-	-	36,285	-
Restructuring and severance costs	7,353	1,558	8,359	6,154
Non-cash intangible asset impairment charge	10,039	-	-	-
Non-cash write-off of inventory	709	-	-	-
Employee tax-related matters in foreign countries	3,040	-	-	-
Cost associated with corporate development activities	1,081	10,090	4,539	1,198
Bal Seal acquisition costs	-	-	8,506	-
Cost of acquired Bal Seal retention plans	-	-	22,814	-
Inventory step-up associated with Bal Seal acquisition	-	-	2,355	-
Costs from transition services agreement	-	4,673	12,515	1,728
Senior leadership transition	-	-	280	-
Reversal of employee tax-related matters in foreign operations	-	-	(1,859)	-
Reversal of environmental accrual at GRW	-	-	(264)	-
Loss (gain) on sale of business	5,722	3,739	(493)	234
Loss on sale of assets and liabilities of Engineering Services	661	-	-	-
Gain on the sale of land	(1,520)	-	-	-
Other Adjustments	$ 54,960	$ 45,914	$ 187,243	$ 45,968
Adjusted EBITDA	$ 87,923	$ 99,325	$ 102,932	$ 95,464
Adjusted EBITDA margin	11.9%	13.0%	13.1%	13.5%

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NON-GAAP RECONCILIATIONS

Table 3. Adjusted EBITDA (unaudited)

Thousands of U.S. dollars

	Twelve Months Ended December 31, 2021				
	Consolidated	Engineered Products	Precision Products	Structures	Corp/Elims**
Sales from continuing operations	$ 708,993	$ 317,683	$ 256,329	$ 134,981	$ -
Earnings (loss) from continuing operations, net of tax	43,676				
Interest expense, net	16,290				
Income tax expense (benefit)	16,832				
Non-service pension and post retirement benefit income	(26,229)				
Other income, net	(142)				
Income from TSA	(931)				
Operating income (loss)	$ 49,496	$ 43,097	$ 55,366	$ (340)	$ (48,627)
Depreciation and amortization	36,654	26,306	4,148	3,462	2,738
Restructuring and severance costs	6,154	-	-	-	6,154
Cost associated with corporate development activities	1,198	-	-	-	1,198
Costs from transition services agreement	1,728	-	-	-	1,728
Loss on sale of business	234	-	-	-	234
Other Adjustments	$ 45,968	$ 26,306	$ 4,148	$ 3,462	$ 12,052
Adjusted EBITDA	$ 95,464	$ 69,403	$ 59,514	$ 3,122	$ (36,575)
Adjusted EBITDA margin	13.5%	21.8%	23.2%	2.3%	

**Corp/Elims Operating income (Loss) represents the Corporate office expenses and $8.1 million of unallocated expenses that are shown on the Consolidated Statement of Earnings as their own line items.

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KAMAN >> 1945

NON-GAAP RECONCILIATIONS

Table 4. Adjusted Free Cash Flow (unaudited)

Thousands of U.S. dollars	Twelve Months Ended December 31, 2021
Net cash provided by operating activities from continuing operations	$ 48,698
Expenditures for property, plant & equipment	(17,530)
Cash paid for acquired retention plans [(1)]	25,108
Adjusted free cash flow	$ 56,276

(1) Operating cash flow from continuing operations includes the $25.1 million payment to Bal Seal employees from the first quarter of 2021, which represents purchase price paid to the former Bal Seal owners accounted for as compensation under ASC 805.

NON-GAAP RECONCILIATIONS

Table 5. Adjusted earnings from continuing operations and Adjusted Diluted Earnings per Share (unaudited)

Thousands of U.S. dollars (except share data)

	Twelve Months Ended December 31, 2021		
	Pre-Tax	Tax-Effected	Diluted EPS
Earnings (loss) from continuing operations	$ 60,508	$ 43,676	$ 1.57
Adjustments:			
Restructuring and severance costs	6,154	4,810	0.17
Costs associated with corporate development activities	1,198	941	0.04
Costs from transition services agreement	1,728	1,370	0.05
Income from transition services agreement	(931)	(739)	(0.03)
Loss on sale of business	234	234	0.01
Tax-related items	3,131	3,131	0.11
Tax effect on sale of UK operations	287	287	0.01
Adjustments	$ 11,801	$ 10,034	$ 0.36
Adjusted earnings from continuing operations	$ 72,309	$ 53,710	$ 1.93
Diluted weighted average shares outstanding			27,891

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended January 1, 2022

OR

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

For the transition period from _________ to _________

Commission file number 1-05129

MOOG Inc.

(Exact name of registrant as specified in its charter)

New York (State or other jurisdiction of incorporation or organization)	**16-0757636** (I.R.S. Employer Identification No.)
400 Jamison Road East Aurora, New York (Address of Principal Executive Offices)	**14052-0018** (Zip Code)

(716) 652-2000
Registrant's telephone number, including area code

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A common stock	MOG.A	New York Stock Exchange
Class B common stock	MOG.B	New York Stock Exchange

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 check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 ☐

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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 the 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 is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The number of shares outstanding of each class of common stock as of January 24, 2022 was:
Class A common stock, 29,052,366 shares
Class B common stock, 2,949,965 shares

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MOOG Inc.

QUARTERLY REPORT ON FORM 10-Q
TABLE OF CONTENTS

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PART I FINANCIAL INFORMATION
Item 1. Financial Statements

MOOG Inc.

Consolidated Condensed Statements of Earnings
(Unaudited)

	Three Months Ended	
(dollars in thousands, except share and per share data)	January 1, 2022	January 2, 2021
Net sales	$ 724,086	$ 683,954
Cost of sales	529,706	494,311
Inventory write-down	1,500	—
Gross profit	192,880	189,643
Research and development	27,708	28,008
Selling, general and administrative	111,797	99,603
Interest	7,982	8,420
(Gain) loss on sale of business	(16,146)	—
Other	116	3,241
Earnings before income taxes	61,423	50,371
Income taxes	15,158	12,529
Net earnings	$ 46,265	$ 37,842
Net earnings per share		
Basic	$ 1.44	$ 1.18
Diluted	$ 1.44	$ 1.17
Average common shares outstanding		
Basic	32,057,399	32,074,873
Diluted	32,188,158	32,237,212

See accompanying Notes to Consolidated Condensed Financial Statements.

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MOOG Inc.

Consolidated Condensed Statements of Comprehensive Income
(Unaudited)

(dollars in thousands)	Three Months Ended January 1, 2022	Three Months Ended January 2, 2021
Net earnings	$ 46,265	$ 37,842
Other comprehensive income (loss) ("OCI"), net of tax:		
Foreign currency translation adjustment	(6,560)	33,497
Retirement liability adjustment	4,090	1,596
Change in accumulated income on derivatives	135	98
Other comprehensive income (loss), net of tax	(2,335)	35,191
Comprehensive income	$ 43,930	$ 73,033

See accompanying Notes to Consolidated Condensed Financial Statements.

MOOG Inc.

Consolidated Condensed Balance Sheets
(Unaudited)

(dollars in thousands)		January 1, 2022		October 2, 2021
ASSETS				
Current assets				
Cash and cash equivalents	$	105,205	$	99,599
Restricted cash		1,521		1,315
Receivables, net		891,588		945,929
Inventories, net		597,444		613,095
Prepaid expenses and other current assets		63,711		58,842
Total current assets		1,659,469		1,718,780
Property, plant and equipment, net		663,498		645,778
Operating lease right-of-use assets		62,657		60,355
Goodwill		842,042		851,605
Intangible assets, net		102,220		106,095
Deferred income taxes		18,239		17,769
Other assets		36,480		32,787
Total assets	$	3,384,605	$	3,433,169
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Current installments of long-term debt	$	367	$	80,365
Accounts payable		178,158		200,602
Accrued compensation		90,965		112,703
Contract advances		367,873		263,686
Accrued liabilities and other		207,375		212,005
Total current liabilities		844,738		869,361
Long-term debt, excluding current installments		775,262		823,355
Long-term pension and retirement obligations		161,285		162,728
Deferred income taxes		74,352		64,642
Other long-term liabilities		104,545		112,939
Total liabilities		1,960,182		2,033,025
Shareholders' equity				
Common stock - Class A		43,803		43,803
Common stock - Class B		7,477		7,477
Additional paid-in capital		518,857		509,622
Retained earnings		2,276,082		2,237,848
Treasury shares		(1,023,086)		(1,007,506)
Stock Employee Compensation Trust		(82,721)		(79,776)
Supplemental Retirement Plan Trust		(66,094)		(63,764)
Accumulated other comprehensive loss		(249,895)		(247,560)
Total shareholders' equity		1,424,423		1,400,144
Total liabilities and shareholders' equity	$	3,384,605	$	3,433,169

See accompanying Notes to Consolidated Condensed Financial Statements.

MOOG Inc.

Consolidated Condensed Statements of Shareholders' Equity

(Unaudited)

	Three Months Ended	
(dollars in thousands)	January 1, 2022	January 2, 2021
COMMON STOCK		
Beginning and end of period	$ 51,280	$ 51,280
ADDITIONAL PAID-IN CAPITAL		
Beginning of period	509,622	472,645
Issuance of treasury shares	1,755	3,118
Equity-based compensation expense	2,405	2,412
Adjustment to market - SECT and SERP	5,075	26,863
End of period	518,857	505,038
RETAINED EARNINGS		
Beginning of period	2,237,848	2,112,734
Net earnings	46,265	37,842
Dividends [1]	(8,031)	(8,010)
End of period	2,276,082	2,142,566
TREASURY SHARES AT COST		
Beginning of period	(1,007,506)	(990,783)
Class A and B shares issued related to compensation	1,077	850
Class A and B shares purchased	(16,657)	(10,862)
End of period	(1,023,086)	(1,000,795)
STOCK EMPLOYEE COMPENSATION TRUST ("SECT")		
Beginning of period	(79,776)	(64,242)
Issuance of shares	2,075	274
Purchase of shares	(2,275)	(655)
Adjustment to market	(2,745)	(13,974)
End of period	(82,721)	(78,597)
SUPPLEMENTAL RETIREMENT PLAN ("SERP") TRUST		
Beginning of period	(63,764)	(53,098)
Adjustment to market	(2,330)	(12,888)
End of period	(66,094)	(65,986)
ACCUMULATED OTHER COMPREHENSIVE LOSS		
Beginning of period	(247,560)	(285,453)
Other comprehensive income (loss)	(2,335)	35,191
End of period	(249,895)	(250,262)
TOTAL SHAREHOLDERS' EQUITY	$ 1,424,423	$ 1,303,244

See accompanying Notes to Consolidated Condensed Financial Statements.

[1] Cash dividends were $0.25 per share for three months ended January 1, 2022 and January 2, 2021, respectively.

MOOG Inc.

Consolidated Condensed Statements of Shareholders' Equity, Shares
(Unaudited)

	Three Months Ended	
(share data)	January 1, 2022	January 2, 2021
COMMON STOCK - CLASS A		
Beginning of period	43,803,236	43,799,229
Conversion of Class B to Class A	—	3,000
End of period	43,803,236	43,802,229
COMMON STOCK - CLASS B		
Beginning of period	7,476,477	7,480,484
Conversion of Class B to Class A	—	(3,000)
End of period	7,476,477	7,477,484
TREASURY SHARES - CLASS A COMMON STOCK		
Beginning of period	(14,157,721)	(13,959,998)
Class A shares issued related to compensation	22,042	14,452
Class A shares purchased	(190,439)	(72,575)
End of period	(14,326,118)	(14,018,121)
TREASURY SHARES - CLASS B COMMON STOCK		
Beginning of period	(3,179,055)	(3,344,877)
Class B shares issued related to compensation	58,338	71,059
Class B shares purchased	(33,550)	(92,861)
End of period	(3,154,267)	(3,366,679)
SECT - CLASS A COMMON STOCK		
Beginning and end of period	(425,148)	(425,148)
SECT - CLASS B COMMON STOCK		
Beginning of period	(600,880)	(557,543)
Issuance of shares	25,000	4,135
Purchase of shares	(27,827)	(8,543)
End of period	(603,707)	(561,951)
SERP - CLASS B COMMON STOCK		
Beginning and end of period	(826,170)	(826,170)

See accompanying Notes to Consolidated Condensed Financial Statements.

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MOOG Inc.

Consolidated Condensed Statements of Cash Flows
(Unaudited)

(dollars in thousands)	Three Months Ended January 1, 2022	Three Months Ended January 2, 2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	$ 46,265	$ 37,842
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	19,290	18,647
Amortization	3,402	2,841
Deferred income taxes	7,895	(139)
Equity-based compensation expense	2,658	2,502
(Gain) loss on sale of business	(16,146)	—
Inventory write-down	1,500	—
Other	699	1,544
Changes in assets and liabilities providing (using) cash:		
Receivables	38,941	3,664
Inventories	7,179	(4,058)
Accounts payable	(20,833)	(7,510)
Contract advances	105,548	29,712
Accrued expenses	(26,914)	6,989
Accrued income taxes	5,173	8,831
Net pension and post retirement liabilities	4,501	5,022
Other assets and liabilities	(21,973)	(11,792)
Net cash provided by operating activities	157,185	94,095
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of businesses, net of cash acquired	—	(77,708)
Purchase of property, plant and equipment	(37,059)	(20,309)
Other investing transactions	37,336	1,604
Net cash provided (used) by investing activities	277	(96,413)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from revolving lines of credit	215,200	271,700
Payments on revolving lines of credit	(263,476)	(235,700)
Proceeds from long-term debt	—	25,100
Payments on long-term debt	(80,060)	(27,586)
Payments on finance lease obligations	(505)	(488)
Payment of dividends	(8,031)	(8,010)
Proceeds from sale of treasury stock	2,144	—
Purchase of outstanding shares for treasury	(16,657)	(11,674)
Proceeds from sale of stock held by SECT	2,075	274
Purchase of stock held by SECT	(2,275)	(655)
Net cash provided (used) by financing activities	(151,585)	12,961
Effect of exchange rate changes on cash	(65)	2,619
Increase in cash, cash equivalents and restricted cash	5,812	13,262
Cash, cash equivalents and restricted cash at beginning of period	100,914	85,072
Cash, cash equivalents and restricted cash at end of period	$ 106,726	$ 98,334
SUPPLEMENTAL CASH FLOW INFORMATION		
Treasury shares issued as compensation	$ 688	$ 3,967
Equipment and property acquired through lease financing	8,755	3,081

See accompanying Notes to Consolidated Condensed Financial Statements.

