

KAMAN
2002 ANNUAL REPORT

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Bloomfield, Connecticut 06002
(860) 243-7100
www.kaman.com

KAMAN CORPORATION CLASS A COMMON SHARES ARE TRADED ON THE NASDAQ STOCK MARKET UNDER THE SYMBOL "KAMNA." KAMAN PROVIDES PRODUCTS AND SERVICES TO COMMERCIAL AND MILITARY CUSTOMERS THROUGH THREE BUSINESS SEGMENTS: AEROSPACE, INDUSTRIAL DISTRIBUTION AND MUSIC DISTRIBUTION.

AEROSPACE

Kaman produces aircraft structures and components for commercial and military aircraft, including specialized aircraft bearings; manufactures and supports the SH-2G Super Seasprite naval helicopter and the K-MAX medium-to-heavy lift helicopter; and provides various advanced technology products for critical specialized applications including missile and bomb fuzing.

INDUSTRIAL DISTRIBUTION

Kaman is one of the nation's larger distributors of power transmission, motion control, material handling and electrical components and a wide range of bearings. Products and value-added services are offered to a customer base of more than 50,000 companies representing a highly diversified cross-section of North American industry.

MUSIC DISTRIBUTION

Kaman is the largest independent distributor of musical instruments and accessories, offering more than 10,000 products for amateurs and professionals. Proprietary products include Ovation®, Takamine®, and Hamer® guitars; and Latin Percussion® and Toca® hand percussion instruments, Gibraltar® percussion hardware and Gretsch® professional drum sets.

FINANCIAL HIGHLIGHTS

(In thousands except per share amounts)

	2002	2001
NET SALES	\$ 880,776	\$ 875,869
NET EARNINGS (LOSS)	(33,601)	11,714
TOTAL ASSETS	535,540	521,946
PER SHARE AMOUNTS:		
Net earnings (loss) per share		
Basic	\$ (1.50)	\$.52
Diluted	(1.50)	.52
Dividends declared	.44	.44
Shareholders' equity	13.00	14.97

COMPANY HIGHLIGHTS

- Took a charge in a difficult market to address contract and business base issues
- Made six acquisitions and two divestitures over the past 15 months to focus the company more closely on core strengths
- Held use of debt to moderate levels, consistent with conservative policy
- Completed 32 consecutive years of dividend payments to shareholders

AEROSPACE HIGHLIGHTS

- Acquired Dayron to bring further leadership in fuzing
- Acquired German specialty bearing maker RWG Frankenjura-Industrie
- Awarded significant follow-on contract with Boeing
- Divested two non-core businesses – microwave products (2002) and electromagnetics (2003)
- Began phase-out of company's oldest facility in Moosup, Connecticut

INDUSTRIAL DISTRIBUTION HIGHLIGHTS

- Acquired Mexican industrial products distributor Delamac de Mexico S.A. de C.V.
- Completed integration of A-C Supply, acquired in 2001
- Opened new branches in Virginia, Nebraska, and Mexico
- Expanded base of national accounts
- Launched new version of award-winning Kamadirect.com e-commerce website

MUSIC DISTRIBUTION HIGHLIGHTS

- Acquired Latin Percussion, the world leader in hand percussion instruments
- Signed cymbal distribution agreement with Sabian
- Enhanced feature functionality of our kmconline.com business-to-business website
- Completed the first full year of our exclusive drum distribution agreement with Gretsch

Investor Information

KAMAN CORPORATION AND SUBSIDIARIES

INVESTOR INFORMATION DIRECTORY

Investor, Media and Public Relations Contact
 Russell H. Jones
 Vice President and Treasurer
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 E-mail: rhj-corp@kaman.com

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 P.O. Box 1
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Public Securities Information
 Listing: Nasdaq
 Symbols:
 Class A Common: KAMNA
 6% Debentures: KAMNG

Transfer Agent
 Mellon Investor Services
 P.O. Box 590
 Ridgefield Park, NJ 07660
 Telephone: (800) 227-0291
 www.melloninvestor.com

Information for Shareholders
 In addition to this Annual Report, shareholders may obtain the Form 10-K, filed annually with the Securities and Exchange Commission in March, and other SEC reports via the Internet or from the Investor Contact.

Kaman's Web Site
 Visit Kaman's Home Page on the Internet, <http://www.kaman.com>, to access a corporate overview, investor information, and our media center.

Counsel
 Murtha Cullina LLP
 CityPlace
 Hartford, Connecticut 06103

Independent Auditors
 KPMG LLP
 One Financial Plaza
 Hartford, Connecticut 06103

K-MAX, Ovation, Hamer, Takamine and Latin Percussion are registered trademarks of Kaman Corporation. Gibraltar, Gretsch and Toca are registered trademarks of others.

This annual report is printed in part on recycled paper.

DIVIDEND REINVESTMENT PROGRAM

A Dividend Reinvestment Program is available for investment in Class A common stock. A booklet describing the program may be obtained from the transfer agent.

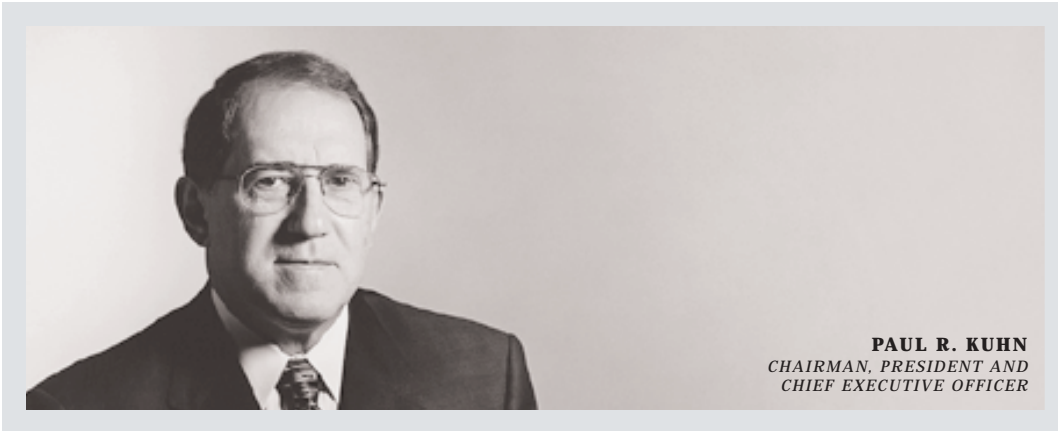
ANNUAL MEETING

The Annual Meeting of Shareholders will be held on Tuesday, April 15, 2003, at 11:00 a.m. at the offices of the corporation, 1332 Blue Hills Avenue, Bloomfield, CT 06002. Holders of all classes of Kaman securities are invited to attend; however, it is expected that matters on the agenda for the meeting will require the vote of Class B shareholders only.

QUARTERLY CLASS A COMMON STOCK INFORMATION

2002	HIGH	LOW	CLOSE	DIVIDEND
First	\$17.61	\$13.46	\$16.95	11¢
Second	18.81	14.82	16.76	11¢
Third	17.50	11.00	12.25	11¢
Fourth	13.75	9.42	11.00	11¢

2001	HIGH	LOW	CLOSE	DIVIDEND
First	\$19.50	\$13.31	\$16.38	11¢
Second	18.18	14.70	17.70	11¢
Third	17.95	12.26	13.24	11¢
Fourth	16.38	10.90	15.60	11¢



PAUL R. KUHN
CHAIRMAN, PRESIDENT AND
CHIEF EXECUTIVE OFFICER

TO OUR SHAREHOLDERS,

In a challenging operating environment, Kaman has remained committed to building each of its three business segments by focusing on Superior Products, Operational Excellence and Future Growth.

The challenges America faced in 2002 are by now well documented – continuing economic uncertainty, the menace of international terrorism and the prospect of war. These and other concerns have been unsettling to us all. For U.S. businesses, these issues have created unavoidable challenges. For Kaman specifically, our two largest business segments, Aerospace and Industrial Distribution, operate in sectors that have been among the most adversely affected by economic conditions.

As a company, Kaman has long been guided by a tradition of conservative financial management, maintaining a diversified mix of businesses, carefully controlling costs and pursuing constant improvement. Additionally we are committed to the application of lean-thinking initiatives and the execution of our growth strategies for each of the three business segments.

This focus enabled us to weather an economic storm in 2002 that continues to rumble. We ended 2002 with financial results that, while not where we want them to be, reflect the substantial actions taken to reduce costs and win new contracts and customers.

Some of our initiatives in 2002 have been exciting. Among them were four acquisitions in 2002 and a total of six over the past 15 months. These transactions, discussed below, are an important component of our strategy to build the company. All of the acquisitions are complementary fits for our respective businesses. We have won new and follow-on contracts in Aerospace. We have continued the expansion of our roster of national accounts in Industrial Distribution. And in Music Distribution, we have added exciting new names to our line-up of products.

Several of the actions have been difficult. Notably, in Aerospace we have had to take charges to provide for cost growth and loss reserves to complete our eleven-helicopter SH-2G(A) program for Australia. We have reduced the scope of the K-MAX program; begun the process of phasing out operations at the Moosup, Connecticut manufacturing plant, the company's oldest and least efficient facility; and we have reduced the aerospace workforce, an especially difficult decision necessitated by the decline in sales from prime helicopter contracts. As a result of the lower production levels, overhead expenditures must be absorbed at higher rates by active programs, resulting in higher costs, lower program profitability, and loss accruals for certain long-term programs, including a higher loss accrual for the Australian SH-2G program. In Industrial Distribution, we have also taken measures to adjust the work force.

*Kaman has significant historical involvement in the helicopter industry
and this market remains an area of important potential.*

All of these actions were dictated by business conditions and are reflected in our reported financial results, as addressed below.

FINANCIAL REVIEW The company reported a net loss in 2002 of \$33.6 million, or \$1.50 per diluted share, compared to net earnings of \$11.7 million, or \$0.52 per diluted share, in 2001. Results for 2002 include a pre-tax charge of \$86 million to cover the write-down of the K-MAX helicopter assets (\$50 million), for cost growth associated with the SH-2G(A) helicopter program for Australia (\$25 million), and to phase out operations at the Moosup facility (\$11 million) by the end of 2003. In 2001, the company recorded a \$31.2 million adjustment to sales and pre-tax earnings related to growth in the estimated costs to complete the SH-2G(A) helicopter program for Australia. As a result of the 2002 and 2001 Australian program adjustments, the contract is now in a loss position.

Excluding the 2002 charge and 2001 adjustment, net income for 2002 would have been \$21.8 million, or \$0.96 per diluted share, compared to \$30.5 million, or \$1.33 per diluted share in 2001.

Net sales for 2002 were \$880.8 million, compared to \$875.9 million last year. The Australia program adjustments reduced 2002 net sales by \$6.5 million and 2001 net sales by \$31.2 million.

As we review the performance of each business segment, we will do so in the context of our previously identified strategies.

AEROSPACE For the Aerospace segment, 2002 was a year of both challenges and progress. The operating loss was \$55.2 million, compared to an operating profit of \$6.5 million in 2001. The loss was primarily due to the charges described above. Excluding the charges in 2002 and the adjustment in 2001, operating profits in 2002 were \$30.8 million compared to \$37.7 million a year ago. Year 2002 net sales were \$275.9 million, versus \$301.6 million in the prior year. Acquisitions in this segment in 2002 and 2001 contributed \$20.0 million to the top line in 2002. Excluding the impact of the Australia program adjustments, 2002 net sales would have been \$282.4 million compared to \$332.8 million in the prior year.

Kaman's strategy for the Aerospace segment has three principal elements. During the year, we made progress on each.

Pursue additional SH-2G opportunities in the international niche market for intermediate-size maritime helicopters. Kaman has significant historical involvement in the helicopter industry and this market remains an area of important potential. Today, our SH-2G helicopters are operational with the Egyptian Air Force (ten) and New Zealand Navy (four). In addition, a fifth aircraft for New Zealand has been shipped and ten of the eleven aircraft comprising the Australian SH-2G program are substantially complete. Kaman's subcontractors have been moving ahead with development of the Integrated Tactical Avionics System (ITAS) software, unique to the Australia program. The company and the Royal Australian Navy (RAN) have now reached

Kaman's investments in the non-helicopter portion of its Aerospace segment reflect the prospects for growth in these core activities of the company.

an agreement for phased acceptance of the aircraft and the completion of aircraft deliveries. The phased acceptance of the aircraft is contingent upon the RAN's satisfaction with our progress toward important project milestones during 2003. The full ITAS system is expected to be completed, installed and operational on all of the Australian aircraft by the end of 2004.

In 2002, Kaman received a \$4.2 million contract to support the ten SH-2G aircraft in service with the Egyptian Air Force. The company is in a competition to supply up to six search and rescue helicopters to Egypt. Based on recent discussions with customer personnel, we believe the selection process is being delayed and will not likely be concluded in 2003.

Kaman also continues work on a small program to refurbish four existing SH-2Gs previously in service with the U.S. Navy Reserves to operate aboard two Polish frigates. Two of the helicopters have completed the reactivation process and have been accepted. Reactivation of the other two aircraft, along with training, logistics support and delivery of initial quantities of spare components is expected to be completed during 2003.

Year 2002 developments in helicopters also included the sale of two used K-MAX helicopters, consistent with our goal of pursuing both sale and lease opportunities for existing K-MAX inventory.

Expand the Subcontract and Advanced Technology Products businesses through increased sales and marketing efforts and strategic acquisitions. In recent years, the non-helicopter portion of our Aerospace business has been an area of increasing focus due to the prospects for growth in these core activities of the company. In 2002, our Aerostructure and Helicopter Subcontracting and Advanced Technology Products businesses represented 69% of Aerospace sales, compared to 59% in 2001. At present the commercial aviation industry remains depressed from the levels experienced through the mid-1990s, and that will tend to limit the growth of Kaman's subcontracting sector in the short term. On the other hand, our C-17 subcontract work and the advanced technology products area are benefiting from increases in defense spending. These are vital and important industry niches that we expect will both do well over time, and Kaman is making the investments to ensure that the company will be a player.

Kaman received a significant new contract from Boeing to supply aircraft subassemblies for the Boeing 747, 757, 767, and 777 families of commercial airplanes. Under this contract, Kaman will receive and assemble parts from approximately 100 suppliers that had been contracting with Boeing directly. Another important win was the September announcement of a follow-on to a major contract from Boeing for structural components for the C-17 military transport aircraft. The multi-year agreement for 60 additional aircraft shipsets has a potential of \$67.5 million in sales through June 2007.

*By migrating a common lean methodology
to each Aerospace manufacturing and office environment,
Kaman has streamlined production and administration while reducing costs.*

The year 2002 also brought a geographic expansion of our business into vital European markets. In July, we acquired the privately held German aerospace bearing manufacturer, RWG Frankenjura-Industrie Flugwerklager GmbH, an addition that complements our proprietary Kamatics bearings business. RWG's largest customer is Airbus Industrie.

Kaman's helicopter subcontract work includes multi-year contracts for production of fuselages and rotor systems for various MD Helicopters, Inc. (MDHI) aircraft, and the company has developed a large investment in its contracts with MDHI (including receivables, start-up costs, and other program expenditures). The company is concerned about this exposure, both because the programs have been running at significantly lower rates than originally anticipated due to various problems and because we have experienced some difficulty with receipt of payments from MDHI. The company is working with MDHI in an effort to address their payment issues.

The company's Advanced Technology Products business has been a good performer, benefiting from increased defense spending. A key 2002 event was the July acquisition of Dayron, a manufacturer of bomb fuzes for a variety of munitions programs.

Consistent with our plan to align the Aerospace segment's growth strategy with the company's core strengths, two non-core portions of the segment were divested. In the second quarter of 2002, we sold the microwave products line, and in early January 2003, we sold the Electromagnetics Development Center in Hudson, Mass.

Further deploy lean thinking to improve manufacturing performance and reduce costs. During the year, Kaman's Lean Office migrated a common lean methodology to the manufacturing and office environments across the segment, utilizing the Shingijutsu consulting firm extensively. Among the outcomes: the establishment of numerous manufacturing cells that have eliminated thousands of hours of production time, thousands of feet of part travel, and thousands of required square feet along with associated costs for all of these factors. This initiative continues.

INDUSTRIAL DISTRIBUTION The market in which our Industrial Distribution segment competes remained challenging throughout 2002. Importantly, our ability to reduce costs throughout the organization, coupled with our aggressiveness in the market, enabled us to maintain operating profitability.

For the year, operating profits were \$12.3 million, compared to \$13.2 million in 2001. The reduction reflects continued pricing pressures. Net sales were \$477.2 million, compared to \$453.7 million in the prior period. Acquisitions over the past two years represented \$38.0 million of 2002 sales and \$8.0 million of 2001 sales. The industry's practice of offering supplier incentives is an important contributor to the company's operating profits, particularly during periods of lower economic activity.

*Incremental steps to continuously improve business processes
have helped us further enhance our world-class order accuracy
and order fill rate performance in Industrial Distribution.*

The Industrial Distribution segment also made progress with its core strategies.

Expand geographic coverage in major industrial markets that increase Kaman's ability to compete for regional and national accounts. Our strategy is to expand geographically through acquisitions and the opening of new branches. In September 2001 we acquired the industrial distribution business of A-C Supply in Milwaukee, Wisconsin, increasing our penetration in the upper Midwest, a region where previously our coverage had been limited. We ended 2002 with the integration of A-C substantially complete. In March 2002, we acquired a majority ownership interest in Delamac de Mexico S.A. de C.V., a leading distributor of industrial products headquartered in Mexico City. Delamac has enhanced our ability to serve the Mexico-based operations of major North American customers. Our presence in Mexico was further enhanced with the opening of a branch in Guadalajara.

In addition, we have entered coastal Virginia for the first time, with new branch locations in Lynchburg and Roanoke, and have also opened a new branch in Omaha, Nebraska.

Our ongoing focus on expanding our geographic reach is enabling us to expand our portfolio of national accounts. In 2002, we added a number of these customers including Hershey Foods, Coca-Cola Enterprises, Interstate Brand Companies, Royal Phillips Electronics, and Federal-Mogul.

Provide industry leadership in e-commerce initiatives. Our strategy for e-commerce has consistently focused on helping our customers become more efficient, competitive and profitable. Toward that end, we launched a new version of our award-winning Kamandirect.com site giving customers instantaneous order capabilities.

Further enhance operating and asset utilization efficiencies throughout the enterprise. Our success in this area has enabled us to maintain operating profitability while better serving our customers. The incremental steps we have taken in this area, including implementing new lean-thinking initiatives to improve business processes, have helped us further enhance our world-class order accuracy performance to over 99.9% and our order fill rate performance to over 95%, two critical factors in customer satisfaction, while reducing warehouse costs.

MUSIC DISTRIBUTION Music Distribution operating profits were \$7.2 million in 2002, compared to \$6.6 million in the prior year. Sales were \$127.7 million, including \$3.7 million from a 2002 acquisition, compared to \$120.6 million in 2001. Our solid results in this segment reflect the sustained levels of consumer spending in the music retail market, one of the few bright spots in an otherwise disappointing year for retail sales.

As with each of Kaman's businesses, we made progress on our core strategies for Music Distribution.

The benefits achieved by consolidating Latin Percussion into Kaman Music are expected to be a strong contributor to operating profitability and growth going forward.

Preserve the company's leadership position as the largest independent distributor of musical instruments and accessories. We furthered this strategic goal with the October acquisition of Latin Percussion, Inc., the world's leading provider of conga drums and other hand percussion instruments. With this transaction, our already strong line-up of brands now includes the respected names of LP, LP Aspire and Matador. The benefits achieved through the consolidation of Latin Percussion into Kaman Music are expected to be a strong contributor to the segment's operating profitability and growth going forward.

Build on the company's strong brand identity while adding new market-leading names to the company's offering of proprietary products. In addition to Latin Percussion, our roster of strong brands was expanded in 2002 with the addition of Sabian cymbals and Elixir strings. It also marked the first full year for the Gretsch brand in Kaman's portfolio.

Lead the market with distribution systems and technologies that add value and reduce costs for the customer, the supplier and the company. We continue to implement systems and technologies that improve efficiency and service for customers. During 2002, we added new features to our e-commerce site, kmconline.com, that further enhance the ability of our customers to interface with us electronically.

COMMITTED TO EXECUTING OUR STRATEGIES While we anticipate that the operating environment will remain challenging in the near term, the strength of Kaman's financial position provides the company the flexibility and resources to execute its strategies for each business.










Our progress in the face of difficult market conditions is a direct reflection on the commitment and contributions of our people and the excellent leadership in each of the operating segments. I thank them all for their hard work and dedication.

In closing, I also thank our valued customers and suppliers for their support. Our shareholders deserve special appreciation and the continued focus of management on building our businesses and delivering shareholder value over the longer term. We remain confident that we are taking the right actions and making the right investments to do just that.

Sincerely,



PAUL R. KUHN
CHAIRMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER
Kaman Corporation

	Aerospace	Industrial Distribution	Music Distribution	
				Superior Products
				Operational Excellence
				Future Growth

Aerospace

From its roots as a pioneering company in the early days of helicopter development, Kaman has gone on to achieve several technology firsts and has produced aircraft products that make Kaman a recognized name in the industry. Over the years, Kaman has levered its expertise to build a company that plays a role in commercial and military aviation throughout the world. Today, Kaman's Aerospace segment encompasses helicopter programs, aerostructure and helicopter subcontracting and advanced technology products.

HELICOPTER PROGRAMS

Kaman's SH-2G Super Seasprite, formerly a front-line helicopter with the U.S. Navy, is now operational with the Egyptian Air Force and the Royal New Zealand Navy. The company is refurbishing and reactivating four SH-2Gs acquired from the U.S. Navy for Poland. In addition, ten of eleven aircraft comprising a program for Australia are substantially complete but require completion of their Integrated Tactical Avionics System (ITAS) software before going into service. Kaman continues to market the SH-2G globally.

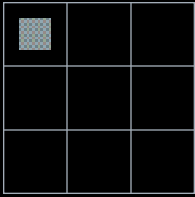
Kaman's K-MAX "aerial truck", a medium-to-heavy lift helicopter, can be used for fire fighting and commercial applications such as logging and the construction of power lines and oil rigs. The company is working to sell or lease existing K-MAX inventories.

AEROSTRUCTURES AND HELICOPTER SUBCONTRACTING

Kaman manufactures major structural assemblies and/or components for virtually all Boeing airliners, several makers of regional and business jets, the C-17 military transport, and various helicopter programs. Kaman also supplies custom-engineered composites, advanced plastic components, complex assemblies and other products for numerous commercial and military aerospace programs. The company's Kamatics subsidiary makes proprietary self-lubricating bearings for use in aircraft flight controls, turbine engines and landing gears, as well as driveline couplings for helicopters. The acquisition in 2002 of RWG, an aircraft bearing maker located in Germany, provides an excellent complement to our business. Kamatics' largest customer is Boeing. RWG's largest customer is Airbus Industrie.

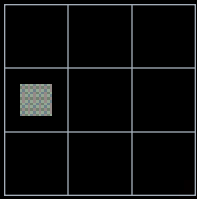
ADVANCED TECHNOLOGY PRODUCTS

The company's advanced technology products involve systems, devices and assemblies for a variety of military and commercial applications and include safe, arm and fuzing devices for high-profile missile and bomb programs; high-reliability memory systems for critical airborne, shipboard, and ground-based programs; precision non-contact measuring systems for industrial and scientific use; and electro-optic systems for mine detection and other applications.



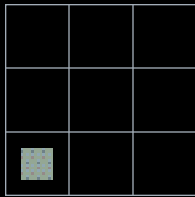
Superior Products *in* Aerospace Kaman produces a line-up of products rich in technological content that meet customers' needs and solve their complex problems. Whether in helicopter manufacturing with our flagship SH-2G military helicopter or K-MAX "aerial truck" helicopter, or in aerostructures and helicopter subcontracting, or the advanced technology sector of the business – Kaman honors its half-century tradition of innovation by striving to offer the best products in the market.





Operational Excellence *in* Aerospace Three years ago, the process of making a specialty bearing at our Kamatics facility in Bloomfield, Conn., required the product to move nearly one mile through the production process. Today, that product travels less than a thousand feet. With assistance from the Shingijutsu consulting firm, our manufacturing cells at plants throughout the segment from Bloomfield and Middletown, Connecticut to Wichita, Kansas and Jacksonville, Florida have eliminated production time, part travel, square footage requirements and costs. The result: shortened lead times and improved quality.





Future Growth *in* Aerospace Although the markets we serve have been depressed, as they cycle back into a growth mode Kaman will be positioned and ready with the right products. In 2002, Kaman won new contracts that deepen the company's involvement in various aircraft and advanced technology programs. We have now divested two non-core businesses, and have acquired three that build on our core capabilities. The 2002 purchase of Dayron's bomb fuze business, for instance, augments Kaman's missile fuze business. Kaman-Dayron has the contract to develop the Joint Programmable Fuze (JPF) for use in precision guided bombs.



Industrial Distribution

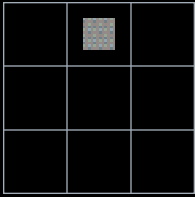
Kaman's Industrial Distribution segment offers more than 1.5 million items manufactured by some 1,400 suppliers.

In today's competitive environment, customers select suppliers that help them cut costs and enhance productivity throughout their office and production processes. A broad product selection is necessary. Orders must be filled accurately. Just-in-time inventory needs must be met. In-depth product and industry knowledge is increasingly important. And customers want as much paper as possible eliminated from the process of placing orders and making payments.

On each of these benchmarks of success, Kaman's Industrial Distribution segment has demonstrated leadership. Our product array of mechanical and electrical power transmission products, bearings, materials handling equipment, fluid power, and linear motion products is vast and expanding. Kaman provides same-day or next-day delivery for most customers across North America, and at over 99.9% order accuracy from the distribution centers, our fulfillment statistics are among the very best in the world. Our sales and customer service personnel are trained and knowledgeable about the products they sell, and our Documented Savings program challenges our people to ask questions and seek ways to do things better.

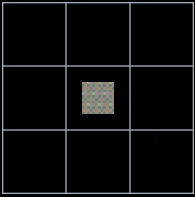
During 2002, the Industrial Distribution segment launched a new, updated edition of the company's e-commerce website. This not only increases convenience for customers, who may choose to interact with us through the Internet, but also reduces paper and costs. The new site provides a computer-to-computer link that features a complete electronic catalog, allows online ordering and payment and supports inventory management.

Our customer base is more than 50,000 strong and we continue to build our base of national accounts. In 2002, Kaman was named Supplier of the Year by Frito-Lay North America, and 2002 Majority Supplier of the Year for minority business utilization by Procter & Gamble. Kaman is the first two-time winner of this prestigious award.

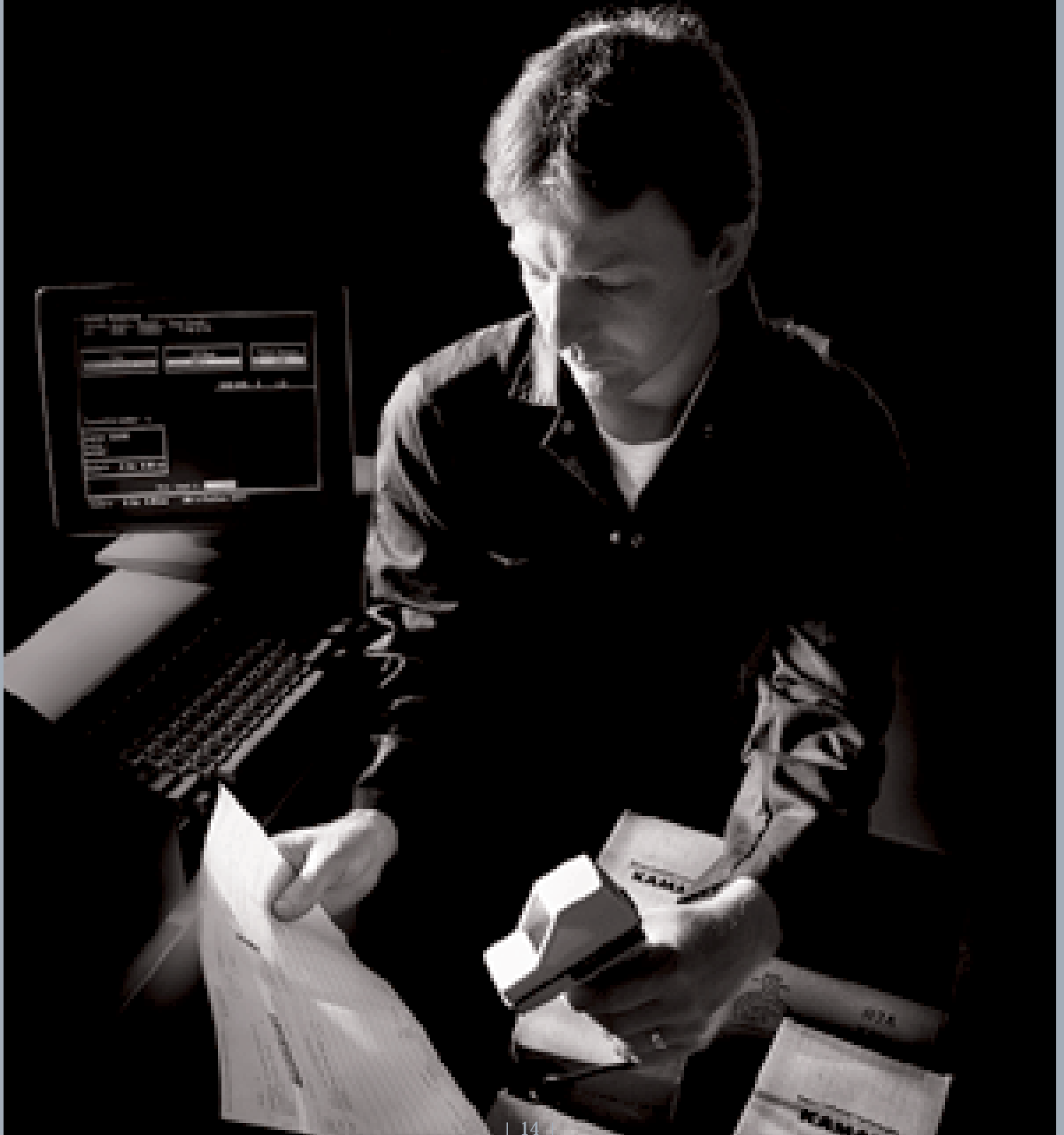


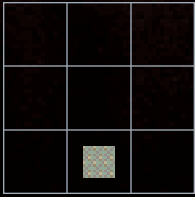
Superior Products *in* Industrial Distribution Kaman's catalogue of power transmission products, bearings, materials handling equipment, fluid power and linear motion products represents goods from many of the most recognized and prestigious names in manufacturing. The company's top ten suppliers, listed alphabetically, include Baldor Electric, Emerson (EMT), Falk Corporation, Gates Rubber, Rexnord, Rockwell Automation, SKF, Thompson Industries, Timken, and The Torrington Company. Competitive pricing and a commitment to value-added service help make Kaman one of the leading distributors of these products.