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MOOG Inc.

Notes to Consolidated Condensed Financial Statements
Three Months Ended January 1, 2022
(Unaudited)
(dollars in thousands, except per share data)

Note 1 - Basis of Presentation

The accompanying unaudited consolidated condensed financial statements have been prepared by management in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments consisting of normal recurring adjustments considered necessary for the fair presentation of results for the interim period have been included. The results of operations for the three months ended January 1, 2022 are not necessarily indicative of the results expected for the full year. The accompanying unaudited consolidated condensed financial statements should be read in conjunction with the financial statements and notes thereto included in our Form 10-K for the fiscal year ended October 2, 2021. All references to years in these financial statements are to fiscal years.

COVID-19 Impacts On Our Business

The spread of the COVID-19 outbreak has disrupted businesses on a global scale. On March 11, 2020, the World Health Organization classified the outbreak as a pandemic. As we entered this crisis, the Company established two clear priorities: first and foremost the health and safety of our employees and their families, and second, continuing to meet the needs of our customers and secure the financial well-being of the Company. Substantially all of our operations and production activities have, to-date, remained operational. COVID-19 is discussed in more detail throughout “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Recent Accounting Pronouncements Adopted

There have been no accounting pronouncements adopted for the three months ended January 1, 2022.

Recent Accounting Pronouncements Not Yet Adopted

We consider the applicability and impact of all Accounting Standard Updates (ASU). ASUs not listed were assessed and determined to be either not applicable, or had or are expected to have an immaterial impact on our financial statements and related disclosures.

Note 2 - Revenue from Contracts with Customers

We recognize revenue from contracts with customers using the five-step model prescribed in ASC 606. The first step is identifying the contract. The identification of a contract with a customer requires an assessment of each party's rights and obligations regarding the products or services to be transferred, including an evaluation of termination clauses and presently enforceable rights and obligations. Each party's rights and obligations and the associated terms and conditions are typically determined in purchase orders. For sales that are governed by master supply agreements under which provisions define specific program requirements, purchase orders are issued under these agreements to reflect presently enforceable rights and obligations for the units of products and services being purchased.

Contracts are sometimes modified to account for changes in contract specifications and requirements. When this occurs, we assess the modification as prescribed in ASC 606 and determine whether the existing contract needs to be modified (and revenue cumulatively caught up), whether the existing contract needs to be terminated and a new contract needs to be created, or whether the existing contract remains and a new contract needs to be created. This is determined based on the rights and obligations within the modification as well as the associated transaction price.

The next step is identifying the performance obligations. A performance obligation is a promise to transfer goods or services to a customer that is distinct in the context of the contract, as defined by ASC 606. We identify a performance obligation for each promise in a contract to transfer a distinct good or service to the customer. As part of our assessment, we consider all goods and/or services promised in the contract, regardless of whether they are explicitly stated or implied by customary business practices. The products and services in our contracts are typically not distinct from one another due to their complexity and reliance on each other or, in many cases, we provide a significant integration service. Accordingly, many of our contracts are accounted for as one performance obligation. In limited cases, our contracts have more than one distinct performance obligation, which occurs when we perform activities that are not highly complex or interrelated or involve different product life cycles. Warranties are provided on certain contracts, but do not typically provide for services beyond standard assurances and are therefore not distinct performance obligations under ASC 606.

The third step is determining the transaction price, which represents the amount of consideration we expect to be entitled to receive from a customer in exchange for providing the goods or services. There are times when this consideration is variable, for example a volume discount, and must be estimated. Sales, use, value-added, and excise taxes are excluded from the transaction price, where applicable.

The fourth step is allocating the transaction price. The transaction price must be allocated to the performance obligations identified in the contract based on relative stand-alone selling prices when available, or an estimate for each distinct good or service in the contract when standalone prices are not available. Our contracts with customers generally require payment under normal commercial terms after delivery. Payment terms are typically within 30 to 60 days of delivery. The timing of satisfaction of our performance obligations does not significantly vary from the typical timing of payment.

The final step is the recognition of revenue. We recognize revenue as the performance obligations are satisfied. ASC 606 provides guidance to help determine if we are satisfying the performance obligation at a point in time or over time. In determining when performance obligations are satisfied, we consider factors such as contract terms, payment terms and whether there is an alternative use of the product or service. In essence, we recognize revenue when, or as control of, the promised goods or services transfer to the customer.

Revenue is recognized either over time using an input method that uses costs incurred to date to measure progress toward completion ("cost-to-cost") method, or point in time method. The over-time method of revenue recognition is predominantly used in Aircraft Controls and Space and Defense Controls. We use this method for U.S. Government contracts and repair and overhaul arrangements as we are creating or enhancing assets that the customer controls as the assets are being created or enhanced. In addition, many of our large commercial contracts qualify for over-time accounting as our performance does not create an asset with an alternative use and we have an enforceable right to payment for performance completed to date. Our over-time contracts are primarily firm fixed price.

Revenue recognized at the point in time control is transferred to the customer is used most frequently in Industrial Systems. We use this method for commercial contracts in which the asset being created has an alternative use. We determine the point in time control transfers to the customer by weighing the five indicators provided by ASC 606 - the entity has a present right to payment; the customer has legal title; the customer has physical possession; the customer has significant risks and rewards of ownership; and the customer has accepted the asset. When control has transferred to the customer, profit is generated as cost of sales is recorded and as revenue is recognized. Inventory costs include all product manufacturing costs such as direct material, direct labor, other direct costs and indirect overhead cost allocations. Shipping and handling costs are considered costs to fulfill a contract and not considered performance obligations. They are included in cost of sales as incurred.

Revenue is recognized on contracts using the cost-to-cost method of accounting as work progresses toward completion as determined by the ratio of cumulative costs incurred to date to estimated total contract costs at completion, multiplied by the total estimated contract revenue, less cumulative revenue recognized in prior periods. We believe that cumulative costs incurred to date as a percentage of estimated total contract costs at completion is an appropriate measure of progress toward satisfaction of performance obligations as this measure most accurately depicts the progress of our work and transfer of control to our customers. Changes in estimates affecting sales, costs and profits are recognized in the period in which the change becomes known using the cumulative catch-up method of accounting, resulting in the cumulative effect of changes reflected in the period. Estimates are reviewed and updated quarterly for substantially all contracts. For the three months ended January 1, 2022 and January 2, 2021 we recognized additional revenue $10,978 and $1,882, respectively for adjustments made to performance obligations satisfied (or partially satisfied) in previous periods.

Contract costs include only allocable, allowable and reasonable costs which are included in cost of sales when incurred. For applicable U.S. Government contracts, contract costs are determined in accordance with the Federal Acquisition Regulations and the related Cost Accounting Standards. The nature of these costs includes development engineering costs and product manufacturing costs such as direct material, direct labor, other direct costs and indirect overhead costs. Contract profit is recorded as a result of the revenue recognized less costs incurred in any reporting period. Variable consideration and contract modifications, such as performance incentives, penalties, contract claims or change orders are considered in estimating revenues, costs and profits when they can be reliably estimated and realization is considered probable. Revenue recognized on contracts for unresolved claims or unapproved contract change orders was not material for the three months ended January 1, 2022.

As of January 1, 2022, we had contract reserves of $52,589. For contracts with anticipated losses at completion, a provision for the entire amount of the estimated remaining loss is charged against income in the period in which the loss becomes known. Contract losses are determined considering all direct and indirect contract costs, exclusive of any selling, general or administrative cost allocations that are treated as period expenses. Loss reserves are more common on firm fixed-price contracts that involve, to varying degrees, the design and development of new and unique controls or control systems to meet the customers' specifications. In accordance with ASC 606, we calculate contract losses at the contract level, versus the performance obligation level. Recall reserves are recorded when additional work is needed on completed products for them to meet contract specifications. Contract-related loss reserves are recorded for the additional work needed on completed and delivered products in order for them to meet contract specifications.

Contract Assets and Liabilities

Unbilled receivables (contract assets) primarily represent revenues recognized for performance obligations that have been satisfied but for which amounts have not been billed. These are included as Receivables on the Consolidated Condensed Balance Sheets. Contract advances (contract liabilities) relate to payments received from customers in advance of the satisfaction of performance obligations for a contract. We do not consider contract advances to be significant financing components as the intent of these payments in advance are for reasons other than providing a significant financing benefit and are customary in our industry.

Total contract assets and contract liabilities are as follows:

		January 1, 2022		October 2, 2021
Unbilled receivables	$	575,709	$	546,764
Contract advances		367,873		263,686
Net contract assets	$	207,836	$	283,078

The increase in contract assets reflects the net impact of additional unbilled revenues recorded in excess of revenue recognized during the period. The increase in contract liabilities reflects the net impact of additional deferred revenues recorded in excess of revenue recognized during the period. For the three months ended January 1, 2022, we recognized $74,684 of revenue that was included in the contract liability balance at the beginning of the period.

Remaining Performance Obligations

As of January 1, 2022, the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) was $4,800,000. We expect to recognize approximately 46% of that amount as sales over the next twelve months and the balance thereafter.

Disaggregation of Revenue

See Note 19, Segments, for disclosures related to disaggregation of revenue.

Note 3 - Acquisitions and Divestitures

Acquisitions

On December 18, 2020, we acquired Genesys Aerosystems Group, Inc. (Genesys), headquartered in Mineral Wells, Texas for a purchase price of $77,600, net of acquired cash. Genesys designs and manufactures a full suite of electronic flight instrument systems and autopilot solutions. This operation is included in our Aircraft Controls segment.

Divestitures

On December 3, 2021, we sold the assets of our Navigation Aids (NAVAIDS) business based in Salt Lake City, Utah previously included in our Aircraft Controls segment to Thales. We received proceeds at closing of $38,611, which are included in other investing transactions on the Consolidated Condensed Statements of Cash Flows and recorded a gain of $16,146, net of transaction costs. The sale is subject to customary post closing working capital and other adjustments, including amounts currently held in escrow.

In the first quarter of 2021, we sold a non-core business in our Aircraft Controls segment for $2,081 in net consideration in other investing transactions and recorded a loss of $442.

Note 4 - Receivables

Receivables consist of:

	January 1, 2022	October 2, 2021
Accounts receivable	$ 312,311	$ 395,674
Unbilled receivables	575,709	546,764
Other	7,560	7,842
Less allowance for credit losses	(3,992)	(4,351)
Receivables, net	$ 891,588	$ 945,929

On November 4, 2021, Moog Receivables LLC (the "Receivables Subsidiary"), a wholly owned bankruptcy remote special purpose subsidiary of Moog Inc. (the "Company"), as seller, the Company, as master servicer, Wells Fargo Bank, N.A., as administrative agent (the "Agent") and certain purchasers (collectively, the "Purchasers") entered into an Amended and Restated Receivables Purchase Agreement (the "RPA"). The RPA matures on November 4, 2024 and is subject to customary termination events related to transactions of this type.

Under the RPA, the Receivables Subsidiary may sell receivables to the Purchasers in amounts up to a $100,000 limit. The receivables will be sold to the Purchasers in consideration for the Purchasers making payments of cash, which is referred to as "capital" for purposes of the RPA, to the Receivables Subsidiary in accordance with the terms of the RPA. The Receivables Subsidiary may sell receivables to the Purchasers so long as certain conditions are satisfied, including that, at any date of determination, the aggregate capital paid to the Receivables Subsidiary does not exceed a "capital coverage amount", equal to an adjusted net receivables pool balance minus a required reserve. Each Purchaser's share of capital accrues yield at a floating rate plus an applicable margin.

The parties intend that the conveyance of receivables to the Agent, for the ratable benefit of the Purchasers will constitute a purchase and sale of receivables and not a pledge for security. The Receivables Subsidiary has guaranteed to each Purchaser and Agent the prompt payment of sold receivables, and to secure the prompt payment and performance of such guaranteed obligations, the Receivables Subsidiary has granted a security interest to the Agent, for the benefit of the Purchasers, in all assets of the Receivables Subsidiary. The assets of the Receivables Subsidiary are not available to pay our creditors or any affiliate thereof. In our capacity as master servicer under the RPA, we are responsible for administering and collecting receivables and have made customary representations, warranties, covenants and indemnities. We also provided a performance guarantee for the benefit of the Purchaser.

The proceeds of the RPA are classified as operating activities in our Consolidated Condensed Statement of Cash Flows and were used to pay off the outstanding balance of the Securitization Program. Cash received from collections of sold receivables is used by the Receivables Subsidiary to fund additional purchases of receivables on a revolving basis or to return all or any portion of outstanding capital of the Purchaser. Subsequent collections on the pledged receivables, which have not been sold, will be classified as operating cash flows at the time of collection. Total receivables sold and cash collections under the RPA were $132,769 and $43,198 for the three months ended January 1, 2022, respectively. The fair value of the sold receivables approximated book value due to their credit quality and short-term nature, and as a result, no gain or loss on sale of receivables was recorded.