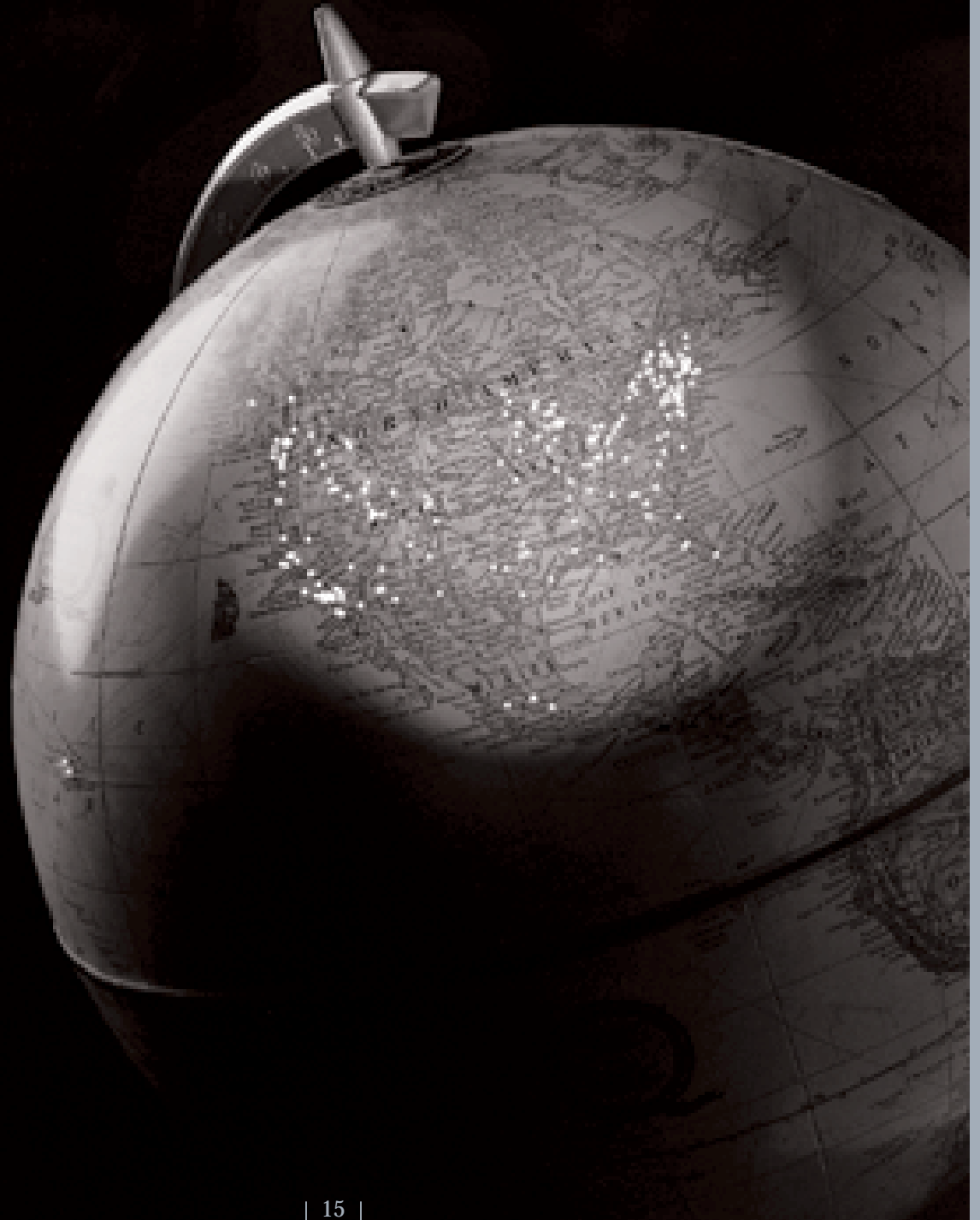


Operational Excellence *in* Industrial Distribution Today's industrial distribution customer needs a supplier that can help them cut costs and improve processes for competitive advantage. Kaman documents the cost savings our customers will experience and delivers the promised result. Our product and industry know-how and our cultural heritage of striving to be the best bring added benefits to the customer as we work together on process improvement. And our system of strategically located warehouses and service centers are equipped with systems that provide most customers same or next day delivery of the products we sell with world-class accuracy.





Future Growth *in* Industrial Distribution Kaman serves 67 of the top 100 industrial markets in the United States with additional facilities in Canada and Mexico to serve local customers and large enterprises whose plants span North America. The company is taking advantage of opportunities to add coverage of additional market areas both through selected strategic acquisitions and through the opening of new branches. This is increasing Kaman's attractiveness to the large national or North American accounts that represent a growing portion of Kaman's business mix.



Music Distribution

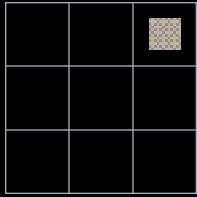
Kaman's Music Distribution segment is America's largest independent distributor of musical instruments and accessories, offering more than 10,000 products to retailers of all sizes, from national chains to independent shops.

Kaman's array of musical instruments includes premier proprietary products, such as the company's own Ovation and Hamer guitars, and Takamine guitars under its exclusive North American distribution agreement. To build on its market leadership position, Kaman has significantly extended its line of percussion products and accessories over the past two years. Kaman Music has long distributed recognized names such as Toca Latin-style hand percussion instruments and Gibraltar percussion hardware. In 2001, the segment added Gretsch Drums, which are distinguished by their chrome-plated casings, high-gloss lacquers, durable covered finishes and great sound. A significant addition in 2002 was the acquisition of Latin Percussion, the world leader in hand percussion instruments. Wherever there's the sound of percussion, there's a good chance Kaman was involved.

To ensure the highest quality while offering value at different price points, Kaman's products are manufactured both in the United States and abroad.

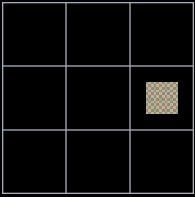
Delivering products swiftly, accurately and completely requires dedicated people, efficient systems and strong partners. At Kaman, we've got all three. Customers have access to kmconline.com in addition to phone, fax and e-mail ordering systems – and salesmen in the field – for maximum convenience. Electronic exchange of invoices and statements streamlines business functions and adds value for those choosing to use the site. In addition, customers can download high-resolution images of the company's products for their own marketing flyers and catalogs.

Kaman is increasingly using technology and systems to reduce costs. During 2002, the Music Distribution segment implemented a new inventory replenishment system to strengthen inventory management and further improve just-in-time delivery schedules.

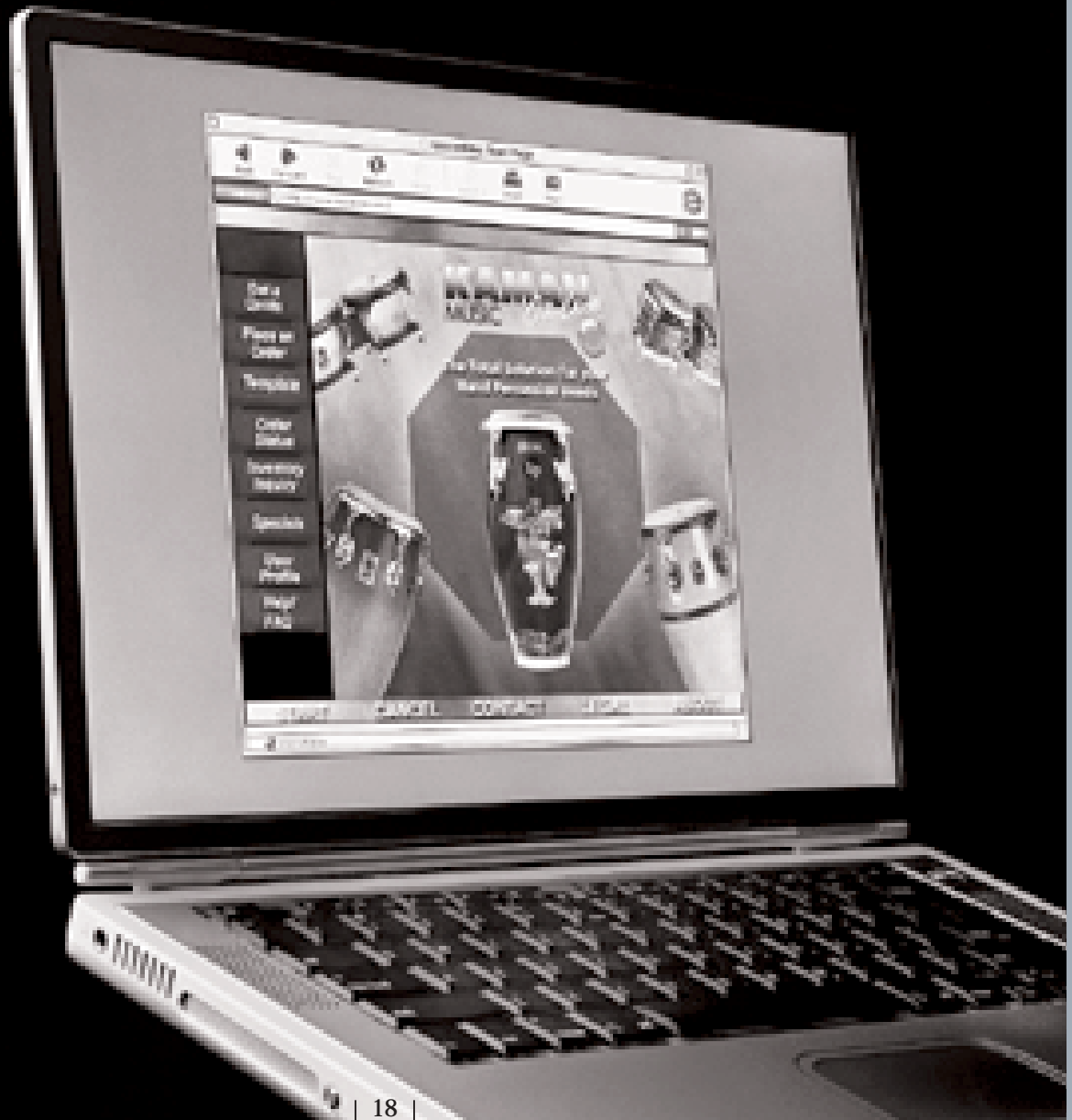


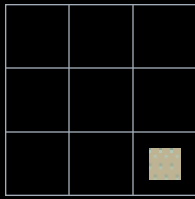
Superior Products *in* Music Distribution The Ovation guitar, with its distinctive round back design and rich sound, is one of Kaman's flagship products – a dynamic fusion of form and function that has inspired guitarists for two generations. The Ovation line sits alongside Kaman's other proprietary brands, including Hamer and Takamine guitars and a market-leading portfolio of famous percussion names including Latin Percussion, Toca, Gibraltar, Gretsch, and others. In all, the Music Distribution segment offers more than 10,000 products to music lovers of all ages and at all skill levels. Visit us at www.kamanmusic.com to explore our full range of offerings.





Operational Excellence in Music Distribution Kaman meets the needs of the music retailer with advanced distribution systems and processes that ensure speed and accuracy. We place the right products in the right locations to serve large retail chains and “mom and pop” music stores across the United States. Our newly expanded and proprietary kmconline website offers our customers more information and greater convenience than is currently available elsewhere, helping them reduce inventory costs and enhance service to their own customers.





Future Growth *in* Music Distribution A decade ago, Kaman was most noted in the music world for its popular Ovation and Takamine guitars, products that helped Kaman become the largest independent distributor of musical instruments and accessories. Recently, Kaman has significantly increased its presence with a major expansion in percussion instruments, a growing market. The 2002 acquisition of Latin Percussion added the world's leading line of hand percussion instruments to a catalog that already included recognized names like Toca, Gibraltar, Gretsch and Sabian.



Financial Review

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	2002	2001	2000	1999	1998
OPERATIONS:					
Net sales	\$ 880,776	\$ 875,869	\$ 1,031,234	\$ 995,404	\$ 1,017,124
Cost of sales	723,243	673,782	774,264	751,291	756,057
Selling, general and administrative expense	199,453	188,752	202,319	201,807	210,969
Restructuring costs	8,290	—	(1,680)	4,132	—
Other operating expense (income)	(1,302)	(1,076)	(1,092)	(1,773)	(1,465)
Operating income (loss)	(48,908)	14,411	57,423	39,947	51,563
Interest expense (income), net	2,486	623	(1,660)	(1,614)	(353)
Other expense (income), net	(468)	(1,876)	1,363	1,088	1,558
Earnings (loss) before income taxes	(50,926)	15,664	57,720	40,473	50,358
Income taxes (benefit)	(17,325)	3,950	20,800	15,400	20,350
Net earnings (loss)	(33,601)	11,714	36,920	25,073	30,008
FINANCIAL POSITION:					
Current assets	\$ 414,245	\$ 442,651	\$ 482,000	\$ 460,111	\$ 516,504
Current liabilities	157,094	141,260	173,342	168,374	228,975
Working capital	257,151	301,391	308,658	291,737	287,529
Property, plant and equipment, net	61,635	60,769	63,705	64,332	65,773
Total assets	535,540	521,946	553,830	534,203	587,230
Long-term debt	60,132	23,226	24,886	26,546	28,206
Shareholders' equity	291,947	333,581	332,046	316,377	309,494
PER SHARE AMOUNTS:					
Net earnings (loss) per share – basic	\$ (1.50)	\$.52	\$ 1.61	\$ 1.07	\$ 1.28
Net earnings (loss) per share – diluted	(1.50)	.52	1.57	1.05	1.23
Dividends declared	.44	.44	.44	.44	.44
Shareholders' equity	13.00	14.97	14.92	13.68	13.07
Market price range	18.81 9.42	19.50 10.90	17.75 8.77	16.13 10.06	20.38 13.00
AVERAGE SHARES OUTSTANDING:					
Basic	22,408	22,364	22,936	23,468	23,407
Diluted	22,408	23,649	24,168	24,810	25,235
GENERAL STATISTICS:					
Registered shareholders	5,634	5,869	6,136	6,522	6,921
Employees	3,615	3,780	3,825	4,016	4,276

Management's Discussion and Analysis of Financial Condition and Results of Operations

KAMAN CORPORATION AND SUBSIDIARIES

RESULTS OF OPERATIONS

Consolidated net sales for 2002 were \$880.8 million compared to \$875.9 million for 2001 and approximately \$1 billion for 2000. Net sales for 2002 were reduced by \$6.5 million as part of a \$25.0 million pre-tax charge taken in the second quarter for cost growth associated with the Australia SH-2G (A) program in the Aerospace segment. Results for 2002 were also adversely affected by weak economic conditions in the commercial aerospace and industrial markets, which are served by the Corporation's Aerospace and Industrial Distribution segments. Net sales for 2001 were reduced by \$31.2 million due to sales and pre-tax earnings adjustment taken in the second quarter of that year, principally related to cost growth in the Australia helicopter program.

The total 2002 second quarter pre-tax charge was \$86.0 million (of which \$52.7 million was non-cash), which included the Australia program charge described above; the write-down of K-MAX helicopter assets, principally inventories; and the anticipated costs to phase out operations at the Corporation's Moosup, Connecticut manufacturing facility by the end of 2003.

Results for 2001 were adversely impacted by the above-described adjustment as well as a continuing national economic decline that affected each of the corporation's business segments, but particularly the Industrial Distribution segment.

Aerospace segment net sales decreased by 8.5% in 2002 and 21.0% in 2001 compared to an increase of 2.7% in 2000. Net sales for 2002 were \$275.9 million (including \$20.0 million from acquisitions made during 2002 and 2001) compared to \$301.6 million for 2001 (the 2001 acquisition occurred in December so no sales from acquisitions are included for 2001). The decrease in 2002 is due to the second quarter charge, declining revenues from the New Zealand SH-2G program (which is essentially completed) and the Australia SH-2G program (which is nearing completion), and lack of new SH-2G and K-MAX helicopter sales. Excluding the impact of the Australia program adjustments in both years, 2002 net sales would have been \$282.4 million compared to \$332.8 million for 2001.

The Aerospace segment's programs include helicopter manufacturing along with spare parts and support (currently approximately 31% of this segment's sales compared to approximately 41% a year

ago); aerostructure and helicopter subcontract work as well as manufacture of components such as self-lubricating bearings and driveline couplings for aircraft applications (currently about 48% of segment sales compared to about 42% a year ago); and advanced technology products (approximately 21% of segment sales compared to 17% a year ago).

The corporation's helicopter programs include the SH-2G multi-mission maritime helicopter and the K-MAX medium-to-heavy external lift helicopter. The SH-2G helicopter represents the vast majority of the segment's helicopter program sales and generally consists of retrofit of the corporation's SH-2F helicopters to the SH-2G configuration or refurbishment of existing SH-2G helicopters. The SH-2, including its F and G configurations, was originally manufactured for the U.S. Navy. The SH-2G aircraft is currently in service with the Egyptian Air Force and New Zealand Navy.

Work continues on the SH-2G (A) program for Australia which involves eleven helicopters with support, including a support services facility, for the Royal Australian Navy (RAN). The total contract has an anticipated value of about \$711 million (US). The helicopter production portion of the program is valued at approximately \$590 million, of which about 91% has been recorded as sales through December 31, 2002. As a result of the \$25.0 million charge taken in the second quarter of 2002, the corporation eliminated the \$6.5 million profit element of previously recorded sales and recognized pre-tax loss accruals of \$18.5 million for anticipated cost growth associated with completion of the aircraft, and final integration and testing of the aircraft's Integrated Tactical Avionics System (ITAS) software, a feature unique to the Australian aircraft. An additional loss accrual was recognized in the fourth quarter of 2002 in recognition of the impact of higher overhead rates across all active programs.

Ten of the aircraft are substantially complete; the corporation has retained the eleventh aircraft for test purposes. All of the aircraft lack the full ITAS software because the corporation was required to select replacement subcontractors to complete ITAS software development as a result of a contract dispute settlement with the original software supplier. The replacement subcontractors are in the process of completing this element of the program and the corporation now has responsibility for aircraft system

integration (previously a subcontracted task). The corporation and the RAN have recently reached agreement on a plan for phased acceptance of the aircraft and completion of aircraft deliveries. Under the agreement, phased acceptance is contingent upon the RAN's satisfaction with the company's progress with respect to certain important project milestones during 2003. The corporation currently expects that the software will be fully completed, installed and operational on all of the Australia aircraft by the end of 2004.

The program for New Zealand, involving five aircraft with support to serve the Royal New Zealand Navy, is essentially complete as the fifth and final aircraft has now been shipped to New Zealand. The contract has an anticipated value of about \$189 million (US), of which about 98% has been recorded as revenue through December 31, 2002.

The corporation is continuing work on a small contract to refurbish four existing SH-2G aircraft previously in service with the U.S. Navy Reserves to operate aboard two Polish Navy frigates in multi-mission roles such as surface surveillance and anti-submarine warfare. The program involves reactivation of the aircraft, training, and logistics support, including delivery of initial spares components. Reactivation of two aircraft was completed in the fourth quarter of 2002 and they have been accepted. Reactivation of the other two aircraft is underway and is scheduled for completion by the end of 2003.

The corporation is also participating in a competition to supply up to six search and rescue helicopters to Egypt, proposing to supply remanufactured SH-2Gs for that requirement. The corporation's involvement in this process began in early 1999.

Based upon discussions with Egyptian officials during recent visits, management believes that the selection process is being further delayed and is not likely to result in an award announcement in 2003.

The corporation is actively pursuing other opportunities for the SH-2G helicopter in the international defense market. This market is highly competitive and heavily influenced by economic and political conditions. However, management continues to believe that the aircraft is in a good competitive position to meet the specialized needs of navies around the world that operate smaller ships for which the SH-2G is ideally sized.

The corporation also maintains a consignment of the U.S. Navy's inventory of SH-2 spare parts under a multi-year agreement that provides the corporation the ability to utilize certain inventory for support of its SH-2G programs.

Regarding the K-MAX helicopter program, based upon a market evaluation of the aircraft that followed several years of significant market difficulties for the program, management made a determination in the second quarter of 2002 that it would produce further aircraft only upon firm order by a customer and would pursue both a sale and short-term lease program for existing new and used K-MAX aircraft inventory. During 2002, three used aircraft were leased and two used aircraft (one of which had been under lease) were sold under that program. In connection with the decision made in the second quarter, the corporation wrote down the value of existing aircraft, excess spare parts, and equipment inventories (\$46.7 million for inventories and \$3.3 million for capital equipment). Development costs for the aircraft were expensed in the past. On a going forward basis, the corporation intends to maintain adequate inventories and personnel to support the fleet.

Also included in the second quarter 2002 pre-tax charge was \$11.0 million for the cost of phasing out the corporation's aircraft manufacturing plant in Moosup, Connecticut, by the end of 2003. This is the oldest and least efficient of the corporation's facilities and the work performed there will be relocated to other company facilities. The charge represents severance costs of about \$3.3 million at the Moosup and Bloomfield, Connecticut locations which is expected to involve the separation from service of approximately 400 employees (of which \$696 thousand had been paid for 119 such separations as of December 31, 2002); asset write-offs of about \$2.7 million; and \$5.0 million for the cost of closing the facility (including costs associated with an ongoing voluntary environmental remediation program). An additional \$8.3 million of ongoing pre-tax costs are expected to be expensed as incurred for moving machinery and re-certifying products and processes.

The Aerospace segment also performs aerostructure and helicopter subcontract work for a variety of aerospace manufacturers and produces proprietary self-lubricating bearings. This business continues to be an area of strategic emphasis for the

corporation; however, performance was adversely affected by weakness in the commercial aerospace market during 2002.

Aerostructures subcontract work involves commercial and military aircraft programs. Current programs include production of wing structures for virtually all Boeing commercial aircraft and the C-17 military transport. In the third quarter of 2002, the corporation received a follow-on contract from Boeing for C-17 structural components. The contract runs through June 2007 and has a potential value of \$67.5 million. During the second quarter of 2002, the corporation received a new contract from Boeing related to the production and fabrication of an additional group of subassemblies that will become part of aircraft fuselages, wings and tail structures for the Boeing 747, 757, 767 and 777 families of commercial airplanes. Under this new contract, the Aerospace segment will receive and assemble parts from other suppliers and ship higher-level assemblies to Boeing.

Helicopter subcontract work involves commercial helicopter programs. Current work includes multi-year contracts for production of fuselages and rotor systems for various MD Helicopters, Inc. (MDHI) aircraft. Total orders received from MDHI continue to run at significantly lower rates than originally anticipated due to lower than expected demand. MDHI has publicly indicated that aircraft deliveries during 2002 were adversely affected by technical difficulties with respect to certain MD Explorer programs and export financing issues with one MD 600 program. The corporation has developed a large investment in its contracts with MDHI (including receivables, start-up costs, and other program expenditures) and has experienced difficulty with receipt of payments from MDHI. Management is concerned about this exposure and is working with MDHI in an effort to address their payment issues.

The segment manufactures proprietary self-lubricating bearings used in aircraft flight controls, turbine engines and landing gear and produces driveline couplings for helicopters. This business continues to be affected by the drop-off in commercial and regional aircraft manufacturing, although the effect has been offset to some degree by increases in commercial aftermarket and military programs. In late July 2002, the corporation acquired RWG Frankenjura-Industrie Flugwerklager GmbH ("RWG"), a privately held German aerospace bearing manufacturer. RWG complements the corporation's

proprietary line of bearings and provides a presence in European aerospace markets. RWG had net sales of about US \$10 million in 2001 and its largest customer is Airbus Industrie.

The Aerospace segment also produces advanced technology products and this portion of the segment's business is benefiting from increased defense spending. These products involve systems, devices and assemblies for a variety of military and commercial applications, including safe, arm and fuzing devices for several missile and bomb programs; high reliability memory systems for airborne, shipboard, and ground-based programs; precision non-contact measuring systems for industrial and scientific use; and electro-optic systems for mine detection and other applications.

Advanced technology products is also an area of strategic emphasis for the corporation. In July 2002, the corporation completed its acquisition of the assets and certain liabilities of Dayron, (a division of DSE, Inc.) a weapons fuze manufacturer, located in Orlando, Florida. Dayron manufactures bomb fuzes for a variety of munitions programs, and has the contract to develop a fuze for the U.S. Air Force and Navy Joint Programmable Fuze (JPF) program. As a result of qualification test results received during the first quarter of 2003, the corporation is evaluating the need for certain changes to the fuze and its production process. In addition, a new government requirement has been identified for which the corporation expects to receive a contract modification in the near term. Management currently expects to complete changes, if any, and resume final qualification testing by early in the third quarter of 2003.

In the third quarter of 2002, the corporation was selected to participate on a Northrop Grumman-led team for a U.S. Navy program to design and develop the Rapid Airborne Mine Clearance System, a helicopter-borne clearance capability system for near surface and surface moored sea mines that will provide airborne mine defense for carrier battle groups and amphibious ready groups. The corporation will be responsible for the laser-based target sensor subsystem development. The 36-month subcontract is valued at approximately \$7.6 million. In October of 2002, the corporation was selected to participate with the University of Arizona to build a collimator used for testing large optical systems in a vacuum environment. The corporation's portion of the five-year contract is valued at about \$12.8 million, with

the majority of the work expected to occur in 2003.

The corporation has sold two non-core portions of the Aerospace segment. Specifically, in the second quarter of 2002, the corporation sold its microwave products line. That product line was associated with the former Kaman Sciences Corp. subsidiary which was sold in 1997. Microwave product sales were about \$7.5 million in 2001. In January 2003, the corporation sold its Electromagnetics Development Center (EDC), an electric motor and drive business that had sales of approximately \$14 million in 2002. The EDC is part of the industry team selected by the U.S. Navy to design the integrated electric drive system for the Navy's DD(X) next generation surface vessel.

During 2002, a common lean thinking methodology was adopted in manufacturing and office environments across the segment and results have included elimination of production time and parts travel, and required square footages for the segment's activities. The application of lean thinking principles continues.

Industrial Distribution segment net sales increased 5.2% for 2002 compared to a decrease of 12.9% for 2001 and an increase of 3.1% for 2000. Net sales for 2002 were \$477.2 million (including \$38.0 million from acquisitions made during 2002 and 2001) compared to \$453.7 million in 2001 (including \$8.0 million from acquisitions made in 2001).

Since the segment's customers include nearly every sector of U.S. industry, this business is influenced by industrial production levels and has been adversely affected by conditions in the manufacturing sector that have existed since late 2000. These difficult economic conditions are continuing, however cost reduction activity has helped the segment to remain profitable to date. Management believes that when economic recovery occurs, this segment will be in a good position to benefit due to its lean operating posture.

In executing the segment's strategy to expand its geographic coverage through both acquisitions and internal growth, the segment acquired a majority of the assets and certain liabilities of A-C Supply, Inc., located in the upper Midwest, in 2001 and a 60% equity interest in Delamac de Mexico S.A. de C.V. ("Delamac"), a leading distributor of industrial products headquartered in Mexico City, in the first quarter of 2002. These acquisitions expand the seg-

ment's presence into new geographical areas and improve its ability to serve national account customers. In addition, during 2002, the segment opened two locations in Roanoke and Lynchburg, Virginia and one location in Omaha, Nebraska.

During 2002, the segment launched a new, updated version of its e-commerce website. The new site provides a computer-to-computer link that features a complete electronic catalog, allowing on-line ordering and payment, and supporting inventory management. This website increases customer convenience and reduces paperwork and costs.

In the past, the Industrial Distribution segment has been one of numerous defendants in a few "John Doe" type legal proceedings, and generally relating to parts allegedly supplied to the U.S. Navy's shipyard in San Diego, California by a predecessor company over 25 years ago, that may have contained asbestos. The corporation settled those few claims for nominal amounts with contribution by insurance carriers. In the third quarter of 2002, however, the corporation experienced an increase in such claims. Management believes that the Industrial Distribution segment has good defenses to these claims, which it intends to assert and does not currently expect that this situation will have a material adverse effect on the corporation.

Music Distribution segment net sales increased 5.9% in 2002 compared to a decrease of 6.2% in 2001 and an increase of 8.6% in 2000. Net sales for 2002 were approximately \$127.7 million (including \$3.7 million from a 2002 acquisition) compared to \$120.6 million in 2001.

The segment had good results for 2002 reflecting the sustained levels of consumer spending in the music retail market. In October 2002, this segment acquired Latin Percussion, Inc., a leading global distributor of a wide range of Latin hand percussion instruments. Latin Percussion's net sales for 2001 were about \$20.8 million. Management considers this acquisition to be a strong addition to the segment's existing line of brand name percussion instruments, including Toca, Gretsch, and Sabian.

In the third quarter of 2002, one of the Music Distribution segment's larger chain store customers, Mars Music, filed for Chapter 11 bankruptcy protection. The corporation's exposure as an unsecured creditor has been reserved for.

The corporation's segments, in total, had a net operating loss of \$35.7 million in 2002 compared to operating profits of \$26.3 million for 2001 and \$74.6 million in 2000. The 2002 results reflect difficult economic conditions and include the second quarter pre-tax charge of \$86.0 million described earlier. Excluding the 2002 charge, operating profits would have been \$50.3 million. The 2001 results include the \$31.2 million second quarter sales and pre-tax earnings adjustment also described earlier and reflect lower revenues in the Australia and New Zealand SH-2G helicopter programs as well as lower sales in the Industrial Distribution segment due to economic conditions. Excluding the Aerospace segment adjustment, operating profits for all the corporation's segments would have been \$57.5 million for 2001. Results for 2000 reflect good earnings performance on the part of each business segment and an add-back of \$1.7 million of the 1999 charge in the Industrial Distribution segment that was unused.

For the year 2002, the Aerospace segment had an operating loss of \$55.2 million, primarily due to the previously described charge. Excluding the charge, segment operating profits would have been \$30.8 million for 2002. In 2001, the segment had operating profits of \$6.5 million. Excluding the 2001 adjustment, segment operating profits would have been \$37.7 million for the year. The lack of new helicopter production orders, in combination with the wind down of the New Zealand and Australia SH-2G programs and weakness in the commercial aerospace market, has necessitated significant measures as the segment attempts to bring operating overheads in line with a lower business base. These steps have included the charge already described to phase out operations at the Moosup, Connecticut production facility and continuing reduction in the segment's workforce. As a result of lower production levels, overhead expenditures must be absorbed at higher rates by active programs, and in the fourth quarter of 2002 these increased overhead rates resulted in higher costs, lower program profitability and loss accruals for a few long-term programs, including certain Boeing work, and a higher loss accrual for the Australia SH-2G program. Industrial Distribution segment operating profits for 2002 were \$12.3 million, compared to \$13.2 million the previous year, reflecting the continued impact of weakness in the economy. Particularly in this environment, the industry's practice of providing vendor incentives

was an important contributor to the segment's operating profits. In addition, steps taken to reduce costs throughout the segment helped to maintain its profitability in 2002. Music Distribution segment operating profits for 2002 were \$7.2 million compared to \$6.6 million last year, reflecting the Latin Percussion acquisition and continued consumer spending in the music retail market.