As of January 1, 2022, the amount sold to the Purchasers was $89,571, which was derecognized from the Consolidated Condensed Balance Sheets. As collateral against sold receivables, the Receivables Subsidiary maintains a certain level of unsold receivables, which was $588,142 as of January 1, 2022.

Previously we securitized certain trade receivables in transactions that were accounted for as secured borrowings (the "Securitization Program"). We maintained a subordinated interest in a portion of the pool of trade receivables that were securitized. The retained interest, which is included in Receivables in the Consolidated Condensed Balance Sheets, is recorded at fair value, which approximates the total amount of the designated pool of accounts receivable. Refer to Note 9, Indebtedness, for additional disclosures related to the Securitization Program.

The allowance for credit losses is based on our assessment of the collectability of customer accounts. The allowance is determined by considering factors such as historical experience, credit quality, age of the accounts receivable, current economic conditions and reasonable forecasted financial information that may affect a customer’s ability to pay.

Note 5 - Inventories

Inventories, net of reserves, consist of:

	January 1, 2022	October 2, 2021
Raw materials and purchased parts	$ 226,000	$ 231,406
Work in progress	306,372	315,762
Finished goods	65,072	65,927
Inventories, net	$ 597,444	$ 613,095

There are no material inventoried costs relating to over-time contracts where revenue is accounted for using the cost-to-cost method of accounting as of January 1, 2022 and October 2, 2021.

Note 6 - Property, Plant and Equipment

Property, plant and equipment consists of:

	January 1, 2022	October 2, 2021
Land	$ 35,481	$ 35,762
Buildings and improvements	511,835	506,450
Machinery and equipment	809,185	791,984
Computer equipment and software	185,924	179,066
Property, plant and equipment, at cost	1,542,425	1,513,262
Less accumulated depreciation and amortization	(878,927)	(867,484)
Property, plant and equipment, net	$ 663,498	$ 645,778

Note 7 - Leases

We lease certain manufacturing facilities, office space and machinery and equipment globally. At inception we evaluate whether a contractual arrangement contains a lease. Specifically, we consider whether we control the underlying asset and have the right to obtain substantially all the economic benefits or outputs from the asset. If the contractual arrangement contains a lease, we then determine the classification of the lease, operating or finance, using the classification criteria described in ASC 842. We then determine the term of the lease based on terms and conditions of the contractual arrangement, including whether the options to extend or terminate the lease are reasonably certain to be exercised. We have elected to not separate lease components from non-lease components, such as common area maintenance charges and instead, account for the lease and non-lease components as a single component.

Our lease right-of-use ("ROU") assets represent our right to use an underlying asset for the lease term and our lease liabilities represent our obligation to make lease payments. Operating lease ROU assets are included in Operating lease right-of-use assets and operating lease liabilities are included in Accrued liabilities and other and Other long-term liabilities on the Consolidated Condensed Balance Sheets. Finance lease ROU assets are included in Property, plant and equipment and finance lease liabilities are included in Accrued liabilities and other and Other long-term liabilities on the Consolidated Condensed Balance Sheets. Operating lease cost is included in Cost of sales and Selling, general and administrative on the Consolidated Condensed Statements of Earnings. Finance lease cost is included in Cost of sales, Selling, general and administrative and Interest on the Consolidated Condensed Statements of Earnings.

The ROU assets and lease liabilities for both operating and finance leases are recognized as of the commencement date at the net present value of the fixed minimum lease payments over the term of the lease, using the discount rate described below. Variable lease payments are recorded in the period in which the obligation for the payment is incurred. Variable lease payments based on an index or rate are initially measured using the index or rate as of the commencement date of the lease and included in the fixed minimum lease payments. For short-term leases that have a term of 12 months or less as of the commencement date, we do not recognize a ROU asset or lease liability on our balance sheet; we recognize expense as the lease payments are made over the lease term.

The discount rate used to calculate the present value of our leases is the rate implicit in the lease. If the information necessary to determine the rate implicit in the lease is not available, we use our incremental borrowing rate for collateralized debt, which is determined using our credit rating and other information available as of the lease commencement date.

The components of lease expense were as follows:

	Three Months Ended January 1, 2022	Three Months Ended January 2, 2021
Operating lease cost	$ 6,940	$ 6,884
Finance lease cost:		
Amortization of right-of-use assets	$ 587	$ 494
Interest on lease liabilities	217	161
Total finance lease cost	$ 804	$ 655

Supplemental cash flow information related to leases was as follows:

	Three Months Ended January 1, 2022	Three Months Ended January 2, 2021
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flow for operating leases	$ 7,239	$ 7,058
Operating cash flow for finance leases	217	161
Financing cash flow for finance leases	505	488
Assets obtained in exchange for lease obligations:		
Operating leases	6,008	3,081
Finance leases	2,747	—

Supplemental balance sheet information related to leases was as follows:

	January 1, 2022	October 2, 2021
Operating Leases		
Operating lease right-of-use assets	$ 62,657	$ 60,355
Accrued liabilities and other	$ 14,037	$ 14,176
Other long-term liabilities	59,453	57,277
Total operating lease liabilities	$ 73,490	$ 71,453
Finance Leases		
Property, plant, and equipment, at cost	$ 22,514	$ 19,861
Accumulated depreciation	(3,891)	(3,375)
Property, plant, and equipment, net	$ 18,623	$ 16,486
Accrued liabilities and other	$ 2,347	$ 2,014
Other long-term liabilities	17,789	15,904
Total finance lease liabilities	$ 20,136	$ 17,918
Weighted average remaining lease term in years		
Operating leases	7.4	7.4
Finance leases	14.1	15.5
Weighted average discount rate		
Operating leases	4.6 %	4.7 %
Finance leases	4.8 %	5.0 %

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Maturities of lease liabilities were as follows:

	January 1, 2022	
	Operating Leases	Finance Leases
2022	$ 13,091	$ 2,417
2023	14,840	3,180
2024	11,230	3,134
2025	9,234	2,946
2026	7,972	2,651
Thereafter	32,912	15,930
Total lease payments	89,279	30,258
Less: imputed interest	(15,789)	(10,122)
Total	$ 73,490	$ 20,136

Note 8 - Goodwill and Intangible Assets

The changes in the carrying amount of goodwill are as follows:

	Aircraft Controls	Space and Defense Controls	Industrial Systems	Total
Balance at October 2, 2021	$ 210,779	$ 261,767	$ 379,059	$ 851,605
Divestiture	(6,961)	—	—	(6,961)
Foreign currency translation	(48)	(1)	(2,553)	(2,602)
Balance at January 1, 2022	$ 203,770	$ 261,766	$ 376,506	$ 842,042

Goodwill in our Space and Defense Controls segment is net of a $4,800 accumulated impairment loss at January 1, 2022. Goodwill in our Medical Devices reporting unit, included in our Industrial Systems segment, is net of a $38,200 accumulated impairment loss at January 1, 2022.

The components of intangible assets are as follows:

		January 1, 2022		October 2, 2021	
	Weighted-Average Life (years)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer-related	11	$ 162,552	$ (110,095)	$ 163,215	$ (108,844)
Technology-related	9	82,414	(58,963)	82,716	(58,119)
Program-related	23	40,186	(20,142)	40,211	(19,707)
Marketing-related	8	28,511	(22,481)	28,590	(22,212)
Other	10	1,929	(1,691)	1,963	(1,718)
Intangible assets	12	$ 315,592	$ (213,372)	$ 316,695	$ (210,600)

Substantially all acquired intangible assets other than goodwill are being amortized. Customer-related intangible assets primarily consist of customer relationships. Technology-related intangible assets primarily consist of technology, patents, intellectual property and software. Program-related intangible assets consist of long-term programs represented by current contracts and probable follow on work. Marketing-related intangible assets primarily consist of trademarks, trade names and non-compete agreements.

Amortization of acquired intangible assets is as follows:

	Three Months Ended	
	January 1, 2022	January 2, 2021
Acquired intangible asset amortization	$ 3,398	$ 2,833

Based on acquired intangible assets recorded at January 1, 2022, amortization is estimated to be approximately:

	2022	2023	2024	2025	2026
Estimated future amortization of acquired intangible assets	$ 13,500	$ 12,800	$ 12,000	$ 10,900	$ 10,700

Note 9 - Indebtedness

We maintain short-term line of credit facilities with banks throughout the world that are principally demand lines subject to revision by the banks.

Long-term debt consists of:

	January 1, 2022	October 2, 2021
U.S. revolving credit facility	$ 272,350	$ 321,886
SECT revolving credit facility	8,000	7,000
Senior notes 4.25%	500,000	500,000
Securitization program	—	80,000
Other long-term debt	1,221	1,280
Senior debt	781,571	910,166
Less deferred debt issuance cost	(5,942)	(6,446)
Less current installments	(367)	(80,365)
Long-term debt	$ 775,262	$ 823,355

Our U.S. revolving credit facility, which matures on October 15, 2024, has a capacity of $1,100,000 and provides an expansion option, which permits us to request an increase of up to $400,000 to the credit facility upon satisfaction of certain conditions. The credit facility is secured by substantially all of our U.S. assets. The loan agreement contains various covenants which, among others, specify interest coverage and maximum leverage. We are in compliance with all covenants.

The SECT has a revolving credit facility with a borrowing capacity of $35,000, maturing on July 26, 2024. Interest is based on LIBOR plus an applicable margin. A commitment fee is also charged based on a percentage of the unused amounts available and is not material.

At January 1, 2022, we had $500,000 aggregate principal amount of 4.25% senior notes due December 15, 2027 with interest paid semiannually on June 15 and December 15 of each year, which commenced on June 15, 2020. The senior notes are unsecured obligations, guaranteed on a senior unsecured basis by certain subsidiaries and contain normal incurrence-based covenants and limitations such as the ability to incur additional indebtedness, pay dividends, make other restricted payments and investments, create liens and certain corporate acts such as mergers and consolidations. The aggregate net proceeds were used to repay indebtedness under our U.S. revolving credit facility, thereby increasing the unused portion of our U.S. revolving credit facility.

The Securitization Program was extended on October 29, 2021, effectively increasing our borrowing capacity by up to $80,000. Under the Securitization Program, we sold certain trade receivables and related rights to an affiliate, which in turn sold an undivided variable percentage ownership interest in the trade receivables to a financial institution, while maintaining a subordinated interest in a portion of the pool of trade receivables. Interest for the Securitization Program was based on 30-day LIBOR plus an applicable margin. A commitment fee was also charged based on a percentage of the unused amounts available and was not material. The agreement governing the Securitization Program contained restrictions and covenants which included limitations on the making of certain restricted payments, creation of certain liens, and certain corporate acts such as mergers, consolidations and sale of substantially all assets. The Securitization Program had a minimum borrowing requirement equal to the lesser of either 80% of our borrowing capacity or 100% of our borrowing base, which was a subset of the trade receivables sold under this agreement. See Note 4, Receivables, for information related to the amended and restated RPA, which replaced the Securitization Program.

Note 10 - Other Accrued Liabilities

Other accrued liabilities consists of:

	January 1, 2022	October 2, 2021
Contract reserves	$ 52,589	$ 58,857
Employee benefits	62,938	54,146
Warranty accrual	25,026	26,602
Accrued income taxes	15,423	12,908
Other	51,399	59,492
Other accrued liabilities	$ 207,375	$ 212,005

In the ordinary course of business, we warrant our products against defects in design, materials and workmanship typically over periods ranging from twelve to sixty months. We determine warranty reserves needed by product line based on historical experience and current facts and circumstances. Activity in the warranty accrual is summarized as follows:

	Three Months Ended	
	January 1, 2022	January 2, 2021
Warranty accrual at beginning of period	$ 26,602	$ 27,707
Additions from acquisitions	—	990
Warranties issued during current period	565	4,064
Adjustments to pre-existing warranties	(24)	36
Reductions for settling warranties	(1,715)	(3,783)
Divestiture adjustment	(330)	—
Foreign currency translation	(72)	324
Warranty accrual at end of period	$ 25,026	$ 29,338

Note 11 - Derivative Financial Instruments

We principally use derivative financial instruments to manage foreign exchange risk related to foreign operations and foreign currency transactions and interest rate risk associated with long-term debt. We enter into derivative financial instruments with a number of major financial institutions to minimize counterparty credit risk.

Derivatives designated as hedging instruments

We use foreign currency contracts as cash flow hedges to effectively fix the exchange rates on future payments and revenue. To mitigate exposure in movements between various currencies, including the Philippine peso and the British pound, we had outstanding foreign currency contracts with notional amounts of $40,899 at January 1, 2022. These contracts mature at various times through September 1, 2023.

We use forward currency contracts to hedge our net investment in certain foreign subsidiaries. As of January 1, 2022, we had no outstanding net investment hedges.

Interest rate swaps are used to adjust the proportion of total debt that is subject to variable and fixed interest rates. The interest rate swaps are designated as hedges of the amount of future cash flows related to interest payments on variable-rate debt that, in combination with the interest payments on the debt, convert a portion of the variable-rate debt to fixed-rate debt. At January 1, 2022, we had no outstanding interest rate swaps.

Foreign currency contracts, net investment hedges and interest rate swaps are recorded in the Consolidated Condensed Balance Sheets at fair value and the related gains or losses are deferred in Shareholders' Equity as a component of Accumulated Other Comprehensive Income (AOCIL). These deferred gains and losses are reclassified into the Consolidated Condensed Statements of Earnings, as necessary, during the periods in which the related payments or receipts affect earnings. However, to the extent the foreign currency contracts and interest rate swaps are not perfectly effective in offsetting the change in the value of the payments and revenue being hedged, the ineffective portion of these contracts is recognized in earnings immediately. Ineffectiveness was not material in the first three months of 2022 or 2021.