Operating profits for the Aerospace segment were \$6.5 million in 2001, a decrease from \$44.2 million the prior year, reflecting the sales and pre-tax earnings adjustment in the Aerospace segment and lower revenues from the Australia and New Zealand SH-2G helicopter programs. Operating profits for the Industrial Distribution segment were \$13.2 million in 2001 compared to \$22.9 million the previous year. Operating profits for the Music Distribution segment were \$6.6 million in 2001, compared to \$7.4 million the previous year.

The corporation reported a net loss in 2002 of \$33.6 million, or \$1.50 net loss per share diluted, compared to net earnings of \$11.7 million, or \$0.52 per diluted share in 2001, and \$36.9 million or \$1.57 per diluted share in 2000. The 2002 and 2001 results each include the charges or adjustments previously described. Excluding the 2002 Aerospace segment charge, net earnings would have been \$21.8 million or \$0.96 per share diluted. Excluding the 2001 Australia program adjustment, net earnings would have been \$30.5 million or \$1.33 per share diluted. Net earnings for 2000 were affected positively by the add-back of \$1.7 million of the 1999 charge in the Industrial Distribution segment that was unused.

Selling, general and administrative expenses for the year 2002 were higher than for 2001, principally due to acquisitions.

For the year ended December 31, 2002, net interest expense increased, principally due to borrowings to fund acquisitions. For the year ended December 31, 2001, interest expense exceeded interest income due to the reduction of surplus cash. For the year ended December 31, 2000, interest income earned from investment of surplus cash more than offset interest expense.

Other income for the year ended December 31, 2002 includes a pre-tax \$1.9 million gain from the sale of the corporation's microwave products line. Other income for the year 2001 included gains from the sale of facilities of \$2.7 million.

The tax benefit for the year 2002 is calculated at approximately 34% and represents the combined estimated federal and state tax effect attributable to the second quarter loss. In the 2001 period, the corporation adjusted its estimated tax rate to 25 percent, primarily due to reduced tax considerations on the Australian helicopter program. The consolidated effective tax rate for 2000 was 36%.

The corporation has not been required to make a contribution to its tax-qualified defined benefit pension plan since 2000. As a result of market conditions, the corporation will be required to expense approximately \$4.6 million in 2003 and make a contribution of \$1.4 million for 2003, based upon the asset value of the pension trust fund as of December 31, 2002.

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statements of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS 141"), and No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), which apply to the corporation effective July 1, 2001 and January 1, 2002, respectively. SFAS 141 requires all business combinations initiated after June 30, 2001 to use the purchase method of accounting. SFAS 142 discontinues the amortization of goodwill, including goodwill recorded in past business combinations. The corporation has adopted these statements in accordance with their terms and that adoption did not have a material impact on the corporation's consolidated results of operations or financial position.

In 2001, the FASB also issued Statement of Financial Accounting Standards No. 143, "Accounting for Obligations Associated with the Retirement of Long-Lived Assets" ("SFAS 143"), and Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). SFAS 143 establishes accounting standards for the recognition and measurement of an asset retirement obligation and provides accounting guidance for legal obligations associated with the retirement of tangible long-lived assets. SFAS 143 is effective in fiscal years beginning after June 15, 2002. The corporation adopted SFAS 143 effective January 1, 2003 and that adoption did not have a material impact on its consolidated results of operations or financial position. SFAS 144 establishes a single accounting model for the impairment or disposal of long-lived assets, including discontinued operations. The

provisions of SFAS 144 are effective in fiscal years beginning after December 15, 2001, and in general are to be applied prospectively. The corporation has adopted SFAS 144 effective January 1, 2002 and that adoption did not have a material impact on its consolidated results of operations or financial position.

In June 2002, the FASB issued Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"). SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. SFAS 146 also requires that the initial measurement of a liability be at fair value. SFAS 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The corporation adopted SFAS 146 effective January 1, 2003 and that adoption did not have a material impact on its consolidated results of operations or financial position.

In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123" ("SFAS 148"). SFAS 148 amends FASB Statement No. 123, "Accounting for Stock-Based Compensation" to provide alternative methods for a voluntary change to the fair value based method of accounting for stock-based employee compensation and amends the disclosure requirements of Statement 123 in both annual and interim financial statements. The provisions of SFAS 148 are effective in fiscal years ending after December 15, 2002. The corporation has adopted the statement in accordance with its terms and that adoption did not have a material impact on the corporation's consolidated results of operations or financial position.

CRITICAL ACCOUNTING POLICIES

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent 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 the Notes to Consolidated Financial Statements in the corporation's Annual Report on

Form 10-K for the year ended December 31, 2002. The most significant current areas involving management judgments and estimates are described below. Actual results could differ from those estimates.

LONG-TERM CONTRACTS - REVENUE RECOGNITION

Sales and estimated profits under long-term contracts are principally recognized on the percentage-of-completion method of accounting, generally using either a ratio that costs incurred bear to estimated total costs, after giving effect to estimates of costs to complete based upon most recent information for each contract, or units-of-delivery as the measurement basis for effort accomplished. Reviews of contracts are made regularly throughout their lives and revisions in profit estimates are recorded in the accounting period in which the revisions are made. Any anticipated contract losses are charged to operations when first indicated.

ACCOUNTS RECEIVABLE

Trade accounts receivable consist of amounts billed and currently due from customers. The allowance for doubtful accounts reflects management's best estimate of probable losses inherent in the trade accounts receivable balance. Management determines the allowance for doubtful accounts based on known troubled accounts, historical experience, and other currently available evidence. Billed amounts for U.S. Government, commercial, and other government contracts consist of amounts billed and currently due from customers. Recoverable costs and accrued profit - not billed for U.S. Government, commercial, and other government contracts primarily relate to costs incurred on contracts which will become billable upon future deliveries, achievement of specific contract milestones or completion of engineering and service type contracts.

INVENTORIES

Inventory of merchandise for resale is stated at cost (using the average costing method) or market, whichever is lower. Contracts and work in process, and finished goods are valued at production cost represented by material, labor and overhead, including general and administrative expenses where applicable. Contracts and work in process, and finished goods are not recorded in excess of net realizable values.

GOODWILL AND OTHER INTANGIBLE ASSETS ACCOUNTING

Goodwill and certain other intangible assets are no longer required to be amortized but rather are evaluated at least annually for impairment. The corporation utilizes discounted cash flow models to determine fair value used in the goodwill and other intangible asset impairment evaluations. Management's estimates of fair value are based upon factors such as projected sales and cash flows and other elements requiring significant judgments. The corporation utilizes the best available information to prepare its estimates and perform impairment evaluations; however, actual results could differ significantly, resulting in the future impairment of recorded goodwill and other intangible asset balances.

LIQUIDITY AND CAPITAL RESOURCES

For calendar year 2002, operating activities used a net of \$11.2 million of cash. The Industrial Distribution segment was the largest user of working capital during 2002, mostly due to growth in receivables and inventories and reductions in accounts payables. Cash flow for the year was generally not affected by the \$86.0 million second quarter Aerospace charges previously described because \$52.7 million of the charges were non-cash in nature and \$6.5 million consisted of a write-down of receivables. Additionally, \$8.3 million of the Moosup restructuring (\$696 thousand of which had been spent for severances as of December 31, 2002) and the \$18.5 million loss accrual attributable to the Australia SH-2G program are expected to be spent in future periods. The second quarter charges are expected to result in a tax benefit of about 34 percent although much of the cash aspect of this benefit will not be realized until 2003 and future periods. During 2002, cash was used by investing activities principally due to the acquisitions of Delamac, Dayron, RWG and Latin Percussion and by the purchase of items such as machinery and computer equipment. This was offset to some degree by the sale of the microwave products line. Cash provided by financing activities was primarily attributable to bank borrowings to fund the acquisitions. This was partially offset by the payment of dividends to shareholders.

For calendar year 2001, operating activities provided cash in the amount of \$20.1 million. These results were due primarily to net reductions in

accounts receivable in the Aerospace and Industrial Distribution segments, including the \$31.2 million sales and pre-tax earnings adjustment in the Aerospace segment, and reductions in inventories in the Distribution segment. This was offset by decreases in accounts payable in the Aerospace and Music Distribution segments and accrued expenses and payables throughout each of the segments and by a reduction in advances on contracts in the Aerospace segment. Other items include a reduction in income taxes payable as well as an increase in other current assets, which relate primarily to the tax benefits associated with the adjustment and a net pension income item, respectively. During the year 2001, cash was used in investing activities for the A-C Supply asset acquisition, the Plastic Fabricating Company, Inc. stock acquisition, and for the purchase of items such as machinery and computer equipment, which usage was offset somewhat by proceeds from the sale of assets. Cash used by financing activities was primarily attributable to the payment of dividends to common shareholders, and to a lesser degree the sinking fund requirement for the corporation's debentures (described below) and repurchase of the corporation's Class A common stock pursuant to a repurchase program for use in administration of the corporation's stock plans and general corporate purposes.

The corporation had \$30.8 million in surplus cash at December 31, 2001 with an average balance of \$34.0 million for the year. These funds were invested in high quality, short-term instruments.

For calendar year 2000, operating activities provided cash in the amount of \$8.4 million. Such activities were significantly impacted by increases in accounts receivable for the Aerospace segment's SH-2G helicopter programs. Increases in accounts payable in the Aerospace and Music Distribution businesses offset this impact to some degree. For the year, cash used in investing activities was for items such as acquisition of machinery and computer equipment used in manufacturing and distribution. Cash used in financing activities was primarily attributable to the payment of dividends to common shareholders, repurchase of Class A common stock pursuant to the repurchase program and the sinking fund requirement for the corporation's debentures (both described below).

At December 31, 2002, the corporation had \$23.2 million of its 6% convertible subordinated debentures outstanding. The debentures are convertible into shares of Class A common stock at any time on or before March 15, 2012 at a conversion price of \$23.36 per share, generally at the option of the holder. Pursuant to a sinking fund requirement that began March 15, 1997, the corporation redeems approximately \$1.7 million of the outstanding principal of the debentures each year.

In November 2000, the corporation's board of directors approved a replenishment of the corporation's stock repurchase program, providing for repurchase of an aggregate of 1.4 million Class A common shares for use in administration of the corporation's stock plans and for general corporate purposes. As of December 31, 2002, a total of about 249,000 shares had been repurchased under this replenishment program.

The corporation maintains a revolving credit agreement involving a group of financial institutions. The agreement has a maximum unsecured line of credit of \$225 million which consists of a \$150 million commitment for five years, and a \$75 million commitment under a "364 day" arrangement which is renewable annually for an additional 364 days, upon the consent of the banks. The entire facility expires in 2005. The \$75 million commitment was renewed in November 2002. The most restrictive of the covenants contained in the agreement requires the corporation to have EBITDA, as defined, at least equal to 300% of net interest expense, on the basis of a rolling four quarters and a ratio of consolidated total indebtedness to total capitalization of not more than 55%. Late in the second quarter of 2002, an amendment to the revolving credit agreement was entered into, under which the non-cash portion of the 2002 second quarter charges, up to \$52.5 million, were excluded from the financial covenant calculations. In view of the weak earnings environment, management is closely monitoring the EBITDA to interest expense ratio requirement.

Letters of credit are generally considered borrowings for purposes of the revolving credit agreement. A total of \$51.0 million in letters of credit were outstanding at December 31, 2002, most of which is related to the Australia SH-2G program. A reduction of \$2 million pursuant to the Australia program

occurred in early February 2003. Further reductions to the Australia letters of credit are anticipated as agreed upon performance milestones are reached under a recent agreement between the corporation and the Australian government regarding the process for completion of delivery of the SH-2G(A) aircraft with the full ITAS software.

Total average bank borrowings were \$23.8 million for 2002 compared to \$2.5 million in 2001 and \$2.3 million in 2000. During 2002, cash in the amount of approximately \$51.2 million was used for the acquisitions of Delamac, Dayron, RWG, and Latin Percussion. In connection with the acquisition of RWG, in July 2002 the corporation established a €9.5 million Euro term loan and revolving credit facility with one of its revolving credit agreement lenders having offices in London. In general, the agreement contains the same financial covenants as the revolving credit agreement described previously and the term of this facility will expire at the same time as the revolving credit agreement.

Management believes that the corporation's annual cash flow from operations and available unused bank lines of credit under its revolving credit agreement will be sufficient to finance its working capital and other recurring capital requirements for the foreseeable future.

FORWARD-LOOKING STATEMENTS

This report contains forward-looking information relating to the corporation's business and prospects, including the SH-2G and K-MAX helicopter programs, aerostructures and helicopter subcontract programs and components, advanced technology products, including fuzes for the JPF program, the industrial and music distribution businesses, operating cash flow, and other matters that involve a

number of uncertainties that may cause actual results to differ materially from expectations. Those uncertainties include, but are not limited to: 1) the successful conclusion of competitions and thereafter contract negotiations with government authorities, including foreign governments, including specifically the Egypt helicopter competition; 2) political developments in countries where the corporation intends to do business; 3) standard government contract provisions permitting renegotiation of terms and termination for the convenience of the government; 4) economic and competitive conditions in markets served by the corporation, including industry consolidation in the United States and global economic conditions; 5) attainment of remaining project milestones and satisfactory completion of the Australian SH-2G(A) program; 6) recovery of the corporation's investment in the MD Helicopter, Inc. contracts; 7) actual costs for moving equipment and re-certifying products and processes in connection with phase out of the Moosup, Connecticut facility; 8) JPF program final qualification test results and receipt of production orders; 9) achievement of enhanced business base in the Aerospace segment in order to better absorb overhead rates; 10) successful sale or lease of existing K-MAX inventory; 11) profitable integration of acquired businesses into the corporation's operations; 12) U.S. industrial production levels; 13) changes in supplier sales policies; 14) the effect of price increases or decreases; and 15) currency exchange rates, taxes, changes in laws and regulations, interest rates, inflation rates, general business conditions and other factors. Any forward-looking information should be considered with these factors in mind.

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	TOTAL YEAR
NET SALES:					
2002	\$ 223,093	\$ 209,141	\$ 218,266	\$ 230,276	\$ 880,776
2001	244,489	194,338	219,102	217,940	875,869
GROSS PROFIT:					
2002	\$ 60,410	\$ (19,659)	\$ 57,305	\$ 59,477	\$ 157,533
2001	61,797	26,473	54,860	58,957	202,087
NET EARNINGS (LOSS):					
2002	\$ 5,341	\$ (50,366)	\$ 5,572	\$ 5,852	\$ (33,601)
2001	8,741	(12,495)	8,526	6,942	11,714
PER SHARE - BASIC:					
2002	\$.24	\$ (2.25)	\$.25	\$.26	\$ (1.50)
2001	.39	(.56)	.38	.31	.52
PER SHARE - DILUTED:					
2002	\$.24	\$ (2.25)	\$.25	\$.26	\$ (1.50)
2001	.38	(.56)	.37	.31	.52

The calculated per share-diluted amounts for the twelve months ended December 31, 2002 and 2001 are anti-dilutive, therefore, amounts shown are equal to the basic per share calculation.

The quarterly per share-diluted amounts for 2001 do not equal the "Total Year" figure due to the calculation being anti-dilutive in the second quarter.