Derivatives not designated as hedging instruments

We also have foreign currency exposure on balances, primarily intercompany, that are denominated in a foreign currency and are adjusted to current values using period-end exchange rates. The resulting gains or losses are recorded in the Consolidated Condensed Statements of Earnings. To minimize foreign currency exposure, we had foreign currency contracts with notional amounts of $137,171 at January 1, 2022. The foreign currency contracts are recorded in the Consolidated Condensed Balance Sheets at fair value and resulting gains or losses are recorded in the Consolidated Condensed Statements of Earnings. We recorded the following gains and losses on foreign currency contracts which are included in other income or expense and generally offset the gains or losses from the foreign currency adjustments on the intercompany balances that are also included in other income or expense:

		Three Months Ended	
	Statements of Earnings location	January 1, 2022	January 2, 2021
Net gain (loss)			
Foreign currency contracts	Other	$ (1,904)	$ 4,888

Summary of derivatives

The fair value and classification of derivatives is summarized as follows:

	Balance Sheets location	January 1, 2022	October 2, 2021
Derivatives designated as hedging instruments:			
Foreign currency contracts	Other current assets	$ 169	$ 325
Foreign currency contracts	Other assets	23	104
	Total asset derivatives	$ 192	$ 429
Foreign currency contracts	Accrued liabilities and other	$ 1,205	$ 1,235
Foreign currency contracts	Other long-term liabilities	355	537
	Total liability derivatives	$ 1,560	$ 1,772
Derivatives not designated as hedging instruments:			
Foreign currency contracts	Other current assets	$ 1,197	$ 226
Foreign currency contracts	Accrued liabilities and other	$ 327	$ 480

Note 12 - Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Depending on the nature of the asset or liability, various techniques and assumptions can be used to estimate fair value. The definition of the fair value hierarchy is as follows:

Level 1 – Quoted prices in active markets for identical assets and liabilities.

Level 2 – Observable inputs other than quoted prices in active markets for similar assets and liabilities.

Level 3 – Inputs for which significant valuation assumptions are unobservable in a market and therefore value is based on the best available data, some of which is internally developed and considers risk premiums that a market participant would require.

Our derivatives are valued using various pricing models or discounted cash flow analyses that incorporate observable market data, such as interest rate yield curves and currency rates, and are classified as Level 2 within the valuation hierarchy.

The following table presents the fair values and classification of our financial assets and liabilities measured on a recurring basis, all of which are classified as Level 2.

	Balance Sheets location	January 1, 2022	October 2, 2021
Foreign currency contracts	Other current assets	$ 1,366	$ 551
Foreign currency contracts	Other assets	23	104
	Total assets	$ 1,389	$ 655
Foreign currency contracts	Accrued liabilities and other	$ 1,532	$ 1,715
Foreign currency contracts	Other long-term liabilities	355	537
	Total liabilities	$ 1,887	$ 2,252

Our only financial instrument for which the carrying value differs from its fair value is long-term debt. At January 1, 2022, the fair value of long-term debt was $782,417 compared to its carrying value of $781,571. The fair value of long-term debt is classified as Level 2 within the fair value hierarchy and was estimated based on quoted market prices.

Note 13 - Restructuring

In 2022, we initiated restructuring actions in relation to portfolio shaping activities, which resulted in a non-cash inventory reserve. Restructuring activity for severance and other costs by segment and reconciliation to consolidated amounts is as follows:

	Aircraft Controls	Space and Defense Controls	Industrial Systems	Total
Balance at October 2, 2021	$ 179	$ —	$ 5,486	$ 5,665
Charged to expense - 2022 plan	—	1,500	—	1,500
Non-cash charges - 2022 plan	—	(1,500)	—	(1,500)
Cash payments - 2018 plan	—	—	(105)	(105)
Cash payments - 2020 plan	—	—	(447)	(447)
Foreign currency translation	—	—	(14)	(14)
Balance at January 1, 2022	$ 179	$ —	$ 4,920	$ 5,099

As of January 1, 2022, the restructuring accrual consists of $3,174 for the 2020 plan and $1,924 for the 2018 plan. Restructuring is expected to be paid within a year, except portions classified as long-term liabilities based on the nature of the reserve.

Note 14 - Employee Benefit Plans

Pension expense for our defined contribution plans consists of:

	Three Months Ended	
	January 1, 2022	January 2, 2021
U.S. defined contribution plans	$ 10,545	$ 8,573
Non-U.S. defined contribution plans	2,152	1,594
Total expense for defined contribution plans	$ 12,697	$ 10,167

Net periodic benefit costs for our defined benefit pension plans are as follows:

	Three Months Ended	
	January 1, 2022	January 2, 2021
U.S. Plans		
Service cost	$ 4,957	$ 5,622
Interest cost	4,562	4,276
Expected return on plan assets	(7,451)	(7,636)
Amortization of actuarial loss	3,896	3,430
Expense for U.S. defined benefit plans	$ 5,964	$ 5,692
Non-U.S. Plans		
Service cost	$ 1,122	$ 1,668
Interest cost	634	705
Expected return on plan assets	(897)	(1,143)
Amortization of prior service cost (credit)	15	(2)
Amortization of actuarial loss	1,022	1,387
Expense for non-U.S. defined benefit plans	$ 1,896	$ 2,615

Note 15 - Income Taxes

The effective tax rate for the three months ended January 1, 2022 and January 2, 2021 was 24.7% and 24.9%, respectively. The effective tax rate for the three months ended January 1, 2022 is higher than expected from applying the U.S. federal statutory tax rate of 21% to earnings before income taxes due to tax on earnings generated outside the U.S.

Note 16 - Accumulated Other Comprehensive Income (Loss)

The changes in AOCIL, net of tax, by component for the three months ended January 1, 2022 are as follows:

	Accumulated foreign currency translation	Accumulated retirement liability	Accumulated gain (loss) on derivatives	Total
AOCIL at October 2, 2021	$ (92,989)	$ (153,210)	$ (1,361)	$ (247,560)
OCI before reclassifications	(6,510)	568	41	(5,901)
Amounts reclassified from AOCIL	(50)	3,522	94	3,566
OCI, net of tax	(6,560)	4,090	135	(2,335)
AOCIL at January 1, 2022	$ (99,549)	$ (149,120)	$ (1,226)	$ (249,895)

Net gains and losses on net investment hedges are recorded in Accumulated foreign currency translation to the extent that the instruments are effective in hedging the designated risk.

The amounts reclassified from AOCIL into earnings are as follows:

		Three Months Ended	
	Statements of Earnings location	January 1, 2022	January 2, 2021
Retirement liability:			
Prior service cost (credit)		$ 15	$ (2)
Actuarial losses		4,600	4,689
Reclassification from AOCIL into earnings		4,615	4,687
Tax effect		(1,093)	(1,118)
Net reclassification from AOCIL into earnings		$ 3,522	$ 3,569
Derivatives:			
Foreign currency contracts	Sales	$ 68	$ 28
Foreign currency contracts	Cost of sales	50	(557)
Reclassification from AOCIL into earnings		118	(529)
Tax effect		(24)	126
Net reclassification from AOCIL into earnings		$ 94	$ (403)

Reclassification from AOCIL into earnings for the Retirement liability are included in the computation of non-service pension expense, which is included in Other on the Consolidated Condensed Statement of Earnings.

The effective portion of amounts deferred in AOCIL are as follows:

	Three Months Ended	
	January 1, 2022	January 2, 2021
Foreign currency contracts	$ 55	$ 631
Net gain	55	631
Tax effect	(14)	(130)
Net deferral in AOCIL of derivatives	$ 41	$ 501

Note 17 - Stock Employee Compensation Trust and Supplemental Retirement Plan Trust

The SECT assists in administering and provides funding for equity-based compensation plans and benefit programs, including the Moog Inc. Retirement Savings Plan ("RSP") and the Employee Stock Purchase Plan ("ESPP"). SERP Trust provides funding for benefits under the SERP provisions of the Moog Inc. Plan to Equalize Retirement Income and Supplemental Retirement Income. Both the SECT and the SERP Trust hold Moog shares as investments. The shares in the SECT and SERP Trust are not considered outstanding for purposes of calculating earnings per share. However, in accordance with the trust agreements governing the SECT and SERP Trust, the trustees vote all shares held by the SECT and SERP Trust on all matters submitted to shareholders.

Note 18 - Earnings per Share

Basic and diluted weighted-average shares outstanding, as well as shares considered to be anti-dilutive, are as follows:

	Three Months Ended	
	January 1, 2022	January 2, 2021
Basic weighted-average shares outstanding	32,057,399	32,074,873
Dilutive effect of equity-based awards	130,759	162,339
Diluted weighted-average shares outstanding	32,188,158	32,237,212
Anti-dilutive shares from equity-based awards	62,350	91,918

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Note 19 - Segment Information

Disaggregation of net sales by segment for the three months ended January 1, 2022 and January 2, 2021 are as follows:

	Three Months Ended	
Market Type	January 1, 2022	January 2, 2021
Net sales:		
Military	$ 185,949	$ 205,698
Commercial	117,368	81,076
Aircraft Controls	303,317	286,774
Space	87,583	77,811
Defense	120,273	110,351
Space and Defense Controls	207,856	188,162
Energy	31,466	28,644
Industrial Automation	102,143	95,231
Simulation and Test	22,175	20,126
Medical	57,129	65,017
Industrial Systems	212,913	209,018
Net sales	$ 724,086	$ 683,954

	Three Months Ended	
Customer Type	January 1, 2022	January 2, 2021
Net sales:		
Commercial	$ 117,368	$ 81,076
U.S. Government (including OEM)	143,879	156,677
Other	42,070	49,021
Aircraft Controls	303,317	286,774
Commercial	24,323	31,134
U.S. Government (including OEM)	170,015	138,172
Other	13,518	18,856
Space and Defense Controls	207,856	188,162
Commercial	207,235	201,953
U.S. Government (including OEM)	3,786	6,321
Other	1,892	744
Industrial Systems	212,913	209,018
Commercial	348,926	314,163
U.S. Government (including OEM)	317,680	301,170
Other	57,480	68,621
Net sales	$ 724,086	$ 683,954

Revenue Recognition Method	Three Months Ended January 1, 2022	Three Months Ended January 2, 2021
Net sales:		
Over-time	$ 246,649	$ 230,120
Point in time	56,668	56,654
Aircraft Controls	303,317	286,774
Over-time	192,446	174,311
Point in time	15,410	13,851
Space and Defense Controls	207,856	188,162
Over-time	29,025	27,734
Point in time	183,888	181,284
Industrial Systems	212,913	209,018
Over-time	468,120	432,165
Point in time	255,966	251,789
Net sales	$ 724,086	$ 683,954

Operating profit is net sales less cost of sales and other operating expenses, excluding interest expense, equity-based compensation expense, non-service pension expense and other corporate expenses. Cost of sales and other operating expenses are directly identifiable to the respective segment or allocated on the basis of sales, manpower or profit. Operating profit by segment for the three months ended January 1, 2022 and January 2, 2021 and a reconciliation of segment operating profit to earnings before income taxes are as follows:

	Three Months Ended	
	January 1, 2022	January 2, 2021
Operating profit:		
Aircraft Controls	$ 41,915	$ 27,922
Space and Defense Controls	21,299	23,046
Industrial Systems	17,191	19,898
Total operating profit	80,405	70,866
Deductions from operating profit:		
Interest expense	7,982	8,420
Equity-based compensation expense	2,658	2,502
Non-service pension expense	1,485	920
Corporate and other expenses, net	6,857	8,653
Earnings before income taxes	$ 61,423	$ 50,371

Note 20 - Related Party Transactions

John Scannell, Moog's Chairman of the Board of Directors and Chief Executive Officer, is a member of the Board of Directors of M&T Bank Corporation and M&T Bank. We currently engage with M&T Bank in the ordinary course of business for various financing activities, all of which were initiated prior to the election of Mr. Scannell to the Board. M&T Bank provides credit extension for routine purchases, which for the three months ended January 1, 2022 and January 2, 2021 totaled $3,643 and $3,429, respectively. At January 1, 2022, we held outstanding leases with a total original cost of $21,144. At January 1, 2022, outstanding deposits on our behalf for future equipment leases totaled $1,615. M&T Bank also maintains an interest of approximately 12% in our U.S. revolving credit facility. Further details of the U.S. revolving credit facility can be found in Note 9, Indebtedness. Wilmington Trust, a subsidiary of M&T Bank, is the trustee of the pension assets for our qualified U.S. defined benefit plan.

Note 21 - Commitments and Contingencies

From time to time, we are involved in legal proceedings. We are not a party to any pending legal proceedings which management believes will result in a material adverse effect on our financial condition, results of operations or cash flows.

We are engaged in administrative proceedings with governmental agencies and legal proceedings with governmental agencies and other third parties in the normal course of our business, including litigation under Superfund laws, regarding environmental matters. We believe that adequate reserves have been established for our share of the estimated cost for all currently pending environmental administrative or legal proceedings and do not expect that these environmental matters will have a material adverse effect on our financial condition, results of operations or cash flows.

In the ordinary course of business we could be subject to ongoing claims or disputes from our customers, the ultimate settlement of which could have a material adverse impact on our consolidated results of operations. While the receivables and any loss provisions recorded to date reflect management's best estimate of the projected costs to complete a given project, there is still significant effort required to complete the ultimate deliverable. Future variability in internal cost and future profitability is dependent upon a number of factors including deliveries, performance and government budgetary pressures. The inability to achieve a satisfactory contractual solution, further unplanned delays, additional developmental cost growth or variations in any of the estimates used in the existing contract analysis could lead to further loss provisions. Additional losses could have a material adverse impact on our financial condition, results of operations or cash flows in the period in which the loss may be recognized.

We are contingently liable for $30,769 of standby letters of credit issued by a bank to third parties on our behalf at January 1, 2022.