Consolidated Balance Sheets

KAMAN CORPORATION AND SUBSIDIARIES

(IN THOUSANDS EXCEPT SHARE AND PER SHARE AMOUNTS)

December 31	2002	2001
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 5,571	\$ 30,834
Accounts receivable	195,857	186,798
Inventories	164,715	197,400
Income taxes receivable	5,192	342
Deferred income taxes	28,450	16,938
Other current assets	14,460	10,339
Total current assets	414,245	442,651
PROPERTY, PLANT AND EQUIPMENT, NET	61,635	60,769
GOODWILL AND OTHER INTANGIBLE ASSETS	50,994	13,281
OTHER ASSETS	8,666	5,245
TOTAL ASSETS	\$ 535,540	\$ 521,946
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes payable	\$ 8,647	\$ 2,378
Current portion of long-term debt	1,660	1,660
Accounts payable – trade	46,664	52,044
Accrued salaries and wages	8,434	7,252
Accrued vacations	6,434	6,031
Accrued contract loss	26,674	—
Accrued restructuring cost	7,594	—
Advances on contracts	22,318	30,781
Other accruals and payables	28,669	41,114
Total current liabilities	157,094	141,260
LONG-TERM DEBT, EXCLUDING CURRENT PORTION	60,132	23,226
OTHER LONG-TERM LIABILITIES	26,367	23,879
SHAREHOLDERS' EQUITY:		
Capital stock, \$1 par value per share:		
Preferred stock, authorized 700,000 shares:		
Series 2 preferred stock, 6½% cumulative convertible, authorized 500,000 shares, none outstanding	—	—
Common stock:		
Class A, authorized 48,500,000 shares, nonvoting; \$.10 per common share dividend preference; issued 23,066,260 shares in 2002 and 2001	23,066	23,066
Class B, authorized 1,500,000 shares, voting; issued 667,814 shares in 2002 and 2001	668	668
Additional paid-in capital	77,267	77,389
Retained earnings	209,932	253,403
Unamortized restricted stock awards	(2,094)	(2,206)
Accumulated other comprehensive income (loss)	(1,099)	(919)
Total shareholders' equity	307,740	351,401
Less 1,274,091 shares and 1,455,214 shares of Class A common stock in 2002 and 2001, respectively, held in treasury, at cost	(15,793)	(17,820)
Total shareholders' equity	291,947	333,581
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 535,540	\$ 521,946

See accompanying notes to consolidated financial statements.

Year ended December 31	2002	2001	2000
NET SALES	\$ 880,776	\$ 875,869	\$1,031,234
COSTS AND EXPENSES:			
Cost of sales ⁽¹⁾	723,243	673,782	774,264
Selling, general and administrative expense	199,453	188,752	202,319
Restructuring costs ⁽²⁾	8,290	—	(1,680)
Other operating expense (income)	(1,302)	(1,076)	(1,092)
Interest expense (income), net	2,486	623	(1,660)
Other expense (income), net ⁽³⁾	(468)	(1,876)	1,363
	931,702	860,205	973,514
EARNINGS (LOSS) BEFORE INCOME TAXES	(50,926)	15,664	57,720
INCOME TAXES (BENEFIT)	(17,325)	3,950	20,800
NET EARNINGS (LOSS)	\$ (33,601)	\$ 11,714	\$ 36,920
PER SHARE:			
Net earnings (loss) per share:			
Basic	\$(1.50)	\$.52	\$1.61
Diluted ⁽⁴⁾	(1.50)	.52	1.57
Dividends declared	.44	.44	.44

(1) Cost of sales for the twelve months ended December 31, 2002 includes the write-off of K-MAX assets of \$50,000 and Moosup facility assets of \$2,679 which are associated with the charge taken in the Aerospace segment.

(2) Restructuring costs for the twelve months ended December 31, 2002 relate to the closure of the Moosup facility in 2003 and are associated with the charge taken in the Aerospace segment.

(3) Included in "Other expense (income), net" are the net gain on the sale of product line and other assets of \$2,299 and \$2,637 for the twelve months ended December 31, 2002 and 2001, respectively.

(4) The calculated diluted per share amounts for the twelve months ended December 31, 2002 and 2001 are anti-dilutive, therefore, amounts shown are equal to the basic per share calculation.

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

KAMAN CORPORATION AND SUBSIDIARIES

(IN THOUSANDS EXCEPT SHARE AMOUNTS)

<i>Year ended December 31</i>	2002	2001	2000
SERIES 2 PREFERRED STOCK	\$ —	\$ —	\$ —
CLASS A COMMON STOCK	23,066	23,066	23,066
CLASS B COMMON STOCK	668	668	668
ADDITIONAL PAID-IN CAPITAL:			
Balance – beginning of year	77,389	77,298	78,422
Employee stock plans	(304)	(234)	(897)
Restricted stock awards	182	325	(227)
Balance – end of year	77,267	77,389	77,298
RETAINED EARNINGS:			
Balance – beginning of year	253,403	251,526	224,702
Net earnings (loss) ⁽¹⁾	(33,601)	11,714	36,920
Dividends declared	(9,870)	(9,837)	(10,096)
Balance – end of year	209,932	253,403	251,526
UNAMORTIZED RESTRICTED STOCK AWARDS:			
Balance – beginning of year	(2,206)	(1,643)	(1,944)
Stock awards issued	(832)	(1,585)	(516)
Amortization of stock awards	944	1,022	817
Balance – end of year	(2,094)	(2,206)	(1,643)
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):			
Balance – beginning of year	(919)	(749)	(625)
Foreign currency translation adjustment ⁽¹⁾	(180)	(170)	(124)
Balance – end of year	(1,099)	(919)	(749)
TREASURY STOCK:			
Balance – beginning of year	(17,820)	(18,120)	(7,912)
Shares acquired in 2002 – 37,300; 2001 – 211,550; 2000 – 1,126,888	(412)	(2,760)	(13,660)
Shares reissued under various stock plans	2,439	3,060	3,452
Balance – end of year	(15,793)	(17,820)	(18,120)
TOTAL SHAREHOLDERS' EQUITY	\$ 291,947	\$ 333,581	\$ 332,046

(1) Comprehensive income (loss) is \$(33,781), \$11,544 and \$36,796 for 2002, 2001 and 2000, respectively.

See accompanying notes to consolidated financial statements.

Year ended December 31	2002	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings (loss)	\$ (33,601)	\$ 11,714	\$ 36,920
Adjustments to reconcile net earnings (loss) to cash provided by (used in) operating activities:			
Depreciation and amortization	11,620	11,441	11,630
Net gain on sale of product line and other assets	(2,299)	(2,637)	—
Restructuring costs	8,290	—	(1,680)
Non-cash write-down of assets	52,679	—	—
Deferred income taxes	(16,715)	(375)	(75)
Other, net	3,403	2,152	6,551
Changes in current assets and liabilities, excluding effects of acquisition/divestiture:			
Accounts receivable	(4,625)	32,411	(56,201)
Inventories	(12,751)	5,407	3,583
Income taxes receivable	(4,888)	(4,081)	179
Other current assets	(2,691)	(3,680)	87
Accounts payable – trade	(8,813)	(9,284)	9,297
Accrued contract loss	26,674	—	—
Accrued restructuring costs	(696)	—	—
Advances on contracts	(9,286)	(11,124)	(8,338)
Accrued expenses and payables	(17,470)	(11,813)	6,400
Cash provided by (used in) operating activities	(11,169)	20,131	8,353
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale of product line and other assets	8,034	4,047	56
Expenditures for property, plant and equipment	(7,601)	(8,033)	(11,044)
Acquisition of businesses, less cash acquired	(51,227)	(20,845)	—
Other, net	1,854	(253)	(963)
Cash provided by (used in) investing activities	(48,940)	(25,084)	(11,951)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Changes in notes payable	5,985	318	(794)
Changes in long-term debt	36,906	(1,660)	(1,660)
Proceeds from exercise of employee stock plans	1,485	1,566	1,813
Purchases of treasury stock	(412)	(2,760)	(13,660)
Dividends paid	(9,850)	(9,834)	(10,193)
Other	732	—	—
Cash provided by (used in) financing activities	34,846	(12,370)	(24,494)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(25,263)	(17,323)	(28,092)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	30,834	48,157	76,249
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 5,571	\$ 30,834	\$ 48,157

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

KAMAN CORPORATION AND SUBSIDIARIES
DECEMBER 31, 2002, 2001 AND 2000

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation – The accompanying consolidated financial statements include the accounts of the parent corporation and its subsidiaries. All significant 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.

Use of Estimates – The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent 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.

Cash and Cash Equivalents – Surplus funds are invested in cash equivalents which consist of highly liquid investments with original maturities of three months or less.

Long-Term Contracts – Revenue Recognition – Sales and estimated profits under long-term contracts are principally recognized on the percentage-of-completion method of accounting, generally using either a ratio that costs incurred bear to estimated total costs, after giving effect to estimates of costs to complete based upon most recent information for each contract, or units-of-delivery as the measurement basis for effort accomplished. Reviews of contracts are made regularly throughout their lives and revisions in profit estimates are recorded in the accounting period in which the revisions are made. Any anticipated contract losses are charged to operations when first indicated.

Inventories – Inventory of merchandise for resale is stated at cost (using the average costing method) or market, whichever is lower. Contracts and work in process and finished goods are valued at production cost represented by material, labor and overhead, including general and administrative expenses where applicable. Contracts and work in process and finished goods are not recorded in excess of net realizable values.

Property, Plant and Equipment – Depreciation of property, plant and equipment is computed primarily on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives for buildings range between 15 to 40 years and leasehold improvements range between 5 to 15 years, whereas machinery, office furniture and equipment generally range between 3 to 10 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 or charged against income.

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

Goodwill and Other Intangible Assets – Goodwill and intangible assets with indefinite lives are not amortized, but are evaluated for impairment at least annually. Intangible assets with finite lives (presently consisting of patents) are amortized using the straight-line method over their estimated 17 year period of benefit and reviewed for possible impairment whenever changes in conditions indicate carrying value may not be recoverable.

Research and Development – Research and development costs not specifically covered by contracts are charged against income as incurred. Such costs amounted to \$5,363 in 2002, \$4,673 in 2001 and \$5,463 in 2000.

Income Taxes – Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases using enacted tax rates expected to apply in the years in which temporary differences are expected to be recovered or settled.

Recent Accounting Standards – In June 2001, the Financial Accounting Standards Board (“FASB”) issued Statements of Financial Accounting Standards No. 141, “Business Combinations” (“SFAS 141”), and No. 142, “Goodwill and Other Intangible Assets” (“SFAS 142”), which apply to the corporation effective July 1, 2001 and January 1, 2002, respectively. SFAS 141 requires all business combinations initiated after June 30, 2001 to use the purchase method of accounting. SFAS 142 discontinues the amortization of goodwill, including goodwill recorded in past business combinations.

The corporation has adopted these statements in accordance with their terms and that adoption did not have a material impact on the corporation's consolidated results of operations or financial position.

In 2001, the FASB also issued Statement of Financial Accounting Standards No. 143, "Accounting for Obligations Associated with the Retirement of Long-Lived Assets" ("SFAS 143"), and Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144").

SFAS 143 establishes accounting standards for the recognition and measurement of an asset retirement obligation and provides accounting guidance for legal obligations associated with the retirement of tangible long-lived assets. SFAS 143 is effective in fiscal years beginning after June 15, 2002. The corporation adopted SFAS 143 effective January 1, 2003 and that adoption did not have a material impact on its consolidated results of operations or financial position. SFAS 144 establishes a single accounting model for the impairment or disposal of long-lived assets, including discontinued operations. The provisions of SFAS 144 are effective in fiscal years beginning after December 15, 2001, and in general are to be applied prospectively. The corporation has adopted SFAS 144 effective January 1, 2002 and that adoption did not have a material impact on its consolidated results of operations or financial position.

In June 2002, the FASB issued Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"). SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. SFAS 146 also requires that the initial measurement of a liability be at fair value. SFAS 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The corporation adopted SFAS 146 effective January 1, 2003 and that adoption did not have a material impact on its consolidated results of operations or financial position.

In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure – an amendment of FASB Statement No. 123" ("SFAS 148"). SFAS 148 amends FASB Statement No. 123, "Accounting for Stock-Based Compensation" to

provide alternative methods for a voluntary change to the fair value based method of accounting for stock-based employee compensation and amends the disclosure requirements of Statement 123 in both annual and interim financial statements. The provisions of SFAS 148 are effective in fiscal years ending after December 15, 2002. The corporation has adopted the statement in accordance with its terms and that adoption did not have a material impact on the corporation's consolidated results of operations or financial position.

ACQUISITION OF BUSINESSES

During the first quarter of 2002, the corporation acquired a 60% equity interest in Delamac de Mexico S.A. de C.V., a leading distributor of industrial products headquartered in Mexico City. Delamac, which had net sales of about US \$7,000 in 2001, supplies power transmission, bearings and fluid power products. The assets acquired and liabilities assumed and results of operations since the acquisition have been included in the Industrial Distribution segment.

In July 2002, the corporation purchased the assets and certain liabilities of Dayron (a division of DSE, Inc.), a weapons fuze manufacturer, located in Orlando, Florida. Dayron manufactures bomb fuzes for a variety of munitions programs, and has the contract to develop a fuze for the Air Force Joint Programmable Fuze (JPF) program. Dayron had net sales of approximately \$14,000 for 2001. The assets acquired, liabilities assumed and results of operations since the acquisition have been included in the Aerospace segment.

In late July 2002, the corporation purchased the stock of RWG Frankenjura-Industrie Flugwerklager GmbH (RWG), a German aerospace bearing manufacturer that complements the corporation's proprietary line of bearings and provides a presence in European aerospace markets. RWG had net sales of about US \$10,000 in 2001 and its largest customer is Airbus Industrie. The assets acquired, liabilities assumed and results of operations since the acquisition have been included in the Aerospace segment.

In October 2002, the corporation purchased the stock of Latin Percussion, Inc., a leading global distributor of a wide range of Latin hand percussion instruments. Latin Percussion had net sales of about \$20,800 in 2001. The assets acquired, liabilities assumed and results of operations since the

acquisition have been included in the Music Distribution segment.

In the aggregate, the corporation paid \$51,227 for acquisition of businesses in 2002, and there is potential for contingency payments of up to \$25,000 over the next ten years if certain milestones are reached. Any such contingency payments would be treated as additional goodwill.

In September 2001, the company purchased a majority of the assets and liabilities of A-C Supply, Inc. The assets acquired, liabilities assumed and results of operations since the acquisition have been included in the Industrial Distribution segment.

In December 2001, the company purchased the stock of H.I.G. Aerospace Group, Inc., parent company of Plastic Fabricating Company, Inc. The assets acquired, liabilities assumed and results of operations since the acquisition have been included in the Aerospace segment.

All acquisitions have been accounted for as purchases with the purchase price being allocated to the fair value of tangible and intangible assets acquired and liabilities assumed. The excess of the purchase price over the estimated fair market value of net assets acquired has been assigned to goodwill. In accordance with SFAS 142, the goodwill has not been amortized.

Assuming these acquisitions had taken place on January 1, 2001, Kaman Corporation's pro forma net sales, earnings (loss) before income taxes, net earnings (loss) and net earnings (loss) per share for the years ended December 31, 2002 and 2001 would have been as follows:

	Pro forma	
<i>December 31 (unaudited)</i>	2002	2001
Net sales	\$ 913,597	\$ 970,551
Earnings (loss)		
before income taxes	(50,264)	16,384
Net earnings (loss)	(33,128)	12,045
Net earnings (loss) per share:		
Basic	(1.48)	.54
Diluted	(1.48)	.54

The pro forma results are not necessarily indicative of the results of operations that would have occurred had the acquisitions actually been completed on January 1, 2001. The pro forma results do not include future initiatives or planned synergies, nor are they intended to be indicative of future

results. The underlying pro forma information includes interest expense and income tax assumptions associated with the transactions.