Note 22 - Subsequent Event

On January 27, 2022, we declared a $0.26 per share quarterly dividend payable on issued and outstanding shares of our Class A and Class B common stock on February 28, 2022 to shareholders of record at the close of business on February 11, 2022.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Company's Annual Report filed on Form 10-K for the fiscal year ended October 2, 2021. In addition, the following should be read in conjunction with our Consolidated Financial Statements and Notes to Consolidated Condensed Financial Statements contained herein. All references to years in this Management's Discussion and Analysis of Financial Condition and Results of Operations are to fiscal years and amounts may differ from reported values due to rounding.

OVERVIEW

We are a worldwide designer, manufacturer and systems integrator of high performance precision motion and fluid controls and control systems for a broad range of applications in aerospace and defense and industrial markets.

Within the aerospace and defense market, our products and systems include:

- Defense market - primary and secondary flight controls for military aircraft, turreted weapon systems, stabilization and automatic ammunition loading controls for armored combat vehicles, tactical and strategic missile steering controls and gun aiming controls.
- Commercial aircraft market - primary and secondary flight controls for commercial aircraft.
- Commercial space market - satellite positioning controls and thrust vector controls, as well as integrated space launch vehicles.

In the industrial market, our products are used in a wide range of applications including:

- Industrial automation market - components and systems for injection and blow molding machinery, heavy industry applications for steel and aluminum production, metal forming presses, flight simulation motion control systems and material and automotive structural and fatigue testing systems.
- Medical market - components and systems for enteral clinical nutrition and infusion therapy pumps, CT scan medical equipment, ultrasonic sensors and surgical handpieces and sleep apnea equipment.
- Energy market - control and safety components for steam and gas power generation turbines and oil and gas exploration components and systems.

We operate under three segments, Aircraft Controls, Space and Defense Controls and Industrial Systems. Our principal manufacturing facilities are located in the United States, Philippines, United Kingdom, Germany, Czech Republic, Italy, Costa Rica, China, Netherlands, Luxembourg, Japan, Canada, India and Lithuania.

Under ASC 606, 65% of revenue was recognized over time for the quarter ended January 1, 2022, using the cost-to-cost method of accounting. The over-time method of revenue recognition is predominantly used in Aircraft Controls and Space and Defense Controls. We use this method for U.S. Government contracts and repair and overhaul arrangements as we are creating or enhancing assets that the customer controls. In addition, many of our large commercial contracts qualify for over-time accounting as our performance does not create an asset with an alternative use and we have an enforceable right to payment for performance completed to date.

For the quarter ended January 1, 2022, 35% of revenue was recognized at the point in time control transferred to the customer. This method of revenue recognition is used most frequently in Industrial Systems. We use this method for commercial contracts in which the asset being created has an alternative use. We determine the point in time control transfers to the customer by weighing the five indicators provided by ASC 606. When control has transferred to the customer, profit is generated as cost of sales is recorded and as revenue is recognized.

We concentrate on providing our customers with products designed and manufactured to the highest quality standards. Our technical experts work collaboratively around the world, delivering capabilities for mission-critical solutions. These core operational principles are necessary as our products are applied in demanding applications, "When Performance Really Matters®." By capitalizing on these core foundational strengths, we believe we have achieved a leadership position in the high performance, precision controls market. Additionally, these strengths yield a broad control product portfolio, across a diverse base of customers and end markets.

By focusing on customer intimacy and commitment to solving our customers' most demanding technical problems, we have been able to expand our control product franchise to multiple markets; organically growing from a high-performance components manufacturer to a high-performance systems designer, manufacturer and systems integrator. In addition, we continue expanding our content positions on our current platforms, seeking to be the market-leading supplier in the niche markets we serve. We also look for innovation in all aspects of our business, employing new technologies to improve productivity and operational performance.

Our fundamental long-term strategies to achieve our goals center around talent, lean and innovation and include:

- a strong leadership team that has positioned the Company for growth,
- utilizing our global capabilities and strong engineering heritage to innovate,
- maintaining our technological excellence by solving our customers’ most demanding technical problems in applications "When Performance Really Matters®,"
- continuing to invest in talent development to strengthen employee performance, and
- maximizing customer value by implementing lean enterprise principles.

These activities will help us achieve our financial objective of increasing shareholder value with sustainable competitive advantages across our segments. In doing so, we expect to maintain a balanced, diversified portfolio in terms of markets served, product applications, customer bases and geographic presence.

We focus on improving shareholder value through strategic revenue growth, both organic and acquired, through improving operating efficiencies and manufacturing initiatives and through utilizing low cost manufacturing facilities without compromising quality. Historically, we have taken a balanced approach to capital deployment in order to maximize shareholder returns over the long-term. These activities have included strategic acquisitions, share buybacks and dividend payments. We are well positioned to invest in our business and by accelerating the pace of internal investments, both in terms of capital expenditures as well as investments in new market opportunities, we believe we can create more long term value for our shareholders. We also will continue to explore opportunities to make strategic acquisitions and return capital to shareholders.

Acquisitions and Divestitures

All of our acquisitions are accounted for under the purchase method and, accordingly, the operating results for the acquired companies are included in the Consolidated Condensed Statements of Earnings from the respective dates of acquisition. Under purchase accounting, we record assets and liabilities at fair value and such amounts are reflected in the respective captions on the Consolidated Condensed Balance Sheets. The purchase price described for each acquisition below is net of any cash acquired, includes debt issued or assumed and the fair value of contingent consideration.

Acquisitions

In the first quarter of 2021, we acquired Genesys Aerosystems Group, Inc. ("Genesys"), headquartered in Mineral Wells, Texas for a purchase price of $78 million. Genesys designs and manufactures a full suite of electronic flight instrument systems and autopilot solutions. This operation is included in our Aircraft Controls segment.

Divestitures

On December 3, 2021, we sold the assets of our Navigation Aids (NAVAIDS) business based in Salt Lake City, Utah previously included in our Aircraft Controls segment to Thales. We received proceeds of $39 million at closing and recorded a gain of $16 million, net of transaction costs. The sale is subject to customary post closing working capital and other adjustments, including amounts currently held in escrow.

In the first quarter of 2021, we sold a non-core business in our Aircraft Controls segment for $2 million in net consideration and recorded a minimal loss.

CRITICAL ACCOUNTING POLICIES

On a regular basis, we evaluate the critical accounting policies used to prepare our consolidated financial statements, including revenue recognition on long-term contracts, contract reserves, reserves for inventory valuation, reviews for impairment of goodwill, reviews for impairment of long-lived assets, pension assumptions and income taxes.

RECENT ACCOUNTING PRONOUNCEMENTS

See Note 1 of the Consolidated Condensed Financial Statements included in Item 1, Financial Statements of this report for further information regarding Financial Accounting Standards Board issued Accounting Standards Updates (ASU).

COVID-19 IMPACTS ON OUR BUSINESS

The spread of the COVID-19 outbreak has disrupted businesses on a global scale. On March 11, 2020, the World Health Organization classified the outbreak as a pandemic. As we entered this crisis, the Company established two clear priorities: first and foremost the health and safety of our employees and their families, and second, continuing to meet the needs of our customers and secure the financial well-being of the Company. Substantially all of our operations and production activities have, to-date, remained operational. In response to the COVID-19 crisis, we implemented changes in our work practices to maintain a safe working environment for production employees at our facilities, while enabling other employees to productively work from home. As we commence bringing employees back to the workplace and return to in-person meetings with customers and suppliers, we have adopted a flexible work approach. These actions will allow for a smooth transition from COVID-19 conditions to a future that better meets the needs of the business and the interests of our employees. We will comply with any applicable Federal, State or Local guidelines on vaccination and workplace hygiene requirements for employees, customers, suppliers and visitors. As economic activity recovers, we will continue to monitor the situation, assessing further possible implications on our operations, supply chain, liquidity, cash flow and customer orders. We believe that our existing financial arrangements are sufficient to meet our operating needs, and have adequate borrowings under short and long-term arrangements that could provide additional relief if necessary.

CONSOLIDATED RESULTS OF OPERATIONS

	Three Months Ended			
(dollars and shares in millions, except per share data)	January 1, 2022	January 2, 2021	$ Variance	% Variance
Net sales	$ 724	$ 684	$ 40	6 %
Gross margin	*26.6 %*	*27.7 %*		
Research and development expenses	$ 28	$ 28	$ —	(1 %)
Selling, general and administrative expenses as a percentage of sales	*15.4 %*	*14.6 %*		
Interest expense	$ 8	$ 8	$ —	(5 %)
(Gain) loss on sale of business	$ (16)	$ —	$ (16)	n/a
Other	$ —	$ 3	$ (3)	(96 %)
Effective tax rate	*24.7 %*	*24.9 %*		
Net earnings	$ 46	$ 38	$ 8	22 %
Diluted earnings per share	$ 1.44	$ 1.17	$ 0.27	23 %
Twelve-month backlog	$ 2,200	$ 1,900	$ 300	16 %

Net sales increased in the first quarter of 2022 compared to the first quarter of 2021 as sales increased within all of our segments. The most substantial increase in the quarter came from Space and Defense Controls, driven by our defense market. Also, sales were particularly strong in Aircraft Controls, driven by commercial OEM programs, when compared to the same period of 2021. Furthermore, Industrial Systems sales increased, reflecting a continuing recovery from the global COVID-19 pandemic.

Gross margin in the first quarter of 2022 decreased compared to the first quarter of 2021 due to operational inefficiencies, labor availability challenges and supply chain constraints related to the ongoing COVID-19 pandemic.

Research and development expenses in the first quarter of 2022 were in line with the same quarter a year ago. Higher activity in Industrial Systems was offset by reduced spend in Aircraft Controls.

In the first quarter of 2022, selling, general and administrative expenses as a percentage of sales increased as compared to the first quarter of 2021. Early in the first quarter of 2022, customer interactions increased. Additionally, as the Omicron variant emerged, we experienced labor inefficiencies, as well as increased activities related to our portfolio rationalization initiative.

The first quarter of 2022 included a $16 million benefit from the sale of our NAVAIDS business. Our portfolio shaping activities, primarily due to the NAVAIDS business sale, contributed a net $0.33 of diluted EPS in the first quarter of 2022.

The change in twelve-month backlog at January 1, 2022 as compared with the twelve-month backlog at January 2, 2021 was driven by increases in all segments. Twelve-month backlog increased in Aircraft Controls due to the timing of commercial OEM orders, which was partially offset by the timing of various military programs. Backlog also increased in Space and Defense Controls driven by increases in space satellite programs and by higher orders for defense control programs. The Industrial Systems backlog increased due to recovering demand for components products and for our core industrial products.

SEGMENT RESULTS OF OPERATIONS

Operating profit, as presented below, is net sales less cost of sales and other operating expenses, excluding interest expense, equity-based compensation expense and other corporate expenses. Cost of sales and other operating expenses are directly identifiable to the respective segment or allocated on the basis of sales, manpower or profit. Operating profit is reconciled to earnings before income taxes in Note 19 of the Notes to Consolidated Condensed Financial Statements included in this report.

Aircraft Controls

	Three Months Ended			
(dollars in millions)	January 1, 2022	January 2, 2021	$ Variance	% Variance
Net sales - military aircraft	$ 186	$ 206	$ (20)	(10 %)
Net sales - commercial aircraft	117	81	36	45 %
	$ 303	$ 287	$ 17	6 %
Operating profit	$ 42	$ 28	$ 14	50 %
Operating margin	*13.8 %*	*9.7 %*		

Aircraft Controls' net sales increased in the first quarter of 2022 as compared to the first quarter of 2021 due to stronger commercial OEM program sales partially offset by a decrease in military program sales.

In the first quarter of 2022 compared to the first quarter of 2021, sales increased $28 million across our commercial OEM programs and $9 million across our commercial aftermarket programs. The increase within commercial OEM spans across most of our programs, with the most significant growth coming from the A350 and business jets. We also had $3 million of incremental sales from our Genesys acquisition. Furthermore, commercial aftermarket sales increased driven by higher 787 spare activity, as well as increases on A350 and business jets.

Within military programs, military OEM sales decreased by $13 million from the same quarter of 2021 as a result of supply chain challenges affecting F-35 and the timing of orders for foreign military programs. These decreases were partially offset by increased sales across all helicopter programs, funded development and sales from our Genesys acquisition. Within military aftermarket, sales decreased $7 million across a broad range of programs. Last year's first quarter benefited from our customers building inventory during the early phases of COVID-19.

Operating margin increased in the first quarter of 2022 compared to the same period of 2021. Included in this increase was the divestiture of our NAVAIDS business completed as part of our portfolio shaping activities. Excluding the gain from the sale, adjusted margins in the first quarter of 2022 were 8.5%. The adjusted margin decreased as compared to the same period of 2021, as the prior year included higher amounts of sales from foreign military programs that did not repeat.

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Space and Defense Controls

	Three Months Ended			
(dollars in millions)	January 1, 2022	January 2, 2021	$ Variance	% Variance
Net sales	$ 208	$ 188	$ 20	10 %
Operating profit	$ 21	$ 23	$ (2)	(8 %)
Operating margin	*10.2 %*	*12.2 %*		

Space and Defense Controls' net sales increased in the first quarter of 2022 compared to the first quarter of 2021 due to continued growth in both markets.

Sales in our space market increased $10 million in the first quarter of 2022 when compared to the first quarter of 2021 driven by higher orders for our integrated space vehicles, satellite avionics and legacy valve programs. These increases were partially offset by a decline in hypersonics, as developmental programs began to wind down. Within our defense market, sales increased $10 million, driven by the ramp up of the new RIwP turret program, and by increased defense component sales.

The first quarter of 2022 included a $2 million inventory write-down charge related to our portfolio shaping activities as we are exiting a product line in our security business. Excluding this inventory write-down charge, adjusted operating margin for the quarter was 11.0%. Continued COVID-19 related direct labor inefficiencies contributed to the lower margin. Also, we had a shift in our sales mix, as we had higher sales on early-stage production programs.

Industrial Systems

	Three Months Ended			
(dollars in millions)	January 1, 2022	January 2, 2021	$ Variance	% Variance
Net sales	$ 213	$ 209	$ 4	2 %
Operating profit	$ 17	$ 20	$ (3)	(14 %)
Operating margin	*8.1 %*	*9.5 %*		

Net sales in Industrial Systems increased in the first quarter of 2022 as compared to the first quarter of 2021, driven by continued recovery in our industrial automation market and increases in our energy and simulation and test markets. Weaker foreign currencies, primarily the Euro relative to the U.S. Dollar, decreased sales $2 million in the first quarter of 2022 compared to the same period of 2021.

The industrial market remains on the path to recovery, with benchmark indices showing continued strong expansion. In the first quarter of 2022 as compared to the first quarter of 2021, sales in our industrial automation market increased $7 million as customers continued to build capacity to meet recovering demand. Furthermore, sales within our energy market and our simulation and test market increased $3 million and $2 million, respectively, reflecting both demand recovery and the timing of test orders. Partially offsetting these increases was an $8 million decline in our medical market, as the prior year's surge in response to the COVID-19 pandemic moderated.

Operating margin decreased in the first quarter of 2022 compared to the first quarter of 2021. We incurred moving expenses and production disruptions from continued portfolio refinement activities as we consolidated facilities in Europe and the US, which further reduced margins. We also increased our investments in future platforms for growth, particularly our new electronic construction vehicle initiative.

CONSOLIDATED SEGMENT OUTLOOK

			2022 vs. 2021	
(dollars in millions)	2022 Outlook	2021	$ Variance	% Variance
Net sales:				
Aircraft Controls	$ 1,245	$ 1,161	$ 84	7 %
Space and Defense Controls	880	799	81	10 %
Industrial Systems	910	892	18	2 %
	$ 3,035	$ 2,852	$ 183	6 %
Operating profit:				
Aircraft Controls	$ 142	$ 97	$ 45	47 %
Space and Defense Controls	100	88	11	13 %
Industrial Systems	86	86	—	— %
	$ 328	$ 271	$ 57	21 %
Operating margin:				
Aircraft Controls	11.4 %	8.3 %		
Space and Defense Controls	11.3 %	11.1 %		
Industrial Systems	9.5 %	9.6 %		
	10.8 %	9.5 %		
Net earnings	$ 188	$ 157		
Diluted earnings per share	$5.63 - $6.03	$ 4.87		

2022 Outlook – We expect higher sales across all segments in 2022. We expect operating margin will increase due to the gain on the NAVAIDS sale, as well as operational improvements within Aircraft Controls and Space and Defense Controls. A portion of this margin improvement will be offset as we continue to reshape our portfolio and continue to invest internally in infrastructure, facilities and advanced manufacturing systems. Net earnings in 2022 are expected to benefit from the incremental operating margin from higher sales. As a result, we expect the midpoint of our earnings per share range will be $5.83. Excluding the first quarter portfolio shaping activities, which include the $16 million NAVAIDS gain and the $2 million inventory write-down, we expect our adjusted earnings per share will range between $5.30 and $5.70, with a midpoint of $5.50. This adjusted outlook is unchanged from the prior quarter's outlook. Management believes that the adjusted outlook may be useful in evaluating the financial condition and results of operations of the company.

2022 Outlook for Aircraft Controls – We expect 2022 sales within commercial aircraft programs to increase due to higher activity in our legacy OEM programs and Genesys programs, combined with general recoveries within business jets and commercial aftermarket programs. We also expect that as supply chain challenges ease, military sales will increase in both OEM and aftermarket programs, spread across helicopters, funded development programs, Genesys and F-35 aftermarket. These increases will offset an expected decline in F-35 OEM sales. We expect operating margin will increase in 2022 due to the NAVAIDS gain and due to the incremental operating margin driven by higher levels of military OEM and aftermarket program sales.

2022 Outlook for Space and Defense Controls – We expect 2022 sales in Space and Defense Controls will increase in both markets. Within our defense market, we expect higher sales from the ramp up of our new turret program, and higher amounts of defense component sales. We expect sales in our space market to increase as well, driven by higher sales from advanced missions and satellites, partially offset by the wind down of hypersonic program activity. We expect operating margin to increase slightly from 2021 due to incremental sales, primarily in the defense market.

2022 Outlook for Industrial Systems – We expect an increase in Industrial Systems' sales in 2022 when compared to 2021. We anticipate strong sales within our medical components business, led by increased orders for sleep therapy products. We also expect a modest sales increase in the simulation and test markets as they continue to recover from the effects of COVID-19. We expect operating margin will remain relatively unchanged in 2022 as compared to 2021, as the benefit of our growing backlog is offset by our ongoing portfolio reshaping activities.

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FINANCIAL CONDITION AND LIQUIDITY

	Three Months Ended		
(dollars in millions)	January 1, 2022	January 2, 2021	$ Variance
Net cash provided (used) by:			
Operating activities	$ 157	$ 94	$ 63
Investing activities	—	(96)	97
Financing activities	(152)	13	(165)

Our available borrowing capacity and our cash flow from operations have provided us with the financial resources needed to make organic investments, fund acquisitive growth and return capital to shareholders.

At January 1, 2022, our cash balances were $107 million, which were primarily held outside of the U.S. Cash flow from our U.S. operations, together with borrowings on our credit facility, fund on-going activities, debt service requirements and future growth investments.

Operating activities

Net cash provided by operating activities increased in the first quarter of 2022 compared to the first quarter of 2021. The first quarter of 2022 includes $90 million from the receivables purchase agreement. Also in 2022, customer advances increased $76 million related to customer payments on defense programs. Excluding these benefits, cash provided by operating activities decreased due to the timing of accrued expenses as well as accounts payable.

Investing activities

Net cash used by investing activities in the first quarter of 2022 included $37 million for capital expenditures, as we increased investment in infrastructure, facilities and advanced manufacturing systems. These outflows were offset by the proceeds from the sale of the NAVAIDS business.

Net cash used by investing activities in the first quarter of 2021 included $78 million for our acquisition of Genesys and $20 million for capital expenditures. Capital expenditures in 2021 were constrained in response to COVID-19 uncertainty.

Financing activities

Net cash provided by financing activities in the first quarter of 2022 included $128 million of net pay down on our credit facilities. Additionally, financing activities in the first quarter of 2022 included $13 million of share repurchases and $8 million of dividends.

Net cash provided by financing activities in the first quarter of 2021 included $34 million of net proceeds on our credit facility. Additionally, financing activities in the first quarter of 2021 included $11 million of share repurchases and $8 million of dividends.

Off Balance Sheet Arrangements

We do not have any material off balance sheet arrangements that have or are reasonably likely to have a material future effect on our financial condition, results of operations or cash flows.

Contractual Obligations and Commercial Commitments

Our contractual obligations and commercial commitments have not changed materially from the disclosures in our Annual Report on Form 10-K for the year ended October 2, 2021.

CAPITAL STRUCTURE AND RESOURCES

We maintain bank credit facilities to fund our short and long-term capital requirements, including acquisitions. From time to time, we also sell debt and equity securities to fund acquisitions or take advantage of favorable market conditions.

Our U.S. revolving credit facility, which matures on October 15, 2024, has a capacity of $1.1 billion and also provides an expansion option, which permits us to request an increase of up to $400 million to the credit facility upon satisfaction of certain conditions. The U.S. revolving credit facility had an outstanding balance of $272 million at January 1, 2022. The weighted-average interest rate on the majority of the outstanding credit facility borrowings was 1.61% and is principally based on LIBOR plus the applicable margin, which was 1.50% at January 1, 2022. The credit facility is secured by substantially all of our U.S. assets.

The U.S. revolving credit facility contains various covenants. The minimum for the interest coverage ratio, defined as the ratio of EBITDA to interest expense for the most recent four quarters, is 3.0. The maximum for the leverage ratio, defined as the ratio of net debt to EBITDA for the most recent four quarters, is 4.0. We are in compliance with all covenants. EBITDA is defined in the loan agreement as (i) the sum of net income, interest expense, income taxes, depreciation expense, amortization expense, other non-cash items reducing consolidated net income and non-cash equity-based compensation expenses minus (ii) other non-cash items increasing consolidated net income.

We are generally not required to obtain the consent of lenders of the U.S. revolving credit facility before raising significant additional debt financing; however, certain limitations and conditions may apply that would require consent to be obtained. In recent years, we have demonstrated our ability to secure consents to access debt markets. We have also been successful in accessing equity markets from time to time. We believe that we will be able to obtain additional debt or equity financing as needed.

The SECT has a revolving credit facility with a borrowing capacity of $35 million, maturing on July 26, 2024. Interest was 2.23% as of January 1, 2022 and is based on LIBOR plus a margin of 2.13%. As of January 1, 2022, there were $8 million of outstanding borrowings.

We have $500 million aggregate principal amount of 4.25% senior notes due December 15, 2027 with interest paid semiannually on June 15 and December 15 of each year, which commenced on June 15, 2020. The senior notes are unsecured obligations, guaranteed on a senior unsecured basis by certain subsidiaries and contain normal incurrence-based covenants and limitations such as the ability to incur additional indebtedness, pay dividends, make other restricted payments and investments, create liens and certain corporate acts such as mergers and consolidations. The aggregate net proceeds were used to repay indebtedness under our U.S. bank facility, thereby increasing the unused portion of our U.S. revolving credit facility.

On November 4, 2021, Moog Receivables LLC (the "Receivables Subsidiary"), a wholly owned bankruptcy remote special purpose subsidiary of Moog Inc. (the "Company"), as seller, the Company, as master servicer, Wells Fargo Bank, N.A., as administrative agent (the "Agent") and certain purchasers (collectively, the "Purchasers") entered into an Amended and Restated Receivables Purchase Agreement (the "RPA"). The RPA matures on November 4, 2024 and is subject to customary termination events related to transactions of this type.

Under the RPA, the Receivables Subsidiary may sell receivables to the Purchasers in amounts up to a $100 million limit. The receivables will be sold to the Purchasers in consideration for the Purchasers making payments of cash, which is referred to as "capital" for purposes of the RPA, to the Receivables Subsidiary in accordance with the terms of the RPA. The Receivables Subsidiary may sell receivables to the Purchasers so long as certain conditions are satisfied, including that, at any date of determination, the aggregate capital paid to the Receivables Subsidiary does not exceed a "capital coverage amount", equal to an adjusted net receivables pool balance minus a required reserve. Each Purchaser's share of capital accrues yield at a floating rate plus an applicable margin, which totaled 1.00% as of January 1, 2022.

The parties intend that the conveyance of receivables to the Agent, for the ratable benefit of the Purchasers will constitute a purchase and sale of receivables and not a pledge for security. The Receivables Subsidiary has guaranteed to each Purchaser and Agent the prompt payment of sold receivables, and to secure the prompt payment and performance of such guaranteed obligations, the Receivables Subsidiary has granted a security interest to the Agent, for the benefit of the Purchasers, in all assets of the Receivables Subsidiary. The assets of the Receivables Subsidiary are not available to pay our creditors or any affiliate thereof. In our capacity as master servicer under the RPA, we are responsible for administering and collecting receivables and have made customary representations, warranties, covenants and indemnities. We also provided a performance guarantee for the benefit of the Purchaser.

Cash received from collections of sold receivables is used by the Receivables Subsidiary to fund additional purchases of receivables on a revolving basis or to return all or any portion of outstanding capital of the Purchaser. As of January 1, 2022, the amount sold to the Purchasers and derecognized was $90 million.

Previously, we securitized certain trade receivables that were accounted for as secured borrowings (the “Securitization Program”). The Securitization Program was extended on October 29, 2021, providing up to $80 million of borrowing capacity and lowered our cost to borrow funds as compared to the U.S. revolving credit facility. Under the Securitization Program, we sold certain trade receivables and related rights to an affiliate, which in turn sold an undivided variable percentage ownership interest in the trade receivables to a financial institution, while maintaining a subordinated interest in a portion of the pool of trade receivables. The Securitization Program had a minimum borrowing requirement equal to the lesser of either 80% of our borrowing capacity or 100% of our borrowing base, which was a subset of the trade receivables sold under this agreement. Interest on the secured borrowings under the Securitization Program was based on 30-day LIBOR plus an applicable margin.

At January 1, 2022, we had $836 million of unused capacity, including $797 million from the U.S. revolving credit facility after considering standby letters of credit. Our leverage ratio covenant limits our ability to increase net debt by $635 million as of January 1, 2022.

Net debt to capitalization was 32% at January 1, 2022 and 36% at October 2, 2021. The decrease in net debt to capitalization is primarily due to the repayment of outstanding borrowings.

We declared and paid cash dividends of $0.25 per share on our Class A and Class B common stock in the first quarter of 2022.

On November 20, 2020, the Board of Directors authorized a new share repurchase program to replace the previously existing share repurchase program. This program authorizes repurchases that includes both Class A and Class B common stock, and allows us to buy up to an aggregate 3 million common shares. Under this program, since inception we purchased approximately 427,000 shares for $33 million.

We are well positioned to invest in our business and by accelerating the pace of internal investments, both in terms of capital expenditures as well as investments in new market opportunities, we believe we can create more long term value for our shareholders. We also will continue to explore opportunities to make strategic acquisitions and return capital to shareholders.

ECONOMIC CONDITIONS AND MARKET TRENDS

We operate within the aerospace and defense and industrial markets. Our businesses continue to face varying levels of pressure from the COVID-19 pandemic.