DIVESTITURES

In April 2002, the corporation sold its microwave products line to Meggitt Safety Systems, Inc. That product line was associated with the former Kaman Sciences Corp., a subsidiary which was sold in 1997, and was no longer core to the segment's advanced technology business. Microwave product sales were about \$7,500 for the year 2001.

In January 2003, the corporation sold its electric motor and drive business, operating as the Electromagnetics Development Center ("EDC") within the Kaman Aerospace subsidiary, to DRS Technologies, Inc. The EDC develops and manufactures high performance electric motors, generators, and drive electronics for industrial and defense applications and contributed sales of approximately \$14,000 in 2002. The resulting gain from this transaction will be recorded in 2003.

RESTRUCTURING COSTS

The Aerospace segment recorded pre-tax restructuring costs of \$8,290 in the second quarter of 2002 for the cost of phasing out the company's aircraft manufacturing plant in Moosup, Connecticut by the end of 2003. The charges represent severance costs of \$3,290 at the Moosup and Bloomfield, Connecticut locations for approximately 400 employees (of which \$696 has been paid for 119 such separations as of December 31, 2002) and the cost of closing the facility of \$5,000 (including costs of an ongoing voluntary environmental remediation program). An additional \$8,300 of ongoing pre-tax costs are expected to be incurred for moving machinery to other company facilities and recertifying products and processes.

In 1999, the Industrial Distribution segment took a pre-tax charge of \$12,382 as part of an initiative to streamline operational structure. The costs associated with the reorganization of operations, consolidation of branches, and the closure of other facilities totaled \$4,132. The write-off of excess inventory totaled \$8,250 and is included in cost of sales. In 2000, the segment completed all activities under the restructuring plan and because the actual financial impact of these activities was less than anticipated in the segment's plan, a favorable change in estimate of \$1,680 was recorded.

ASSET WRITE-DOWNS/WRITE-OFFS

During the second quarter of 2002, as a result of management's evaluation of the K-MAX program, the Aerospace segment wrote-down its K-MAX helicopter program assets, including \$46,665 for inventories and \$3,335 for capital equipment. In addition, the segment wrote-off Moosup facility assets of \$2,679, as a result of the previously described facility closure. These charges are included in cost of sales for 2002.

ACCRUED CONTRACT LOSS

During the second quarter of 2002, the Aerospace segment recorded a pre-tax charge of \$25,000 for estimated cost growth on the Australia SH-2G(A) helicopter program, which put the contract in a loss position. Accordingly, the Company eliminated the \$6,505 profit element of previously recorded sales and recognized pre-tax loss accruals of \$18,495 for anticipated cost growth associated with completion of the aircraft, final integration and testing of the aircraft's advanced Integrated Tactical Avionic System (ITAS) software.

During the fourth quarter of 2002, the Aerospace segment recorded an additional loss accrual for the Australia SH-2G(A) helicopter program, and loss accruals for other long-term programs, consisting principally of certain Boeing programs. These loss accruals reflect the impact of higher overhead rates, which were attributable to lower production activity on the corporation's helicopter and commercial aerospace programs.

ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

<i>December 31</i>	2002	2001
Trade receivables, net of allowance for doubtful accounts of \$2,853 in 2002, \$3,939 in 2001	\$ 72,471	\$ 63,239
U.S. Government contracts:		
Billed	11,607	11,529
Recoverable costs and accrued profit - not billed	21,225	15,169
Commercial and other government contracts:		
Billed	21,628	18,835
Recoverable costs and accrued profit - not billed	68,926	78,026
Total	\$195,857	\$186,798

The allowance for doubtful accounts reflects management's best estimate of probable losses inherent in the trade accounts receivable balance. Management determines the allowance based on known troubled accounts, historical experience, and other currently available evidence.

Recoverable costs and accrued profit-not billed represent costs incurred on contracts which will become billable upon future deliveries, achievement of specific contract milestones or completion of engineering and service type contracts. Management estimates that approximately \$36,861 of such costs and accrued profits at December 31, 2002 will be collected after one year. The costs included in this estimate are for the corporation's programs with the Royal Australian Navy and MD Helicopters, Inc.

INVENTORIES

Inventories are comprised as follows:

<i>December 31</i>	2002	2001
Merchandise for resale	\$ 95,056	\$ 86,409
Contracts in process:		
U.S. Government	13,348	3,686
Commercial	16,694	12,525
Other work in process (including certain general stock materials)	31,875	49,465
Finished goods	7,742	45,315
Total	\$164,715	\$197,400

Included above in other work in process and finished goods at December 31, 2002 and 2001 is K-MAX inventory of \$25,181 and \$76,189, respectively.

The aggregate amounts of general and administrative costs allocated to contracts in process during 2002, 2001 and 2000 were \$51,845, \$49,816 and \$53,387, respectively.

The estimated amounts of general and administrative costs remaining in contracts in process at December 31, 2002 and 2001 amount to \$4,222 and \$2,225, respectively, and are based on the ratio of such allocated costs to total costs incurred.

PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment are recorded at cost and summarized as follows:

<i>December 31</i>	2002	2001
Land	\$ 6,524	\$ 6,058
Buildings	35,077	31,881
Leasehold improvements	11,397	15,628
Machinery, office furniture and equipment	108,920	120,333
Total	161,918	173,900
Less accumulated depreciation and amortization	100,283	113,131
Property, plant and equipment, net	\$ 61,635	\$ 60,769

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and other intangible assets are as follows:

<i>December 31</i>	2002	2001
Intangible assets not subject to amortization:		
Goodwill:		
Aerospace	\$ 30,635	\$ 8,792
Industrial Distribution	3,197	2,573
Music Distribution	2,141	800
	35,973	12,165
Trade name:		
Music Distribution	13,819	—
	49,792	12,165
Intangible assets subject to amortization, net:		
Patents	1,202	1,116
Total	\$ 50,994	\$ 13,281

Intangible amortization expense was \$107 in 2002 and \$99 in 2001.

CREDIT ARRANGEMENTS - SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Revolving Credit Agreement - The corporation maintains a five-year revolving credit agreement (the "Revolving Credit Agreement") with several banks, which consists of a maximum unsecured line of credit of \$225,000 (\$150,000 commitment expiring in November 2005 and a \$75,000 commitment under a "364 Day" arrangement which is renewable annually for an additional 364 days). The \$75,000 commitment was renewed in November 2002. In general, outstanding letters of credit are considered to be indebtedness under the Revolving Credit Agreement.

During the second quarter of 2002, the corporation's Revolving Credit Agreement was amended to exclude the non-cash portion of the 2002 second quarter charges, up to \$52,500, from the financial covenant calculations under the Agreement.

Short-Term Borrowings - Under the Revolving Credit Agreement, the corporation has the ability to borrow funds on both a short-term and long-term basis. The corporation also has arrangements with other banks, generally to borrow funds on a short-term basis with interest at current market rates.

Short-term borrowings outstanding are as follows:

<i>December 31</i>	2002	2001
Revolving credit agreement	\$ —	\$ —
Other credit arrangements	8,647	2,378
Total	\$ 8,647	\$ 2,378

Long-Term Debt - The corporation has long-term debt as follows:

<i>December 31</i>	2002	2001
Revolving credit agreement	\$30,840	\$ —
Euro credit agreement	7,726	—
Convertible subordinated debentures	23,226	24,886
Total	61,792	24,886
Less current portion	1,660	1,660
Total excluding current portion	\$60,132	\$23,226

In the third quarter of 2002, the corporation entered into a €9,500 Euro credit agreement with one of the Revolving Credit Agreement lenders that maintains European offices. The agreement contains a revolving credit facility at current market rates, and a term loan facility at a rate of 5%. In general, the credit agreement incorporates the financial covenants of the Revolving Credit Agreement and expires at the same time.

Restrictive Covenants - The most restrictive of the covenants contained in the Revolving Credit Agreement requires the corporation to have EBITDA, as defined, at least equal to 300% of interest expense, on the basis of a rolling four quarters and a ratio of consolidated total indebtedness to total capitalization of not more than 55%. Under the 2002 Revolving Credit Agreement Amendment, the non-cash portion of the 2002 second quarter charges, up to \$52,500, are excluded from the financial covenant calculations under the Agreement.

Certain Letters of Credit – The face amounts of irrevocable letters of credit issued under the Revolving Credit Agreement totaled \$50,975 and \$51,577 at December 31, 2002 and 2001, respectively.

Convertible Subordinated Debentures – The corporation issued its 6% convertible subordinated debentures during 1987. The debentures are convertible into shares of the Class A common stock of Kaman Corporation at any time on or before March 15, 2012 at a conversion price of \$23.36 per share at the option of the holder unless previously redeemed by the corporation. Pursuant to a sinking fund requirement that began March 15, 1997, the corporation redeems \$1,660 of the outstanding principal amount of the debentures annually. The debentures are subordinated to the claims of senior debt holders and general creditors. These debentures have a fair value of \$22,065 at December 31, 2002 based upon latest market price.

Long-Term Debt Annual Maturities – The aggregate amounts of annual maturities of long-term debt for each of the next five years and thereafter are approximately as follows:

2003	\$ 1,660
2004	1,660
2005	40,226
2006	1,660
2007	1,660
Thereafter	14,926

Interest Payments – Cash payments for interest were \$2,668, \$2,235 and \$2,407 for 2002, 2001 and 2000, respectively.

ADVANCES ON CONTRACTS

Advances on contracts include customer advances together with customer payments and billings associated with the achievement of certain contract milestones in excess of costs incurred, primarily for the Australia SH-2G helicopter contract. The customer advances for that contract are fully secured by letters of credit. It is anticipated that the advances on contracts along with the face amounts of these letters of credit will be reduced as performance milestones are reached in accordance with the agreement between the corporation and the Australian government regarding a phased acceptance and delivery schedule for the SH-2G(A) aircraft.

INCOME TAXES

The components of income taxes are as follows:

	2002	2001	2000
Current:			
Federal	\$ (1,447)	\$3,411	\$17,629
State	698	748	3,179
Foreign	273	166	67
	(476)	4,325	20,875
Deferred:			
Federal	(17,111)	(353)	(65)
State	262	(22)	(10)
Foreign	—	—	—
	(16,849)	(375)	(75)
Total	\$ (17,325)	\$3,950	\$20,800

The components of the deferred tax assets and deferred tax liabilities are presented below:

December 31	2002	2001
Deferred tax assets:		
Long-term contracts	\$ 10,066	\$ 912
Deferred employee benefits	14,195	14,766
Inventory	9,311	4,444
Restructuring costs	2,679	—
Accrued liabilities and other items	6,949	6,229
Total deferred tax assets	43,200	26,351
Deferred tax liabilities:		
Depreciation and amortization	(6,820)	(7,159)
Other items	(1,880)	(1,541)
Total deferred tax liabilities	(8,700)	(8,700)
Net deferred tax asset	\$ 34,500	\$ 17,651

No valuation allowance has been recorded because the corporation believes that these deferred tax assets will, more likely than not, be realized. This determination is based largely upon the corporation's historical earnings trend as well as its ability to carryback reversing items within two years to offset taxes paid. In addition, the corporation has the ability to offset deferred tax assets against deferred tax liabilities created for such items as depreciation and amortization.

The provisions for federal income taxes approximate the amounts computed by applying the U.S. federal income tax rate to earnings before income taxes after giving effect to state income taxes. The consolidated effective tax rate was lower due to the reversal of prior years' tax accruals of \$1,156, \$2,972 and \$1,534 in 2002, 2001 and 2000, respectively, as a result of the corporation's ongoing assessment of its

open tax years. The reduction in 2001 included reduced tax considerations related to the Australian SH-2G program. Cash payments for income taxes were \$3,562, \$8,589 and \$20,611 in 2002, 2001 and 2000, respectively.

PENSION PLAN

The corporation has a non-contributory defined benefit pension plan covering the full-time U.S. employees of all U.S. subsidiaries (with the exception of certain companies acquired in 2002 and 2001 who have not adopted the plan). These employees become participants of the plan upon their completion of hours of service requirements. Benefits under this plan are generally based upon an employee's years of service and compensation levels during employment with an offset provision for social security benefits. It is the corporation's policy to fund pension costs accrued. Plan assets are invested in a diversified portfolio consisting of equity and fixed income securities (including \$8,388 of Class A common stock of Kaman Corporation at December 31, 2002).

The pension plan costs were computed using the projected unit credit actuarial cost method and include the following components:

	2002	2001	2000
Service cost for benefits earned during the year	\$ 10,061	\$ 9,757	\$ 9,528
Interest cost on projected benefit obligation	24,045	22,822	21,688
Expected return on plan assets	(32,761)	(31,614)	(29,050)
Net amortization and deferral	(1,382)	(3,589)	(2,635)
Net pension cost (income) \$	(37)	\$ (2,624)	\$ (469)

The change in actuarial present value of the projected benefit obligation is as follows:

December 31	2002	2001
Projected benefit obligation at beginning of year	\$ 329,168	\$ 312,273
Service cost	10,061	9,757
Interest cost	24,045	22,822
Actuarial liability loss	15,848	413
Plan amendments	—	817
Benefit payments	(17,909)	(16,914)
Projected benefit obligation at end of year	\$ 361,213	\$ 329,168

The change in the actuarial liability loss for 2002 is principally due to effect of the change in the discount rate.

The change in fair value of plan assets is as follows:

December 31	2002	2001
Fair value of plan assets at beginning of year	\$ 386,642	\$ 414,453
Actual return on plan assets	(30,920)	(10,897)
Employer contribution	—	—
Benefit payments	(17,909)	(16,914)
Fair value of plan assets at end of year	\$ 337,813	\$ 386,642

December 31	2002	2001
Excess (deficiency) of assets over projected benefit obligation	\$ (23,400)	\$ 57,474
Unrecognized prior service cost	576	582
Unrecognized net (gain) loss	25,425	(55,493)
Accrued (prepaid) pension cost \$	(2,601)	\$ (2,563)

The actuarial assumptions used in determining the funded status and the net periodic benefit cost of the pension plan are as follows:

December 31	2002	2001
Discount rate	7.0%	7.5%
Expected return on plan assets	8.625%	8.625%
Average rate of increase in compensation levels	4.0%	4.5%

The corporation also maintains a defined contribution plan which has been adopted by certain of its U.S. subsidiaries. All employees of adopting employers who meet the eligibility requirements of the plan may participate. Employer matching contributions are currently made to the plan with respect to 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 fifty cents (\$.50). Employer contributions to the plan totaled \$3,019, \$3,438 and \$3,514 in 2002, 2001 and 2000, respectively.

Certain U.S. subsidiaries acquired in 2002 and 2001 maintain their own defined contribution plans for their eligible employees. Employer matching contributions are made on a discretionary basis.

OTHER LONG-TERM LIABILITIES

Other long-term liabilities consist of the following:

December 31	2002	2001
Supplemental employees' retirement plan	\$ 13,680	\$ 12,730
Deferred compensation	8,288	8,673
Other	4,399	2,476
Total	\$ 26,367	\$ 23,879

COMMITMENTS AND CONTINGENCIES

Rent commitments under various leases for office space, warehouses, land and buildings expire at varying dates from January 2003 to December 2010. Certain annual rentals are subject to renegotiation, with certain leases renewable for varying periods. Lease periods for machinery and equipment vary from 1 to 5 years.

Substantially all real estate taxes, insurance and maintenance expenses are obligations of the corporation. It is expected that in the normal course of business, leases that expire will be renewed or replaced by leases on other properties.

The following future minimum rental payments are required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 2002:

2003	\$ 12,312
2004	6,673
2005	4,302
2006	2,406
2007	1,502
Thereafter	1,274
Total	\$ 28,469

Lease expense for all operating leases, including leases with terms of less than one year, amounted to \$15,172, \$15,113 and \$14,710 for 2002, 2001 and 2000, respectively.