Our defense and aerospace businesses represented 69% of our 2021 sales. These businesses have faced, and will continue to face, supply chain and production level risks as a result of the COVID-19 pandemic. They are directly affected by program funding levels, which have remained relatively stable. Our commercial aircraft market, which represented less than 15% of our 2021 sales, continues to face the greatest pressure due to dramatic reductions in air travel throughout the past two years. While domestic travel has recently started to show signs of recovery, international travel remains muted.

Within our industrial markets, which represented 31% of our 2021 sales, we have seen recent signs of recovery within industrial automation; however, as the demand is starting to rebuild, we are now experiencing pressure within our material supply chains and direct labor inefficiencies. Additionally, our simulation and test and energy markets continue to face demand challenges from the macroeconomic slowdown. Our medical business, which represented less than 10% of our 2021 sales, experienced a surge in demand for our medical applications essential in the fight against the pandemic. As this surge in demand wanes, we expect a return to normal growth rates in the future.

A common factor throughout our markets is the continuing demand for technologically advanced products.

Aerospace and Defense

Within aerospace and defense, we serve three end markets: defense, commercial aircraft and space.

The defense market is dependent on military spending for development and production programs. We have a growing development program order book for future generation aircraft and hypersonic missiles, and we strive to embed our technologies within these high-performance military programs of the future. Aircraft production programs are typically long-term in nature, offering predictable capacity needs and future revenues. We maintain positions on numerous high priority programs, including the Lockheed Martin F-35 Lightning II, FA-18E/F Super Hornet and V-22 Osprey. The large installed base of our products leads to attractive aftermarket sales and service opportunities. The tactical and strategic missile, missile defense and defense controls markets are dependent on many of the same market conditions as military aircraft, including overall military spending and program funding levels. At times when there are perceived threats to national security, U.S. Defense spending can increase; at other times, defense spending can decrease. Future levels of defense spending are uncertain, subject to presidential and congressional debate and if continuing resolutions remain in place, defense investment programs could be constrained.

The commercial OEM aircraft market has depended on a number of factors, including both the last decade's increasing global demand for air travel and increasing fuel prices. Both factors contributed to the demand for new, more fuel-efficient aircraft with lower operating costs that lead to large production backlogs for Boeing and Airbus. However, the impact of the COVID-19 pandemic has drastically reduced air traffic as travel restrictions and social distancing measures were implemented to help control the spread of the virus. The reduced air traffic has applied financial pressures on airlines, and in order to preserve cash and liquidity, they have dramatically reduced flight hours and delayed the purchases of new aircraft. Although U.S. domestic air travel has recently increased during the second half of 2021, international travel has not yet begun to recover. Given the uncertain length of this pandemic and associated restrictions to travel long distances, the commercial wide-body aircraft market may take longer to recover. Furthermore, as companies and employees become accustomed to working remotely, business travel and the associated flight hours may not reach the pre-pandemic levels. As such, we believe Boeing and Airbus will continue to directionally match their wide-body aircraft production rates with the reduced air traffic volume, which has lowered their demand for our flight control systems. We believe the commercial OEM market's recovery will be heavily dependent on the return to pre-COVID-19 air traffic activity levels and therefore will face pressures for a prolonged period of time.

The commercial aftermarket is driven by usage and age of the existing aircraft fleet for passenger and cargo aircraft, which drives the need for maintenance and repairs. While there were initial dramatic reductions in flight hours and airlines took cash preservation measures due to the impacts of COVID-19, we have seen a recovery in the demand volume for our maintenance services and spare parts. As domestic, and eventually international, travel recovers, we expect this market will experience a faster return to pre-pandemic conditions as compared to the commercial OEM market.

The space market is comprised of four customer markets: the civil market, the department of defense market, the commercial space market and the new space market. The civil market, namely NASA, is driven by investment for commercial and exploration activities, including NASA's return to the moon. The department of defense market is driven by governmental-authorized levels of funding for satellite communications, as well as funding for hypersonic defense technologies. The commercial space market is comprised of large satellite customers, which traditionally sell to communications companies. Trends for this market, as well as for commercial launch vehicles, follow demand for increased capacity. This, in turn tends to track with underlying demand for increased consumption of telecommunication services, satellite replacements and global navigation needs. The new space market is driven by investments to increase the speed and access to space through smaller satellites at reduced cost.

Industrial

Within industrial, we serve two end markets: industrial, consisting of industrial automation products, simulation and test products and energy generation and exploration products; and medical.

The industrial market we serve with our industrial automation products is influenced by several factors including capital investment levels, the pace of product innovation, economic conditions, cost-reduction efforts and technology upgrades. As governments around the world implemented measures to help control the spread of the COVID-19 virus, the subsequent economic downturn constrained capital investment and slowed spending for product innovation and upgrades. As the industrial market has recently begun to recover from the pandemic and indices are showing continued strong expansion, concern remains over the global supply chain's ability to meet this increased level of activity.

Our simulation and test products operate in markets that are largely affected by these same factors and investment challenges stemming from the COVID-19 pandemic. Reduced air travel and the subsequent reduction in new commercial aircraft reduced the demand for flight simulator training, for which we supply motion control products. Similarly, the pandemic-related constrained capital spend reduced the need for our automotive and material testing applications. However, we are starting to see stronger demand for flight simulation systems as the airline market recovers.

Our energy generation and exploration products operate in a market that is influenced by changing oil and natural gas prices, global urbanization and the resulting change in supply and demand for global energy. Historically, drivers for global growth include investments in power generation infrastructure and exploration of new oil and gas resources. While the COVID-19 pandemic led to reduced oil prices, reducing the economic feasibility for these investments and explorations, oil prices have recently recovered above pre-pandemic levels.

The medical market we serve, in general, is influenced by economic conditions, regulatory environments, hospital and outpatient clinic spending on equipment, population demographics, medical advances, patient demands and the need for precision control components and systems. The outbreak of the COVID-19 virus created unprecedented demand for medical equipment and has shifted the way hospitals optimize their capacity. Our medical components products are critical motion control components for life saving medical equipment, including ventilators, oxygen concentrators and continuous positive airway pressure (CPAP) machines, among others. The COVID-19 pandemic increased the demand for ventilators, of which our products are a key component of that industry's supply chain. Additionally, our medical devices products including infusion and enteral feeding pumps, and their corresponding disposable sets, are used primarily in the home healthcare environment. Since the COVID-19 pandemic has altered the way hospitals provide care by asking non-critical patients to recuperate at home, our medical devices products saw an increase in orders. As this level of demand was directly related to pandemic, we have already moved beyond the initial surge in demand as our customers resize their inventory levels.

Foreign Currencies

We are affected by the movement of foreign currencies compared to the U.S. dollar, particularly in Aircraft Controls and Industrial Systems. About one-fifth of our 2021 sales were denominated in foreign currencies. During the first three months of 2022, average foreign currency rates generally weakened against the U.S. dollar compared to 2021. The translation of the results of our foreign subsidiaries into U.S. dollars decreased sales by $2 million compared to the same period one year ago.

Cautionary Statement

Information included or incorporated by reference in this report that does not consist of historical facts, including statements accompanied by or containing words such as “may,” “will,” “should,” “believes,” “expects,” “expected,” “intends,” “plans,” “projects,” “approximate,” “estimates,” “predicts,” “potential,” “outlook,” “forecast,” “anticipates,” “presume” and “assume,” are forward-looking statements. Such forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are not guarantees of future performance and are subject to several factors, risks and uncertainties, the impact or occurrence of which could cause actual results to differ materially from the expected results described in the forward-looking statements. In evaluating these forward-looking statements, you should carefully consider the factors set forth below.

Although it is not possible to create a comprehensive list of all factors that may cause actual results to differ from the results expressed or implied by our forward-looking statements or that may affect our future results, some of these factors and other risks and uncertainties that arise from time to time are described in Item 1A “Risk Factors” of our Annual Report on Form 10-K and in our other periodic filings with the SEC and include the following:

COVID-19 PANDEMIC RISKS

▪ We face various risks related to health pandemics such as the global COVID-19 pandemic, which may have material adverse consequences on our operations, financial position, cash flows, and those of our customers and suppliers.

STRATEGIC RISKS

▪ We operate in highly competitive markets with competitors who may have greater resources than we possess;
▪ Our new products and technology research and development efforts are substantial and may not be successful which could reduce our sales and earnings;
▪ Our inability to adequately enforce and protect our intellectual property or defend against assertions of infringement could prevent or restrict our ability to compete; and
▪ Our sales and earnings may be affected if we cannot identify, acquire or integrate strategic acquisitions, or as we conduct divestitures.

MARKET CONDITION RISKS

▪ The markets we serve are cyclical and sensitive to domestic and foreign economic conditions and events, which may cause our operating results to fluctuate;
▪ We depend heavily on government contracts that may not be fully funded or may be terminated, and the failure to receive funding or the termination of one or more of these contracts could reduce our sales and increase our costs;
▪ The loss of The Boeing Company or Lockheed Martin as a customer or a significant reduction in sales to either company could adversely impact our operating results; and
▪ We may not realize the full amounts reflected in our backlog as revenue, which could adversely affect our future revenue and growth prospects.

OPERATIONAL RISKS

▪ Our business operations may be adversely affected by information systems interruptions, intrusions or new software implementations;
▪ We may not be able to prevent, or timely detect, issues with our products and our manufacturing processes which may adversely affect our operations and our earnings;
▪ If our subcontractors or suppliers fail to perform their contractual obligations, our prime contract performance and our ability to obtain future business could be materially and adversely impacted; and
▪ The failure or misuse of our products may damage our reputation, necessitate a product recall or result in claims against us that exceed our insurance coverage, thereby requiring us to pay significant damages.

FINANCIAL RISKS
▪ We make estimates in accounting for over-time contracts, and changes in these estimates may have significant impacts on our earnings;
▪ We enter into fixed-price contracts, which could subject us to losses if we have cost overruns;
▪ Our indebtedness and restrictive covenants under our credit facilities could limit our operational and financial flexibility;
▪ The phase out of LIBOR may negatively impact our debt agreements and financial position, results of operations and liquidity;
▪ Significant changes in discount rates, rates of return on pension assets, mortality tables and other factors could adversely affect our earnings and equity and increase our pension funding requirements;
▪ A write-off of all or part of our goodwill or other intangible assets could adversely affect our operating results and net worth; and
▪ Unforeseen exposure to additional income tax liabilities may affect our operating results.

LEGAL AND COMPLIANCE RISKS
▪ Contracting on government programs is subject to significant regulation, including rules related to bidding, billing and accounting standards, and any false claims or non-compliance could subject us to fines, penalties or possible debarment;
▪ Our operations in foreign countries expose us to currency, political and trade risks and adverse changes in local legal and regulatory environments could impact our results of operations;
▪ Government regulations could limit our ability to sell our products outside the United States and otherwise adversely affect our business;
▪ We are involved in various legal proceedings, the outcome of which may be unfavorable to us; and
▪ Our operations are subject to environmental laws, and complying with those laws may cause us to incur significant costs.

GENERAL RISKS
▪ Future terror attacks, war, natural disasters or other catastrophic events beyond our control could negatively impact our business; and
▪ Our performance could suffer if we cannot maintain our culture as well as attract, retain and engage our employees.

While we believe we have identified and discussed above the material risks affecting our business, there may be additional factors, risks and uncertainties not currently known to us or that we currently consider immaterial that may affect the forward-looking statements made herein. Given these factors, risks and uncertainties, investors should not place undue reliance on forward-looking statements as predictive of future results. Any forward-looking statement speaks only as of the date on which it is made, and we disclaim any obligation to update any forward-looking statement made in this report, except as required by law.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Refer to the Company's Annual Report on Form 10-K for the year ended October 2, 2021 for a complete discussion of our market risk. There have been no material changes in the current year regarding this market risk information.

Item 4. Controls and Procedures.

(a) Disclosure Controls and Procedures. We carried out an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Exchange Act Rules 13a-15(e) and 15d-15(e). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures are effective as of January 1, 2022 to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

(b) Changes in Internal Control over Financial Reporting. There have been no changes during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1A. Risk Factors.

Refer to the Company's Annual Report on Form 10-K for the year ended October 2, 2021 for a complete discussion of our risk factors. There have been no material changes in the current year regarding our risk factors.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

(c) The following table summarizes our purchases of our common stock for the quarter ended January 1, 2022.

Period	(a) Total Number of Shares Purchased (1) (2)(3)	(b) Average Price Paid Per Share	(c) Total number of Shares Purchased as Part of Publicly Announced Plans or Programs (3)	(d) Maximum Number (or Approx. Dollar Value) of Shares that May Yet Be Purchased Under Plans or Programs (3)
October 2, 2021 - October 30, 2021	7,604	$ 78.74	—	2,756,853
October 31, 2021 - November 27, 2021	55,887	81.53	5,490	2,751,363
November 28, 2021 - January 1, 2022	188,325	73.15	178,164	2,573,199
Total	251,816	$ 75.18	183,654	2,573,199

(1) Reflects purchases by the SECT of shares of Class B common stock from the ESPP, the RSP and from equity-based compensation award recipients under right of first refusal terms at average prices as follows: 3,011 shares at $80.85 in October; 14,655 shares at $82.58 in November and 4,648 shares at $78.25 in December. In connection with the issuance of equity-based awards, we purchased 25,000 Class B shares at $83.00 per share from the SECT in November. In addition purchases by the SECT include 5,513 Class B shares from members of the Moog family at $83.00 per share in December.

(2) In connection with the exercise of equity-based compensation awards, we accept delivery of shares to pay for the exercise price and withhold shares for tax withholding obligations at average prices as follows: In October, we accepted delivery of 4,593 Class A shares at $77.36. In November, we accepted delivery of 2,192 Class A shares at $79.41 and 8,550 Class B shares at $83.00.