From time to time, the corporation is subject to various claims and suits arising out of the ordinary course of business, including commercial, employment and environmental matters. While the ultimate result of all such matters is not presently determinable, based upon its current knowledge, management does not expect that their resolution will have a material adverse effect on the corporation's consolidated financial position.

COMPUTATION OF EARNINGS (LOSS) PER SHARE

The earnings (loss) per share – basic computation is based on the net earnings (loss) divided by the weighted average number of shares of common stock outstanding for each year.

The earnings (loss) per share – diluted computation assumes that at the beginning of the year the 6% convertible subordinated debentures are converted into Class A common stock with the resultant reduction in interest costs net of tax. The earnings (loss)

per share – diluted computation also includes the common stock equivalency of dilutive options granted to employees under the Stock Incentive Plan. Excluded from the earnings (loss) per share – diluted calculation are options granted to employees that are anti-dilutive based on the average stock price for the year.

	2002	2001	2000
Earnings (loss) per share – basic			
Net earnings (loss)	\$(33,601)	\$11,714	\$36,920
Weighted average shares outstanding (000)	22,408	22,364	22,936
Earnings (loss) per share – basic	\$ (1.50)	\$.52	\$ 1.61
Earnings (loss) per share – diluted			
Net earnings (loss)	\$(33,601)	\$11,714	\$36,920
Plus:			
After-tax interest savings on convertible debentures	918	1,093	1,031
Net earnings (loss) assuming conversion	\$(32,683)	\$12,807	\$37,951
Weighted average shares outstanding (000)	22,408	22,364	22,936
Plus shares issuable on:			
Conversion of 6% convertible debentures	—	1,080	1,151
Exercise of dilutive options	—	205	81
Weighted average shares outstanding assuming conversion (000)	22,408	23,649	24,168
Earnings (loss) per share – diluted ⁽¹⁾	\$ (1.50)	\$.52	\$ 1.57

(1) The calculated diluted earnings (loss) per share amounts for 2002 and 2001 are anti-dilutive, therefore, amounts shown are equal to the basic earnings (loss) per share calculation. Additional potentially diluted average shares outstanding of 1,145,000 from the conversion of the debentures and the exercise of dilutive stock options for the twelve months ended December 31, 2002 have been excluded from the average diluted shares outstanding due to the loss from operations in that year.

STOCK PLANS

Employees Stock Purchase Plan – The Kaman Corporation Employees Stock Purchase Plan allows employees to purchase Class A common stock of the corporation, 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 1,500,000 shares of Class A common stock. There are no charges or credits to income in connection with the plan. During 2002, 115,316 shares were issued to employees at prices ranging from \$8.59 to \$15.33 per share. During 2001, 106,921 shares were issued to employees at prices ranging from \$10.41 to \$15.21 per share. During 2000, 145,485 shares were issued to employees at prices ranging from \$7.76 to \$13.60 per share. At December 31, 2002, there were approximately 865,300 shares available for offering under the plan.

Stock Incentive Plan – The corporation maintains a Stock Incentive Plan that is scheduled to expire in November 2003. It is expected that the corporation will renew the plan at that time, subject to subsequent shareholders' approval. The Stock Incentive Plan provides for the grant of non-statutory stock options, incentive stock options, restricted stock awards and stock appreciation rights primarily to officers and other key employees. At December 31, 2002, there were approximately 321,700 shares available for the granting of stock options.

Stock options are generally granted at prices not less than the fair market value at the date of grant. Options granted under the plan generally expire ten years from the date of grant and are exercisable on a cumulative basis with respect to 20% of the optioned shares on each of the five anniversaries from the date of grant. Restricted stock awards are generally granted with restrictions that lapse at the rate of 20% per year and are amortized accordingly. Stock appreciation rights generally expire ten years from the date of grant and are exercisable on a cumulative basis with respect to 20% of the rights on each of the five anniversaries from the date of grant. These awards are subject to forfeiture if a recipient separates from service with the corporation.

Restricted stock awards were made for 56,000 shares at prices ranging from \$14.50 to \$17.74 per share in 2002, 100,000 shares at prices ranging from \$15.63 to \$16.31 per share in 2001 and 62,500 shares at prices ranging from \$10.31 to \$10.75 per share in 2000. At December 31, 2002, there were 186,400 shares remaining subject to restrictions pursuant to these awards.

Stock appreciation rights were issued for 136,000 shares at \$14.50 per share in 2002, 205,000 shares at prices ranging from \$16.28 to \$16.31 per share in 2001 and 130,000 shares at \$10.31 in 2000, to be settled only for cash. The corporation recorded income for the stock appreciation rights of \$440 in 2002, \$575 in 2001 and \$1,732 of expense in 2000 due to fluctuations in the market price of the shares.

Stock option activity is as follows:

<i>Stock options outstanding:</i>	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE
Balance at January 1, 2000	1,041,010	12.94
Options granted	225,500	10.31
Options exercised	(75,360)	8.86
Options cancelled	(121,170)	13.65
Balance at December 31, 2000	1,069,980	12.59
Options granted	335,000	16.27
Options exercised	(89,560)	9.96
Options cancelled	(56,290)	13.57
Balance at December 31, 2001	1,259,130	13.71
Options granted	211,500	14.50
Options exercised	(172,010)	11.60
Options cancelled	(79,820)	14.76
Balance at December 31, 2002	1,218,800	14.08
Weighted average contractual life remaining at December 31, 2002	6.7 years	
<i>Range of exercise prices for options outstanding at December 31, 2002</i>	\$ 9.50-	\$ 13.26-
	\$13.25	\$ 17.00
Options outstanding	367,070	851,730
Options exercisable	264,110	289,760
Weighted average contractual remaining life of options outstanding	4.9 years	7.4 years
Weighted average exercise price:		
Options outstanding	\$10.97	\$ 15.42
Options exercisable	\$11.22	\$ 15.59

As of December 31, 2001 and 2000, there were 577,450 and 472,210 options exercisable, respectively.

As permitted by the Statement of Financial Accounting Standards No. 123 (SFAS 123), "Accounting for Stock-Based Compensation," the corporation has elected to continue following the guidance of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," for measurement and recognition of stock-based transactions with employees. Accordingly, no compensation cost has been recognized for its stock plans other than for the restricted stock awards and stock appreciation rights. Under the disclosure alternative of SFAS 123, the pro forma net earnings and earnings per share information presented below includes the compensation cost of stock options issued to employees based on the fair value at the grant date and includes compensation cost for the 15% discount offered to participants in the employees stock purchase plan.

	2002	2001	2000
Net earnings (loss):			
As reported	\$ (33,601)	\$ 11,714	\$ 36,920
Pro forma	(34,517)	10,767	36,288
Earnings (loss) per share - basic:			
As reported	(1.50)	.52	1.61
Pro forma	(1.54)	.48	1.58
Earnings (loss) per share - diluted:			
As reported	(1.50)	.52	1.57
Pro forma	(1.54)	.48	1.55

The fair value of each option grant is estimated on the date of grant by using the Black-Scholes option-pricing model. The following weighted-average assumptions were used for grants in 2002, 2001 and 2000:

	2002	2001	2000
Expected dividend yield	3.0%	2.7%	4.3%
Expected volatility	45%	45%	38%
Risk-free interest rate	4.9%	5.1%	6.5%
Expected option lives	8 years	8 years	8 years
Per share fair value of options granted	\$5.86	\$6.84	\$3.35

SEGMENT INFORMATION

The corporation reports results in three business segments—Aerospace, Industrial Distribution and Music Distribution.

The Aerospace segment produces aircraft structures and components for military and commercial aircraft, including specialized aircraft bearings, manufactures and supports the SH-2G Super Seasprite naval helicopter and the K-MAX medium-to-heavy lift helicopter, and provides various advanced technology products serving critical specialized markets including missile and bomb fuzing. During the second quarter of 2002, the segment recorded a pre-tax charge of \$85,969 to cover the write-down of K-MAX helicopter assets, principally inventories; for cost growth associated with the Australian SH-2G(A) helicopter program; and to phase out operations at the company's Moosup, Connecticut plant by the end of 2003. During 2001, the segment recorded a sales and pre-tax earnings adjustment of \$31,181, substantially all of which is associated with a change in estimated cost to complete the SH-2G(A) helicopter program for Australia. As a result of the 2002 and 2001 Australian SH-2G(A) program adjustments, the contract is now in a loss position.

The Industrial Distribution segment is one of the nation's larger distributors of power transmission, motion control, material handling and electrical components and a wide range of bearings. Products and value-added services are offered to a customer base of more than 50,000 companies representing a highly diversified cross-section of North American industry.

The Music Distribution segment is the largest independent distributor of musical instruments and accessories, offering more than 10,000 products for amateurs and professionals. Proprietary products include Ovation[®], Takamine[®], and Hamer[®] guitars, Latin Percussion[®] and Toca[®] instruments, Gibraltar[®] percussion hardware and Gretsch[®] professional drum sets.

Notes to Consolidated Financial Statements (CONTINUED)

KAMAN CORPORATION AND SUBSIDIARIES
DECEMBER 31, 2002, 2001 AND 2000

Summarized financial information by business segment is as follows:

	2002	2001	2000
Net sales:			
Aerospace	\$275,942	\$301,580	\$381,932
Industrial			
Distribution	477,156	453,718	520,779
Music Distribution	127,678	120,571	128,523
	\$880,776	\$875,869	\$1,031,234
Operating profit (loss):			
Aerospace	\$ (55,208)	\$ 6,542	\$ 44,236
Industrial			
Distribution	12,344	13,217	22,902
Music Distribution	7,157	6,580	7,441
	(35,707)	26,339	74,579
Interest, corporate and other expense, net	(15,219)	(10,675)	(16,859)
Earnings (loss) before income taxes	\$ (50,926)	\$ 15,664	\$ 57,720
Identifiable assets:			
Aerospace	\$308,275	\$302,076	\$307,762
Industrial			
Distribution	144,585	134,974	137,297
Music Distribution	68,448	45,783	53,444
Corporate	14,232	39,113	55,327
	\$535,540	\$521,946	\$553,830
Capital expenditures:			
Aerospace	\$ 5,255	\$ 5,107	\$ 6,110
Industrial			
Distribution	1,494	1,501	2,947
Music Distribution	515	1,018	812
Corporate	337	407	1,175
	\$ 7,601	\$ 8,033	\$ 11,044
Depreciation and amortization:			
Aerospace	\$ 6,773	\$ 6,175	\$ 5,875
Industrial			
Distribution	2,457	2,742	3,138
Music Distribution	1,278	1,430	1,490
Corporate	1,112	1,094	1,127
	\$ 11,620	\$ 11,441	\$ 11,630

	2002	2001	2000
Geographic information – sales:			
United States	\$758,240	\$726,756	\$789,533
Australia/ New Zealand	64,071	100,121	186,537
Canada	28,049	27,162	29,455
Europe	14,933	12,319	12,765
Mexico	8,046	1,484	1,453
Japan	4,492	6,154	6,862
Other	2,945	1,873	4,629
	\$880,776	\$875,869	\$1,031,234

Operating profit is total revenues less cost of sales and selling, general and administrative expense other than general corporate expense. The "Interest, corporate and other expense, net" includes a pre-tax gain of \$1,928 related to the sale of product line in 2002 and a pre-tax gain of \$2,679 related to the sale of two buildings in 2001.

Identifiable assets are year-end assets at their respective net carrying value segregated as to segment and corporate use. The reductions in corporate assets in 2002 and 2001 are principally due to the use of cash and cash equivalents in each year.

Net sales by the Aerospace segment made under contracts with U.S. Government agencies (including sales to foreign governments through foreign military sales contracts with U.S. Government agencies) account for \$102,241 in 2002, \$81,106 in 2001 and \$81,519 in 2000.

Sales made by the Aerospace segment under a contract with one customer were \$52,029, \$76,865 and \$130,285 in 2002, 2001 and 2000, respectively.

KPMG LLP

Certified Public Accountants
One Financial Plaza
Hartford, Connecticut 06103

**THE BOARD OF DIRECTORS AND SHAREHOLDERS
KAMAN CORPORATION:**

We have audited the accompanying consolidated balance sheets of Kaman Corporation and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the years in the three year period ended December 31, 2002. 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 conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting 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. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kaman Corporation and subsidiaries at December 31, 2002 and 2001 and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

January 28, 2003

Officers and Directors

KAMAN CORPORATION AND SUBSIDIARIES

OFFICERS

Paul R. Kuhn
*Chairman, President
and Chief Executive
Officer*

Robert M. Garneau
*Executive Vice President
and Chief Financial
Officer*

Candace A. Clark
*Senior Vice President,
Chief Legal Officer
and Secretary*

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

Joseph H. Lubenstein
*President
Kaman Aerospace*

T. Jack Cahill
*President
Kaman Industrial
Technologies*

Robert H. Saunders, Jr.
*President
Kaman Music*

Lowell J. Hill
*Vice President—
Human Resources*

Russell H. Jones
*Vice President
and Treasurer*

Glenn M. Messemer
*Vice President
and General Counsel*

Michael J. Morneau
Controller

Robert H. Bateman
*Assistant Vice President—
Internal Audit*

John B. Lockwood
*Assistant Vice
President—Tax*

Eric B. Remington
*Assistant Vice President—
Business Development*

Patricia C. Goldenberg
Assistant Treasurer

DIRECTORS

Paul R. Kuhn
*Chairman, President
and Chief Executive
Officer
Kaman Corporation*

Brian E. Barents
*President and
Chief Executive Officer,
Retired
Galaxy Aerospace
Company, LP*

E. Reeves Callaway III
*Chief Executive Officer
The Callaway Companies*

Frank C. Carlucci
*Chairman
The Carlyle Group*

Laney J. Chouest, M.D.
*Owner/Manager
Edison Chouest
Offshore, Inc.*

John A. DiBiaggio
*President Emeritus
Tufts University*

Huntington Hardisty
*Admiral, Retired
U.S. Navy
Former President
Kaman Aerospace
International*

Edwin A. Huston
*Vice Chairman, Retired
Ryder System,
Incorporated*

C. William Kaman II
*Chairman and
Chief Executive
Officer, Retired
AirKaman of
Jacksonville, Inc.
Former President
Kaman Music*

Eileen S. Kraus
*Chairman, Retired
Fleet Bank Connecticut*

Walter H. Monteith, Jr.
*Chairman, Retired
Southern New England
Telecommunications
Corp.*

Wanda L. Rogers
*President and Chief
Executive Officer
Rogers Helicopters, Inc.*

Richard J. Swift
*Chairman, Financial
Accounting
Standards Advisory
Council
Chairman, President
and Chief Executive
Officer, Retired
Foster Wheeler, Ltd.*

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Chairman Emeritus

Carlyle F. Barnes

Edythe J. Gaines

D. Brainerd Holmes

John S. Murtha

John B. Plott

Frederick D. Watkins

COMMITTEES OF THE BOARD OF DIRECTORS

CORPORATE GOVERNANCE COMMITTEE

Eileen S. Kraus,
Chairman
Brian E. Barents
John A. DiBiaggio
Walter H. Monteith, Jr.
C. William Kaman II,
ex officio
Paul R. Kuhn, *ex officio*

AUDIT COMMITTEE

Walter H. Monteith, Jr.,
Chairman
E. Reeves Callaway III
Eileen S. Kraus
Richard J. Swift

PERSONNEL AND COMPENSATION COMMITTEE

Brian E. Barents,
Chairman
E. Reeves Callaway III
Frank C. Carlucci
Laney J. Chouest, M.D.
Wanda L. Rogers
Richard J. Swift

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Laney J. Chouest, M.D.
Edwin A. Huston
C. William Kaman II
Wanda L. Rogers