(3) On November 20, 2020 the Board of Directors approved a share repurchase program. The program authorizes repurchases of up to 3 million common shares of Class A or Class B common stock in open market or privately negotiated transactions at the discretion of management. In November we purchased 5,490 Class A shares at an average price of $70.56 and in December we purchased 178,164 Class A shares at an average price of $72.71.

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Item 6. Exhibits.

(a) Exhibits

10.1	Fifth Amendment to the Moog Inc. 2014 Long Term Incentive Plan, effective November 16, 2021. (Filed herewith).
10.2	First Amendment to the Moog Inc. Deferred Compensation Plan for Directors and Officers, effective November 16, 2021. (Filed herewith).
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Interactive Date files (submitted electronically 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.
(101.SCH)	XBRL Taxonomy Extension Schema Document
(101.CAL)	XBRL Taxonomy Extension Calculation Linkbase Document
(101.DEF)	XBRL Taxonomy Extension Definition Linkbase Document
(101.LAB)	XBRL Taxonomy Extension Label Linkbase Document
(101.PRE)	XBRL Taxonomy Extension Presentation Linkbase Document

104	Cover Page Interactive Data File - the cover page XBRL tags are embedded within the Inline XBRL document and are contained within Exhibit 101.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Moog Inc.

(Registrant)

Date:	January 28, 2022	By	/s/ John R. Scannell John R. Scannell Chairman of the Board and Director Chief Executive Officer (Principal Executive Officer)
Date:	January 28, 2022	By	/s/ Jennifer Walter Jennifer Walter Vice President and Chief Financial Officer (Principal Financial Officer)
Date:	January 28, 2022	By	/s/ Michael J. Swope Michael J. Swope Controller (Principal Accounting Officer)

MOOG

Q1 2022 Supplemental Data

1/28/2022

(USD in millions except for per share data)

Non-GAAP FY 2022 results

	Q1 2022	Q1 2021	Change Q1 2022 vs 2021	FY 2022 F	FY 2021 A	Change FY 2022F vs 2021
Non-GAAP FY 2022 results: excluding the effects of the Q1'22 portfolio shaping activities						
Sales	$ 724.1	$ 684.0	6%	$ 3,035.0	$ 2,852.0	6%
Net Earnings	35.5	37.8	(6%)	177.2	157.2	13%
Net Earnings Per Share	$ 1.11	$ 1.17	(5%)	$ 5.50 *	$ 4.87	13%
Segment Sales						
Aircraft Controls	$ 303.3	$ 286.8	6%	$ 1,245.0	$ 1,161.2	7%
Space and Defense Controls	207.9	188.2	10%	880.0	799.2	10%
Industrial Systems	212.9	209.0	2%	910.0	891.5	2%
	$ 724.1	$ 684.0	6%	$ 3,035.0	$ 2,852.0	6%
Operating Profit						
Aircraft Controls	$ 25.8	$ 27.9	(8%)	$ 125.9	$ 96.7	30%
Space and Defense Controls	22.8	23.0	(1%)	101.2	88.3	15%
Industrial Systems	17.2	19.9	(14%)	86.1	85.9	0%
	$ 65.8	$ 70.9	(7%)	$ 313.3	$ 271.0	16%
Operating Margin						
Aircraft Controls	8.5%	9.7%		10.1%	8.3%	
Space and Defense Controls	11.0%	12.2%		11.5%	11.1%	
Industrial Systems	8.1%	9.5%		9.5%	9.6%	
	9.1%	10.4%		10.3%	9.5%	
Effective Tax Rate	24.0%	24.9%		25.4%	22.8%	

* FY 2022F Adjusted Net Earnings Per Share is forecasted to be within a range of $5.30 and $5.70.

Adjusted FY 2022 results include:

Aircraft Controls: Gain on the sale of the Navigation business: $16.1M.
Space and Defense Controls: Inventory write-down: $1.5M.

GAAP results

	Q1 2022	Q1 2021	Change Q1 2022 vs 2021	FY 2022 F	FY 2021 A	Change FY 2022F vs 2021
GAAP results						
Sales	$ 724.1	$ 684.0	6%	$ 3,035.0	$ 2,852.0	6%
Net Earnings (Loss)	46.3	37.8	22%	187.9	157.2	20%
Net Earnings (Loss) Per Share	$ 1.44	$ 1.17	23%	$ 5.83 *	$ 4.87	20%
Segment Sales						
Aircraft Controls	$ 303.3	$ 286.8	6%	$ 1,245.0	$ 1,161.2	7%
Space and Defense Controls	207.9	188.2	10%	880.0	799.2	10%
Industrial Systems	212.9	209.0	2%	910.0	891.5	2%
	$ 724.1	$ 684.0	6%	$ 3,035.0	$ 2,852.0	6%
Operating Profit						
Aircraft Controls	$ 41.9	$ 27.9	50%	$ 142.1	$ 96.7	47%
Space and Defense Controls	21.3	23.0	(8%)	99.7	88.3	13%
Industrial Systems	17.2	19.9	(14%)	86.1	85.9	0%
	$ 80.4	$ 70.9	13%	$ 327.9	$ 271.0	21%
Operating Margins						
Aircraft Controls	13.8%	9.7%		11.4%	8.3%	
Space and Defense Controls	10.2%	12.2%		11.3%	11.1%	
Industrial Systems	8.1%	9.5%		9.5%	9.6%	
	11.1%	10.4%		10.8%	9.5%	
Effective Tax Rate	24.7%	24.9%		25.5%	22.8%	

* FY 2022F Net Earnings per share is forecasted to be within a range of $5.63 and $6.03

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Q1 2022 Supplemental Data

1/28/2022

(USD in millions except for per share data)

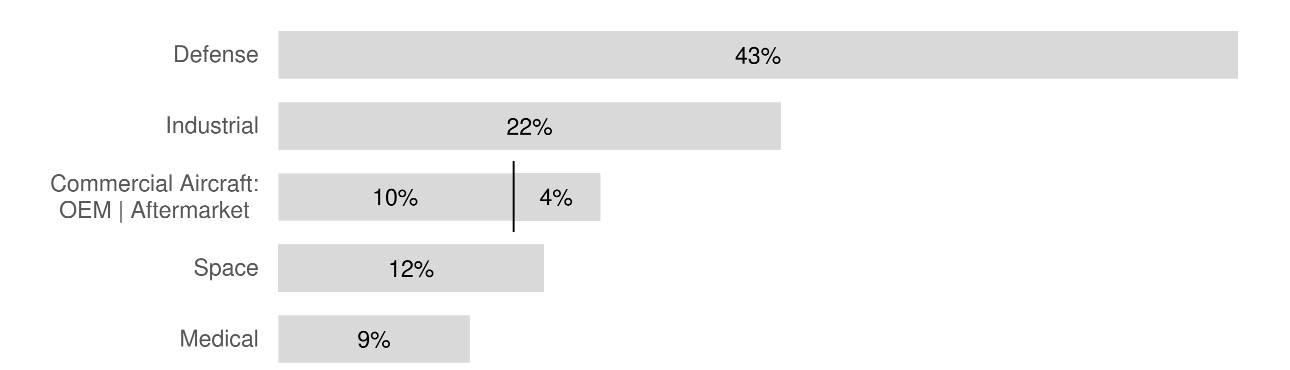
GAAP results

	Q1 2022	Q1 2021	Change Q1 2022 vs 2021	FY 2022 F	FY 2021 A	Change FY 2022F vs 2021
Sales by Program						
Military OEM	$ 135.8	$ 148.6	(9%)	$ 580.0	$ 573.8	1%
Military Aftermarket	50.2	57.1	(12%)	220.0	208.1	6%
Military Aircraft	**186.0**	**205.7**	**(10%)**	**800.0**	**781.9**	**2%**
Commercial OEM	85.7	58.2	47%	325.0	273.7	19%
Commercial Aftermarket	31.7	22.9	38%	120.0	105.6	14%
Commercial Aircraft	**117.4**	**81.1**	**45%**	**445.0**	**379.3**	**17%**
Aircraft Controls	**$ 303.3**	**$ 286.8**	**6%**	**$ 1,245.0**	**$ 1,161.2**	**7%**
Space	$ 87.6	$ 77.8	13%	$ 350.0	$ 332.9	5%
Defense	120.3	110.4	9%	530.0	466.3	14%
Space and Defense Controls	**$ 207.9**	**$ 188.2**	**10%**	**$ 880.0**	**$ 799.2**	**10%**
Energy	$ 31.5	$ 28.6	10%	$ 120.0	$ 120.2	(0%)
Industrial Automation	102.1	95.2	7%	425.0	427.1	(0%)
Simulation and Test	22.2	20.1	10%	95.0	89.5	6%
Medical	57.1	65.0	(12%)	270.0	254.8	6%
Industrial Systems	**$ 212.9**	**$ 209.0**	**2%**	**$ 910.0**	**$ 891.5**	**2%**

GAAP results

	Q1 2022	Q1 2021	Change Q1 2022 vs 2021	FY 2022 F	FY 2021 A	Change FY 2022F vs 2021
Sales by Market						
Defense	$ 306.2	$ 316.0	(3%)	$ 1,330.0	$ 1,248.2	7%
Industrial	155.8	144.0	8%	640.0	636.7	1%
Commercial Aircraft	117.4	81.1	45%	445.0	379.3	17%
Space	87.6	77.8	13%	350.0	332.9	5%
Medical	57.1	65.0	(12%)	270.0	254.8	6%
Total Sales by Market	**$ 724.1**	**$ 684.0**	**6%**	**$ 3,035.0**	**$ 2,852.0**	**6%**

Q1 2022 Trailing Twelve Month Sales by Market (% total)



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Q1 2022 Supplemental Data 1/28/2022

(USD in millions except for per share data)

	Q1 2022	Q1 2021	Change Q1 2022 vs 2021	FY 2022 F	FY 2021 A	Change FY 2022F vs 2021
Non-GAAP results						
Non-GAAP FY 2022 results: excluding the benefit of securitization						
Cash Flow from Operations	$ 68	$ 94		$ 238	$ 293	
Capital Expenditures	(37)	(20)		(160)	(129)	
Free Cash Flow	$ 31	$ 74		$ 78	$ 164	
Share buybacks	(13)	(10)		(13)	(30)	
Acquisitions	-	(78)		-	(78)	
Proceeds from sale of business	39	-		39	-	
Payment of dividends	(8)	(8)		(33)	(32)	
Other items	(4)	(1)		(5)	18	
Decrease (Increase) in Net Debt	$ 44	$ (24)		$ 66	$ 42	
As reported results						
Cash Flow from Operations	$ 157	$ 94		$ 338	$ 293	
Capital Expenditures	(37)	(20)		(160)	(129)	
Free Cash Flow	$ 120	$ 74		$ 178	$ 164	
Share buybacks	(13)	(10)		(13)	(30)	
Acquisitions	-	(78)		-	(78)	
Proceeds from sale of business	39	-		39	-	
Payment of dividends	(8)	(8)		(33)	(32)	
Other items	(4)	(1)		(5)	18	
Decrease (Increase) in Net Debt	$ 134	$ (24)		$ 166	$ 42	
Depreciation and Amortization	$ 23	$ 21		$ 97	$ 90	

Non-GAAP FY2022 results exclude:

The benefit of the securitization. The securitization under GAAP reduces Q1 2022 Receivables and Net Debt by $89.6M, and increases Cash Flow from Operations by $89.6M. The benefit of the securitization is forecasted to be $100M in FY 2022.

Cautionary Statement Regarding Forward Looking Information

The forecasts, projections and estimates contained in these materials, which can be identified by the use of forward looking terms, such as “project,” “estimate,” "2022 F", or variations thereon or comparable terminology, are forward looking statements made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995.

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Q1 2022 Supplemental Data 1/28/2022

(USD in millions except for per share data)

Difference between GAAP and Non-GAAP FY 2022 results	Q1 2022	Q1 2021	Change Q1 2022 vs 2021	FY 2022 F	FY 2021 A	Change FY 2022F vs 2021
Operating Profit						
Aircraft Controls	$ 16.1	$ -		$ 16.1	$ -	
Space and Defense Controls	(1.5)	-		(1.5)	-	
Industrial Systems	-	-		-	-	
	$ 14.6	$ -		$ 14.6	$ -	
Operating Margins						
Aircraft Controls	5.3%	-		1.3%	-	
Space and Defense Controls	-0.7%	-		-0.2%	-	
Industrial Systems	0.0%	-		0.0%	-	
	2.0%	-		0.5%	-	
Non-GAAP Net Earnings adjustment for Charges	$ 10.7	$ -		$ 10.7	$ -	
Net Earnings	$ 10.7	$ -		$ 10.7	$ -	
Non-GAAP Net Earnings Per Share adjustment for Charges	$ 0.33	$ -		$ 0.33	$ -	
Net Earnings Per Share	$ 0.33	$ -		$ 0.33	$ -	
Effective Tax Rate	-0.6%	-		0.0%	-	
Cash Flow from Operations	$ 89.6	$ -		$ 100.0	$ -	
Free Cash Flow	$ 89.6	$ -		$ 100.0	$ -	
Decrease (Increase) in Net Debt	$ 89.6	$ -		$ 100.0	$ -	

Note - numbers may not add to totals due to rounding

Non-GAAP financial measures

We present Non-GAAP adjusted Operating Profit and Margins, Effective Tax Rate, Net Earnings and Net Earnings Per Share, Cash Flow from Operations, Free Cash Flow and the Change in Net Debt which are reconciled in the table above. We also present Free Cash Flow, which is defined as Cash Flow from Operations less Capital Expenditures. Management believes this non-GAAP financial measure provides investors important insight into the Company's ongoing operational performance. The Company does not intend for this information to be considered in isolation, or as a substitute, to the most closely related GAAP measure.